

Risk & Regulation

Magazine of the ESRC Centre for Analysis of Risk and Regulation

No.6 Autumn 2003

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Recognising and managing insurance industry risk

For some decades, the non-life insurance industry has

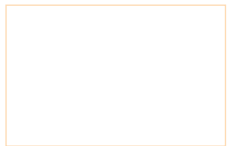
Consultations with CARR

Various national and international agencies have consulted with CARR over recent months, including the Financial Services Authority's Regulatory Strategy and Risk Division, and DEMOS, the independent think-tank that promotes better public education in politics, economics, the environment, and public policy. From abroad, Statskonsult, the Norwegian Directorate for Communication and Public Management met with CARR members to discuss regulatory policies and the organisation of regulatory agencies.

The Judiciary on Trial

In October, **Tim Besley** appeared as a 'witness' on the Radio 4 programme *The Commission* which debated how the judiciary should be selected. The evidence which Tim Besley presented on the programme is drawn from a paper of his which may be viewed at <http://econ.lse.ac.uk/staff/tbesley/papers/courts.pdf>.

Civil Service Competency



Christopher Hood and **Martin Lodge** were invited by Rieti, the research organisation of the METI, the Japanese economics ministry, to a conference on civil service competency. They presented their research on civil service competency based on the British Department of Trade and Industry and the German Economics ministry. Hood and Lodge's approach to this research has been adopted in similar work on the Japanese ministry, conducted by Professor Hideaki Shiroyama of the University of Tokyo. During their stay, Christopher Hood also gave a seminar on 'Policy Review and Evaluation in the UK', and two further seminars on risk and regulation.



CARR 'Away Day'

CARR's annual staff training day was held at Devonport House in Greenwich in July. A practitioner's perspective on regulation was provided by **Clive Briault** (Director, Prudential Standards Division, Financial Services Authority), and **Ian Darker** (Employee Relations Manager, LSE) and **Chris Connolly** (Staff Development Unit, LSE) led discussions on diversity and staff development.

Staff News

We welcome **Amy Eldon** who joins CARR as Administrative Assistant and **Louise Newton-Clare** who returns as Centre Manager (Finance and Special Projects). Louise will be working alongside **Anna Pili** who stays with CARR as Centre Manager (Administration, Events and Communications). Welcome also to **Javier Lezaun** who joins us as ESRC Research Officer, and **Clive Jones** who will be a research assistant. We also congratulate **Yuval Millo** on his appointment as ESRC Research Officer and on winning the K William Kapp Prize, awarded annually for the best article on a theme broadly in accord with the European Association for Evolutionary Political Economy (EAEPA) Theoretical Perspectives.

We say goodbye to **Filippa Corneliussen** who has taken up a one-year visiting fellowship at the Centre for the Study of Law and Society, University of California, Berkeley, before joining LSE's newly established BIOS centre. Goodbye also to **Stephen Tully** who returns to the Law Department, LSE.

We extend our gratitude and appreciation to **Henry Rothstein** for his hard work on Risk&Regulation over the last two years. The magazine and readership has flourished under his editorship. We welcome the new editor, **Joan O'Mahony**.

Have you moved or changed jobs recently?

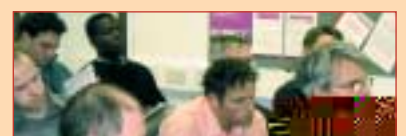
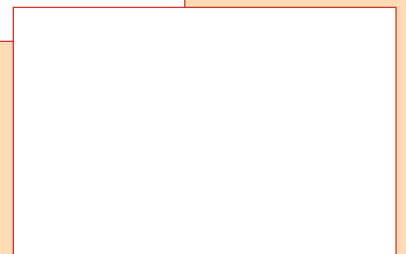
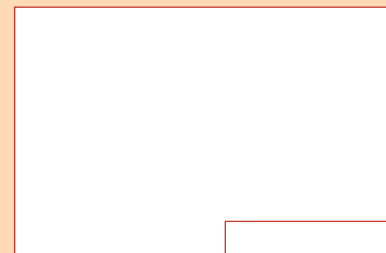
Please keep us informed of any changes in your contact details so you can continue receiving Risk&Regulation.

