



Achieving Better Quality Regulations

Incorporating risk assessment tools
in RIA to prepare better rules

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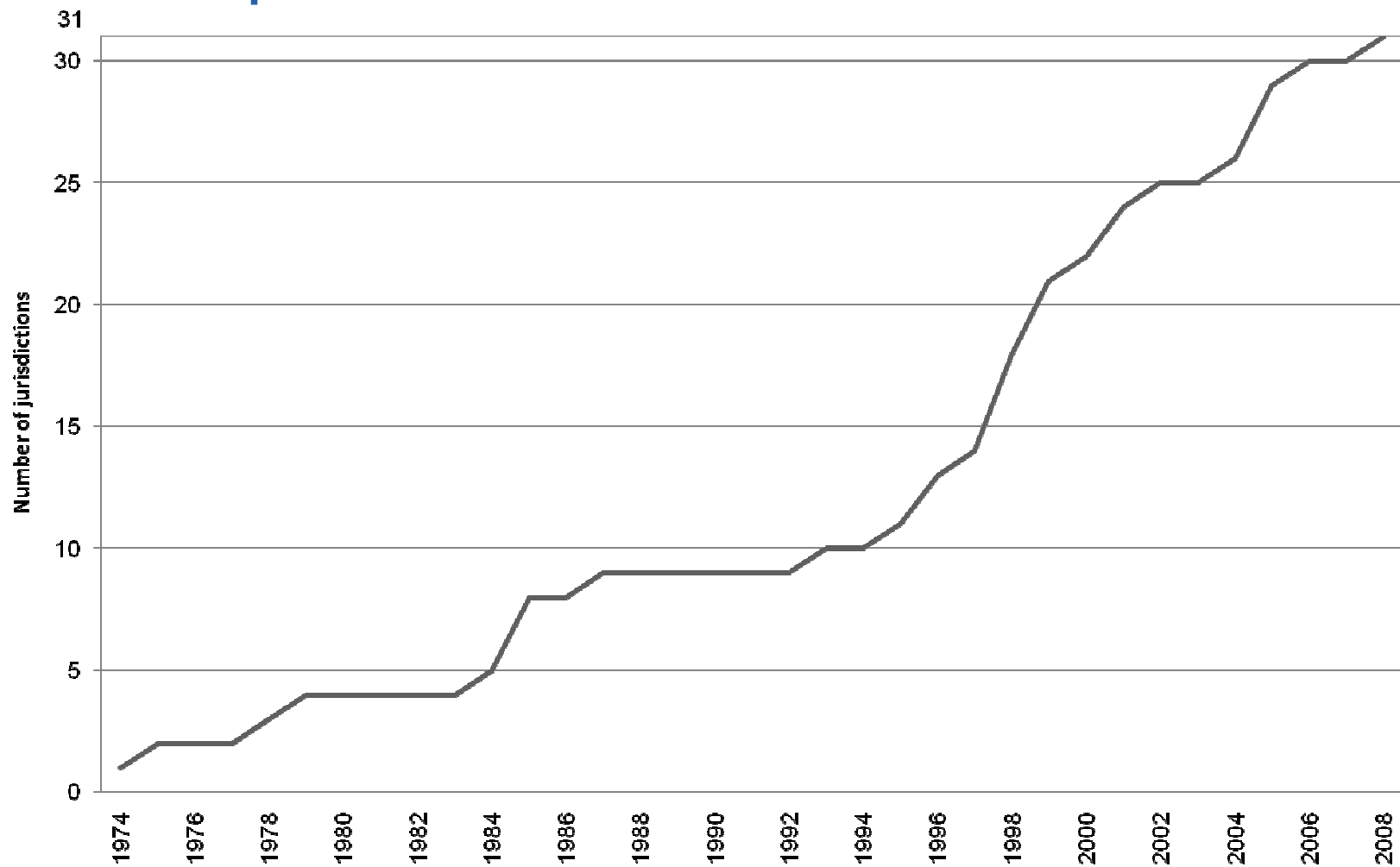
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Risk in Regulatory Impact Assessments (RIA)

- Endorsed in 2005 *OECD Guiding Principles for Regulatory Quality and Performance*
- Risk assessment helps avoid opportunity costs of regulatory failure:
 - Failing to regulate when there is a need (type 1 error)
 - Regulating when there is no need (type 2 error)
- *“Quantitative risk assessment improves the capacity of a government to focus on the most important risks and reduce them at lowest cost while identifying those risks that fall below a threshold justifying government action.” OECD 2002*
- RIA has been adopted by all OECD countries for at least some forms of new regulation
- But formal risk assessment not comprehensively applied

Uptake of RIA in OECD Countries



Steps in Regulatory Impact Assessment

1. Problem definition
2. Objectives of Government action
3. Consideration of alternative options
4. Impact analysis – costs, benefits and risk
5. Consultation
6. Recommendation
7. Implementation and review

Risk analysis is in all steps in a RIA

1. Defining the problem

- What will occur under a 'do nothing scenario' ?
- What is the probability that the outcome will occur?
- How serious is the harm or injury that could occur?
- How widespread will it be and who will be affected?
- What is the level of uncertainty?

2. Govt objectives are often to “reduce risk”

- Any reduction in risk involves costs
- Need to determine how much risk is acceptable
- What is the value of the risk cost trade-off?
- Goal should be the minimum effective regulation to meet objectives

Analyse the impacts of alternatives

3. Alternative Options

- Risk avoidance – prohibit activity
- Risk transfer – cause another party to accept the risk (contracts, compulsory insurance, privatization)
- Risk retention – accept the loss from the risk event
- Risk reduction – reduce the probability of the risk event (licensing, codes and standards, enforcement strategies)

4. Impact Analysis

- Calculate costs and benefits of each option; show net benefit
- Sensitivity analysis can reveal implications of uncertainty for decision makers

Promoting Transparency

5. Consultation

- Explore the consequences and probabilities of risk for each option analyzed
- Obtain feedback from all groups likely to be affected
- Seek expert opinions

6. Recommendation

- Select option with highest net benefit, only after accounting for risk in the analysis

7. Build in implementation and review

- Was the risk adequately identified?
- Has government intervention been effective?
- New science - what has changed, is it still appropriate?

But not without its challenges...

- **Managing complexity**
 - Getting the right data can be difficult
 - But the systematic framework of a risk assessments can be still be useful
 - Develop in house risk tools
 - Even simple approaches have merit
 - Build the capacity for risk assessment over time
 - Post implementation reviews reveal lessons
 - Recognize that risk based processes require regulators and politicians to take risks
 - Manage communication of risk cost trade offs