Basics of Risk Management

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Basics of Risk Management – Class Objectives

- Define Risk Management
- Discuss –
  - Benefits of the Risk Management Process
  - Ways to Identify and Analyze Loss Exposures
  - Policy Statements
  - Risk Control Techniques/Steps
  - Risk Financing (Retention/Transfer)
  - Enterprise Risk Management (ERM)
- Case Studies
Risk Management

- the process of making and carrying out decisions that will minimize the adverse effects of accidental losses upon a public entity.
Risk Management

It’s basically Structured Common Sense.

Understanding what can cause losses and the actions needed to avoid them & minimize the effects if and when they occur.
Benefits of Risk Management

- Effective use of public funds
- Decreases costs and increases productivity
- Identifies exposures
- Increases community attractiveness
- Reduces future project uncertainties
- Tracks claims, losses and insurance policies
Risk Management Importance

Every dollar spent on property damage, work related injuries, liability claims, automobile claims, accidents and insurance premiums is a dollar not spent on services.
Iceberg Theory

For every Dollar of direct insurance Cost.

The indirect cost is potentially nine Dollars

Only 10% is visible above the waterline.
Case Study 1
Property Acquisition/Existing Facility Program
Replacement Costs

- RCV - Replacement Cash Value
  - (Like New Condition)
- Less Depreciation = ACV - Actual Cash Value
- Historical structures
- “Stated Value” Endorsements
Replacement Costs
Appraisal Condition

Before

After

C.O.P.E.
P.E.M.E.
Appraisal Condition (Before)
Appraisal Condition (After)
Organizing Risk Management Efforts

- Appoint Coordinator
- Create Risk Management Committee
- Write a Policy Statement and Program
- Assign Duties
- Plan for Future
Establish Goals

- Goals can be general but should be specific enough to be effective
- Written with stated standards
- Focus on items that can be controlled
- Make sure goals are realistic
Policy Statement

- Overview of objectives
- Commits the entity to managing risks
- Expresses top level support
- Outlines roles & responsibilities
Case Study 2
Certificates of Insurance
Certificates of Insurance

- Limits of liability
- Additional insured
- Hold harmless
- Notification of cancellation
- Worker’s Compensation
- Legal Counsel review
Risk Management - Types of Exposures

- Property
- Liability
- Personnel
- Net Income Loss
Five Steps of Risk Management

I. Risk Identification
II. Risk Evaluation
III. Risk Treatment
IV. Selection and Implementation
V. Program Monitoring
Step I – Risk Identification
Identification Tools

- Checklists
- Interviews
- Inspections and site visits
- Accident reports and claim forms
- Complaint forms
- Budgets
- Minutes of council & committee meetings
- Records of real property
Step II – Risk Evaluation
Types of Risks –

- Physical Property
- Loss of Income
- Time Element
- Contingent Expenses
- Human Resources
- Legal Liability
## Frequency/Severity Matrix

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Severity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petty theft</td>
<td>Natural disasters</td>
</tr>
<tr>
<td>Vandalism</td>
<td>Boiler and machinery accidents</td>
</tr>
<tr>
<td>Minor building damage</td>
<td>Major fires, Major theft</td>
</tr>
<tr>
<td>Minor vehicle accident</td>
<td>Large liability suits</td>
</tr>
<tr>
<td>Small W.C. claims</td>
<td>Injuries resulting in permanent disability</td>
</tr>
<tr>
<td>Slip and falls</td>
<td>Major liability suits against law enforcement officials</td>
</tr>
<tr>
<td>Faulty road maintained that results in serious accident and severe work place injuries</td>
<td></td>
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</tbody>
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Step III – Risk Treatment
Risk Control Techniques

- Exposure Avoidance
- Loss Prevention
- Loss Reduction
- Segregation of Loss Exposures
- Contractual Transfer
Risk Financing Techniques

- Risk Retention

- Risk Transfer
  - Pools
  - Insurance
  - Contractual Transfer
Case Study 3
Public Works Yard Disaster
Are you prepared???

Let’s look at a Maryland town/city and what could happen:

- It’s a full service town with a population of approx. 6,000 people.
- It has a Public Works Department which provides weekly trash pickup, road repair, maintains parks and other town facilities.
And the main building at Public Works burned down last night.

Inside was the trash truck, street sweeper, backhoe, grass cutters, tools and equipment.

This was the result.....
What are some of the issues and problems facing our town?

Short term …

Long term…
We can see that we need to be prepared for the unexpected and the unthinkable.

We need to do our best to segregate assets to protect them. So a minor loss does not become a catastrophic loss.
Step IV – Selection & Implementation
Selection Criteria

- Frequency/Severity
- Effectiveness
- Cost
Implementation

- Utilize technical expertise
- Obtain “front line” management support
Step V – Program Monitoring
Performance Measures

- Results standard
- Activity standard
Enterprise Risk Management

Is a process, effected by an entity’s ... 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).
Enterprise Risk Management

Thinking about Risk

- **Old way** – something we need to avoid. Relying on reactive processes to avoid a repeat loss.

- **New way** – Seeing all exposures across an organization. Taking a broader view of the risk environment to mitigate risk, implement policies, and take precautions that proactively reduce risk to organizations, employees and the public.
Case Study 4: A Special Event

Bicentennial Celebration

Organizers have approached the City about having a huge multi-day celebration to include a parade, street vendors, road closures, a food festival, and even a film crew for a Chamber of Commerce Internet video.
The event will cap off with an open air concert by a hard rock band called “Wide Spread Panic.”
The Mayor and Town Council are excited…they want to ride in the convertible in the parade…

Community leaders are onboard…the local school systems are planning pageants and other competitions.
This event will happen.

- It’s now your job to make sure this event is a success and the citizens/taxpayers are protected.
- What role(s) should you and the town have and what requirements will you recommend?
- Let’s think of all the different parts and players.
- What Risk Management elements do we need to bring into play to make this a safe and successful event?
Conclusion

- Special events must be carefully managed so that the safety and health of the participants in mind, the protection of public property considered and the impact of non-participating citizens minimized.

- Departments within a local government must work together to ensure a safe event and to eliminate liabilities arising out of special events.

- Proper guidance and risk control procedures can reduce the likelihood, as well as the severity of incidents that may occur.
Conclusion

- Have a Special Events Policy in place
- Have an application to help regulate and properly manage events sponsored by outside parties
- Request certificates and additional insured endorsements from all parties involved
- Use Hold Harmless Agreements and Indemnity Agreements whenever possible
- Understand the role of Volunteers
Parting Thoughts

As elected and appointed officials managing risk should be an important consideration in everything you do in conjunction with your actions and decisions pertaining to your local government.
Questions??

Thank You!
For more information or specific questions please contact

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