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Innovation, Social Risk and Political Responsibility

Piero Bassetti, a distinguished academic politician and researcher, delivered a public lecture and discussion seminar in May on the social and policy implications of innovation in science, technology and business. Mr Bassetti began by examining the concept of innovation, namely 'the realisation of the improbable', and looked at a number of issues that complicate innovative political or business decisions. Special attention was paid to the fact that risk and uncertainty give rise to different difficulties in decision-making processes. Two examples were explored: the decisions taken by the Allianz insurance company after the attack on the World Trade Centre, and the impact that the introduction of genetically modified foods has had on policy-making and governance in northern Italy. Subsequent discussions focused on the relationship between scientists, technologists, and business people, and the responsibilities they face in implementing significant innovations. Reflecting the interdisciplinary content of the subject, the academic events were co-sponsored by CARR, the LSE's Department of Information Systems and the LSE Cities Programme.




Agricultural biotechnology continues to trouble the Government. Confronted by the continued moratorium on the commercialisation of genetically modified (GM) crops, threats by the US to take Europe to the World Trade Organisation, an EU directive that recommended public

Self-regulation has long been seen as one of the defining characteristics of a profession. For the vast majority of professional people, this has meant little more than undertaking an accredited course of qualification, paying an annual retention fee, and hoping to avoid investigation for misconduct. Now, however, professional regulation, is undergoing a revolutionary transformation, with







Why is the insurance industry willing to insure some risks and unwilling to insure others? Why, for example, did the industry insure only fractions of nuclear technology, and more recently refuse to insure genetically modified (GM) crops, while it accommodates the costlier and more harmful risks of storms, floods, and earthquakes? Behind the insuring of hazards there is a complex and sometimes unpredictable process of identifying those events the industry can deal with and those where an insurance approach is bound to fail. Some of this may be explained by economic factors. The insurance sector is under severe pressure: in particular, firms have suffered greatly from the downturn in stock markets. Political and public anxieties over 'new risks', such as terrorism, biotechnology, or climate change, all place additional pressure on the industry. But decisions about what to insure and what not to insure are not solely based on economic factors, but also on political considerations and public pressure.

Insurance of risks associated with climatic change is a good example of the vulnerabilities of the state and the insurance industry. The high price of intervention impedes any immediate action, yet the hazards will not just go away. As the risks of climate change increase in size and intensity, the willingness to act, or react, decreases in the same degree. In 1990, the cost of damages caused by a hurricane in the USA were estimated to be below \$1 billion; ten years later, estimates of \$100 billion seem too cautious. Only if the costs of impacts clearly outweigh the costs of interventions – together with the costs to government of making insurance firms move – can the inactivity in this policy field be overcome.

The pressures of dramatically increasing costs and uncertainties about new forms of risk have had a decisive impact on current

insurance activities. Ulrich Beck claims in his *World Risk Society* that these new forms are increasingly difficult to predict and to control; we thus live in a world of more and more dangers, and fewer and fewer insurable risks. This observation assumes, however, no change in the norms and institutional arrangements of risk-assessment in the insurance industry. An alternative claim is equally plausible: that insurance adapts to the new situation, modifying the conditions of insurability and ensuring continuity.

In any event, the continued willingness to insure general risks seems to contradict Beck's analysis. For example, there are problems with measuring weather-related risks such as storms and floods: data relevant to insurance is often missing, and it is difficult to determine with any precision the frequency and scale of such events. Improving the technical basis is welcome and necessary, but the safest response to such risks involves using the state as insurer of last resort. Currently, this political involvement takes the form of regulation: defining and clarifying the responsibilities and limitations of insurance.

While some may be happy with the state's shifting of responsibility to the insurance





From industrial self-regulation to accident-induced governmental regulation

The pharmaceutical industry was first subjected to more or less stringent pre-marketing controls in the 20th century. Around the turn of the century industrial mass production of pharmaceutical specialties had largely overtaken the tradition of individual preparations by local pharmacists. This development, along with the growth of international trade, dramatically increased and spread the risks associated with the consumption of pharmaceutical products. Governments, however, were reluctant to intervene, despite the early warnings from physicians, and the demands of health insurers and public health care providers, who disliked spending their members' money or public budgets for possibly ineffective or even outright dangerous drugs. But, except for a few countries like the USA, Sweden, or Norway, national discussions before World War II were regularly stalled by the argument that strict pre-marketing controls would burden companies with additional costs and endanger the growth and international competitiveness of an innovative industry. There were strong lobbies against effective governmental intervention in the

Strategic decision making in large complex organisations

A

lively joint meeting was held between

CARR sponsors risk and regulation conferences at LSE and at universities throughout the UK

CONFERENCE NEWS

Risk Regulation, Accountability and Development

University of Manchester
26-27 June 2003

What regulatory solutions can be found in the regulatory arrangements of developing nations? How can governments in developing countries strike a balance between the need to take account of existing institutions and arrangements and the danger of becoming hidebound by inappropriate or inefficient political structures? A joint workshop organised by CARR, the Centre for Regulation and Competition (University of Manchester) and Aston Business School, attempted to bring together cross-disciplinary perspectives on risk regulation – financial, social and economic – with special reference to the developing world. As part of the ESRC's Social Science Week, a public session was held in which panellists from the development studies community responded to the points made in earlier sessions on governance; accounting; and economic and social regulation.

Using examples from Australia, John Braithwaite (Australian National University) highlighted the empirical case for 'responsive regulation' or 'meta-risk management'. Trevor Hopper (University of Manchester) presented research undertaken with Shazad Uddin (Queen's University Belfast) on privatisation in Bangladesh, and the case of Jamaican telecommunications was highlighted in two papers, by Martin Lodge (CARR/LSE) and Lindsay Stirton (UEA), and by the Jamaican Cabinet Secretary, Carlton Davis. In other panels, John Stern (London Business School) argued that the high fixed and level costs involved in utilities regulation are regressive for developing countries and Christopher May (University of the West of England) suggested that intellectual property meant balancing public access to innovation with the private rewards necessary to allow it to flourish.



Risk, Regulation and Good Governance

Queen's University Belfast
9-10 September 2003

This joint two-day workshop focused on public and private governance, in particular on the nature of political and corporate ethics as well as on instruments and technologies of regulating governance. The workshop brought together academics and practitioners from across the UK. Recurring themes were the setting of standards and the status they should enjoy. A further theme was the contested nature of the appropriate means and organisation for enforcement. The first day was devoted to themes of public and private governance, ranging from debates over corporate citizenship to the nature and constitution of ethical principles in public life. The debate centred on how to establish codes that are substantive enough to alter behaviour, yet are not overly prescriptive. The second day turned to technologies of regulation, such as the rise of audit within government and the informatisation of public services. From an international perspective, there was no universal 'audit explosion', although audit has been increasingly used within the devolved regions of the UK. Similarly, informatisation has challenged the capacity of governments to act as 'intelligent customers'. Finally, the discussion turned to standard-setting in multi-level governance, highlighting issues motivating government action in such contexts across a variety of domains.



Above: John Dowdall, Auditor General, Northern Ireland. **Top left:** Professor Neil Collins, University College Cork. **Bottom left:** Professor Bridget Hutter, CARR and Professor Elizabeth Meehan, Queen's University Belfast

More information on CARR events can be found on CARR's website, www.lse.ac.uk/Depts/carr

CARR continues building networks across the UK and worldwide

Visitors

The Visitors Programme continues to enrich CARR's intellectual life. CARR has recently been privileged to welcome four leading scholars and practitioners.

Astrid Epp is a doctoral fellow at the Institute for Science and Technology Studies (IWT) at the Universität Bielefeld. She is currently researching the conflict over the application of genetic engineering in food production. More specifically she is investigating if, and to what extent, legal regulations have had an impact on the Genetically Modified Organism conflict. This includes a comparison between Germany – as a typical European country in this field – and the United States.

Herbert Kalthoff currently holds a research position at the European University Viadrina Frankfurt (Oder), Germany. His research focus is on financial and banking knowledge, especially on the performativity of technological devices and the interactive accomplishment of risk management. His empirical work is based on ethnographic fieldwork in international banks. He has published several articles and co-edited a book on risk management, risk calculation and the external growth strategies of banks.

Myriam Senn is Senior Officer at the supervisory authority of financial markets in Berne, Switzerland. Dr Senn has developed expertise in financial services, company and public law. Her main areas of interest are public and international economic law, corporate law and the study of regulatory techniques with emphasis on the role of self-regulation. She has published on topics related to financial services, public and international law.

Raymund Werle is Principal Research Associate with the Max Planck Institute for the Study of Societies at Cologne, Germany. His research is focused on the interaction of institutional and technological innovations, especially in the information and telecommunications technology industry. It includes the development of telecommunications and data networks, the Internet in particular, and their structural and societal consequences. He has published in the area of science and technology studies, development and governance of large technical systems, organisations and processes of technical standardisation but also in the sociology of law and the legal profession and research methodology.

Research Round Tables

During the summer, CARR hosted various round table discussion seminars by visiting scholars and practitioners. Professor Hedeaki Shiroyama (University of Tokyo, Japan) visited to discuss research conducted by the Research Institute of Science and Technology for Society, addressing particular concerns regarding the interaction of science, technology and society, especially in the light of crises and catastrophes in a number of policy domains. Enrique Rueda-Sabater spent time with us to discuss development effectiveness and the World Bank's poverty reduction mission. He reported on the Integrated Risk Management Framework and its need to be both comprehensive and able to promote deliberate risk-taking, not risk avoidance. Finally, Professor Thomas Bernauer (Swiss Federal Institute of Technology Zurich) spoke to us about international trade conflict and biotech food regulation. He explored the distributional implications of regulatory polarisation, concentrating on export revenues and broader effects on economic welfare.

Further details of CARR's Visiting Fellowship Scheme and Outreach Programme can be found on the CARR website: www.lse.ac.uk/Depts/carr

Asymmetrical Actors and Intentional Risk

Professor Frank Furedi
University of Kent at Canterbury
6 May 2003

Differential cultural attitudes towards risk-taking have a crucial bearing on the impact of asymmetrical threat. It is not simply the case that asymmetric actors regard risk-taking from the vantage point of an opportunity, the very risk-averse culture of their target society may encourage them to exploit this difference in attitudes. Officials concerned with reassuring the public may well become distracted from the task of preparing society to deal with asymmetric threat. In some cases, official reassurance can amplify the public's sense of insecurity, and in others, governmental warning can serve to intensify public fears.

Risk regulation and interest accommodation in European pharmaceuticals' licensing

Dr Jürgen Feick
Max Planck Institute for the Study of Societies
20 May 2003

(see pages 10 – 11)

Misfortune, Insurance, and the Liberal State: the perplexities of fairness

Professor Eugene Bardach
University of California, Berkeley
27 May 2003

The modern liberal state compensates citizens for a wide variety of misfortunes. These range from being the victim of an earthquake to having a new highway disrupt your neighbourhood. Adopting a policy designer's perspective, Professor Bardach applied this to one particular misfortune: being the victim of a terrorist attack. He explored the dimension of fairness and looked at how it prescribed proportionality to moral deservedness. No proportionality theory can remain perfectly intact in a world of coalition-formation, pluralistic bargaining and rent-seeking. Thus, when policy designers decide what is morally fair, they must also consider what is sustainable politically and under realistic conditions of implementation.

Regulation and Human Genomics

Dr Oliver James
University of Exeter
10 June 2003

This seminar assessed the framework for providing UK Government with advice about human genomics, particularly advice about regulation. With a range of bodies involved in this activity, the seminar focused on one: the Human Genetics Commission (HGC) which was established as the Government's advisory body on the impact of developments in human genomics on people and healthcare. The HGC contains a number of innovations in response to controversy about advisory systems, particularly in the light of controversy over food safety. The seminar focused on these innovations in the HGC's current work producing advice about the regulation of human reproductive genomics.

Containing negative integration? The European politics of 'services publics'

Professor Adrienne Héritier
European University Institute
1 July 2003

Materiality and Performativity of Economic Calculation

Dr Herbert Kalthoff
European University Viadrina
7 October 2003

Calculation plays a major role within both the assessment of risk and the context of practices of economic self-representation. Two different layers of calculation exist: the role of technological instruments (eg, computer networks and software) and the role of representation devices, ie, writing (eg, formulas and models). Economic sociology, therefore, combines the analysis of technology with the analysis of operative writing. Dr Kalthoff referred to the later work of Martin Heidegger and his philosophy of technology (the Gestell [enframing]), raising the question of how economic sociology has to conceive the activities of framing which constitute calculation and which are performed by different agencies and practices.

Governance without Governments? The Case of the Internet

Dr Raymund Werle
Max Planck Institute for the Study of Societies
28 October 2003

The Internet evolved in a niche in which it was promoted and only loosely controlled by the (US) government. It has developed into a global network that challenges the traditional nation-based governance institutions. But the popular notion that governments have lost control over the network is misleading. Based on a typological distinction concerning the scope and nature of control (coordination and regulation) the role of governments is analysed. With the central focus on basic operational and infrastructural functions it is argued that the un-centralised Internet is governed by a patchwork of organisations and institutions in which hierarchical, network and market modes of control appear to be balanced. This balance can be disturbed by too much, as well as too little, government intervention.

**CARR Books and
Special Journal Editions**

**On Different Tracks:
designing railway
regulation in Britain
and Germany**

Martin Lodge
Greenwood Press 2002

**British Rail 1974-97:
from integration to
privatisation**

Terence Gourvish
Oxford University Press 2002

**The Labyrinths
of Information –
Challenging the
Wisdom of Systems**

Claudio Ciborra,
Oxford University Press 2002

*'a series of highly literate
jewel-like essays that are intellectually
fascinating but could also change the life
of any practitioner.'*

Shoshana Zuboff, Harvard Business School

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CARR Discussion Papers

COMING SOON DP19

Reforming the UK Flood Insurance Regime. The Breakdown of a Gentlemen's Agreement
Michael Huber

COMING SOON DP18

Perceptions of Risk: an experimental approach using internet questionnaires
Frank A. Cowell and Guillermo Cruces

NEW DP17

Mapping the Contours of Contemporary Financial Services Regulation
Julia Black

NEW DP16

The Invention of Operational Risk
Michael Power

NEW DP15

Precautionary Bans or Sacrificial Lambs? Participative Risk Regulation and the Reform of the UK Food Safety Regime
Henry Rothstein

NEW DP14

Incentives, Choice and Accountability in the Provision of Public Services
Timothy Besley and Maitreesh Ghatak

NEW DP13

Regulating Parliament: the regulatory state within Westminster
Robert Kaye

NEW DP12

Business History and Risk
Terry Gourvish

Business Risk and Antitrust: comparative perspectives
Tony Freyer

The Risks of Working and the Risks of Not Working: historical perspectives on employers, workers, and occupational illness
Joseph Melling

NEW DP11

The Open Method of Co-ordination and the European Welfare State
Damian Chalmers and Martin Lodge

DP10

Drivers and Drawbacks: regulation and environmental risk management systems
Marius Aalders

DP9

Conceptualising Insurance: risk management under conditions of solvency
Michael Huber

DP8

Social Licence and Environmental Protection: why businesses go beyond compliance
Neil Gunningham, Robert Kagan and Dorothy Thornton

DP7

Neglected Risk Regulation: the institutional attenuation phenomenon
Henry Rothstein

DP6

Mass Media and Political Accountability
Timothy Besley, Robin Burgess and Andrea Pratt

DP5

Embedding Regulatory Autonomy: the reform of Jamaican telecommunications regulation 1988-2001
Lindsay Stirton and Martin Lodge

DP4

Critical Reflections on Regulation
Julia Black

DP3

The New Politics of Risk Regulation in Europe
David Vogel

DP2

The EU Commission and National Governments as Partners: EC regulatory expansion in telecommunications 1979-2000
Mark Thatcher

DP1

Regulating Government in a 'Managerial' Age: towards a cross-national perspective
Christopher Hood and Colin Scott

DP0

Is Regulation Right?
Robert Baldwin

Business Risk Management in Government: pitfalls and possibilities
Christopher Hood and Henry Rothstein

Risk Management and Business Regulation
Bridget Hutter and Michael Power

Selected Recent Publications

Competency and Bureaucracy: Diffusion, Application and Appropriate Response?

Martin Lodge and Christopher Hood
West European Politics 26 (3) 2003: 131-152.

Halving Global Poverty

Tim Besley and Robin Burgess
Journal of Economic Perspectives, Fall 2003.

Paradoxes for the Business Leader

Bridget Hutter
European Business Forum, 13, Spring 2003: 9-12.

Risk Management and the Responsible Organization

Michael Power
In R Ericson (ed.) *Risk and Morality*, Toronto, Toronto University Press 2003.

Administrative Patterns and National Politics

Martin Lodge
In GB Peters and J Pierre (eds.) *Handbook of Public Administration*, London, Sage 2003.

Centralized versus Decentralized Provision of Local Public Goods: a political economy analysis

Tim Besley and Stephen Coate
Journal of Public Economics, 87 (11-12) 2003.

Organizational Variety in Regulatory Governance: an agenda for comparative investigation of the OECD countries

Colin Scott
Public Organization Review, 3, 2003: 301-316.

Risk&Regulation is also published on CARR's website and back issues are available free on request. Please email risk@lse.ac.uk if you wish to order copies.



CARR research staff

Tim Besley

Director of Suntory and Toyota International Centres for Economics and Related Disciplines (STICERD)

Professor of Economics

Public economics; Development economics; Political economy.

Julia Black

Reader in Law

Regulatory techniques and processes; Interpretive and discourse based approaches to regulation; Rule making; Financial services regulation.

Claudio Ciborra

PwC Professor of Risk Management

Global information technology infrastructures; Business risk strategy in relation to building and managing integrated infrastructures.

Christopher Hood

CARR Programme Director: Regulation of Government and Governance

Gladstone Professor of Government and Fellow of All Souls College, University of Oxford

Regulation of public-sector bodies; International comparative analysis of risk regulation regimes; Institutional factors in shaping regulation; Transparency and 'better regulation'.

Michael Huber

Aon Senior Research Fellow in Risk Management

Environmental regulation; Risk regulation; Organisation theories and social theory.

Bridget Hutter

CARR Co-Director

Peacock Professor of Risk Management

Sociology of regulation and risk management; Regulation of economic life; Corporate responses to state and non-state forms of regulation.

Robert Kaye

ESRC Research Officer

Self-regulation and parliamentary self-regulation; Good government; British government and politics.

Javier Lezaun

ESRC Research Officer

Implementation of biotechnology regulations; Traceability and market infrastructures; Science and technology studies.

Martin Lodge

CARR Deputy Programme Director:

Regulation of Government and Governance

Lecturer in Political Science and Public Policy

Comparative regulation and public administration; Government and politics of the EU and of Germany; Railway regulation in Britain and Germany; Regulatory reform in Jamaica.

Peter Miller

Professor of Management Accounting

Accounting and advanced manufacturing systems; Investment appraisal and capital budgeting; Accounting and the public sector; Social and institutional aspects

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