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# Enterprise Risk Management for Pools

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# Enterprise Risk Management for Pools

## Agenda

- Overview of ERM & how it is evolving
- Examples from pool operations
- Recommendations & resources

# ERM – What it /s

Not a fad, not amorphous, not only for corporations

- It is a *specific* and defined approach to managing risk broadly
- It has distinct, component parts – principles, framework and process – that are *integrated* and *repeated*
- It applies to all sizes and types of organizations
- Based on ISO 31000 – *the only* international standard on risk management

# Which ISO??

ISO (International Organization for Standardization) is the world's **largest developer** and publisher of **International Standards**.

Established in 1947, ISO is a **network** of the national standards institutes of **159 countries**, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system.

## ISO 31000:2009

International Standard on the Practice of Risk Management



# ISO 31000 Adoption

Risk management in America (versus the rest of the world)

- The history and basis of American risk management
  - Focus on insurance and risk transfer
  - Safety rules and regulations
- ISO 31000 (aka ERM) is based in *management* and *objectives*
- ISO 31000 – adopted in 2009 by 40+ countries (including the U.S. by ANSI)

# Risk Management is *Evolving*

**Enterprise Risk Management**  
Integrated across the organization

**Risk is uncertainty**  
Focus is on *optimizing* risk to achieve goals

**Advanced Risk Management**  
Broader Integration

**Risk is an expense**  
Focus is on *reducing* cost-of-risk

**Traditional Risk Management**  
Transactional focus

**Risk is bad**  
Focus is on *transferring* risk

# As Risk Management Evolved...

In the first few decades:

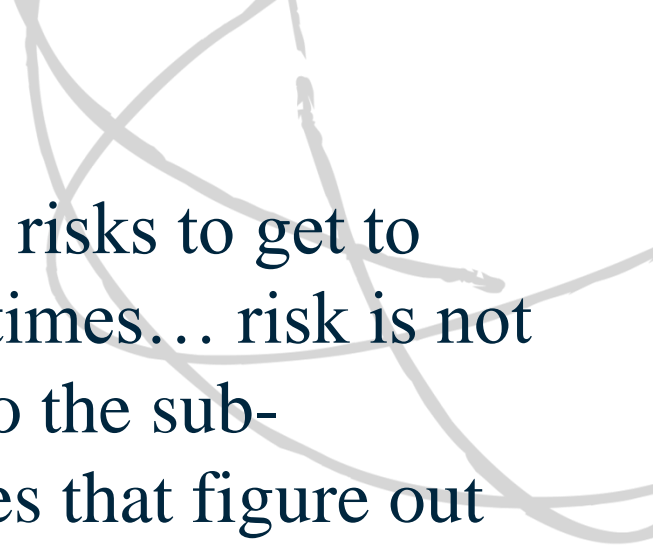
- We focused on the rear view mirror – assuming that “What’s past is prologue”
- We were data driven – claims, losses, cost allocation
- We built cost-effective and creative risk financing tools – pools, captives, SIR structures
- This is primarily *value protection*

# As Risk Management *is Evolving...*

In the decades to come:

- “Risk” will expand to include *taking risk* and consideration of opportunities
- Focus will shift to “key risks to strategy” – and be forward looking
- The assessment of risk will be integrated into decision making – and widely practiced
  
- This is *value creation*





“Risk is uncertainty... we have to take risks to get to our goals, especially during changing times... risk is not just the negative impact of risk but also the sub-optimization of gain. I think companies that figure out both the *value protection* and *value creation* part of risk are going to set themselves up for success.”

Sandra G. Carson, VP, Enterprise Risk Management and Compliance, Sysco Corp.

“Exploring Strategic Risk” – report on a global survey of over 300 executives, board members and risk executives published by Deloitte in 2013  
<http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Governance-Risk-Compliance/dttl-grc-exploring-strategic-risk.pdf>

# Embedding Risk Management

- ISO 31000 is currently under revision
- The “Design Specification” and experts from around the world say:
  - Good risk management is embedded in good management
  - Simple, clear language is better than specialized terms
  - Risk management provides a basis for making informed decisions at all levels of the organization – and provides for good governance

# “Reducing Risk Management’s Organizational Drag”

“Leading companies view every decision as a risk decision.”

“Leading companies use risk management as a protection shield, not an action stopper.”

Research: “Reducing Risk Management’s Organizational Drag,” by CEB.  
Article summarizing the research appeared in *Harvard Business Review*, July-August 2015, “How to Live with Risks.”

<https://hbr.org/2015/07/how-to-live-with-risks>

# Defining ERM

**Enterprise Risk Management** describes a broader approach to managing risk.

It is a coordinated effort to direct and control all activities related to risk.

It defines risk as the **effect of uncertainty on objectives**. It therefore ties the management of risk to what is most important to the organization.

The **responsibility for managing risk** is spread across the organization to those who have accountability and authority – **risk owners**.

# Infographic: The Risk List

*Risk & Insurance – June 1, 2015*

## Six Challenges for Public Entities:

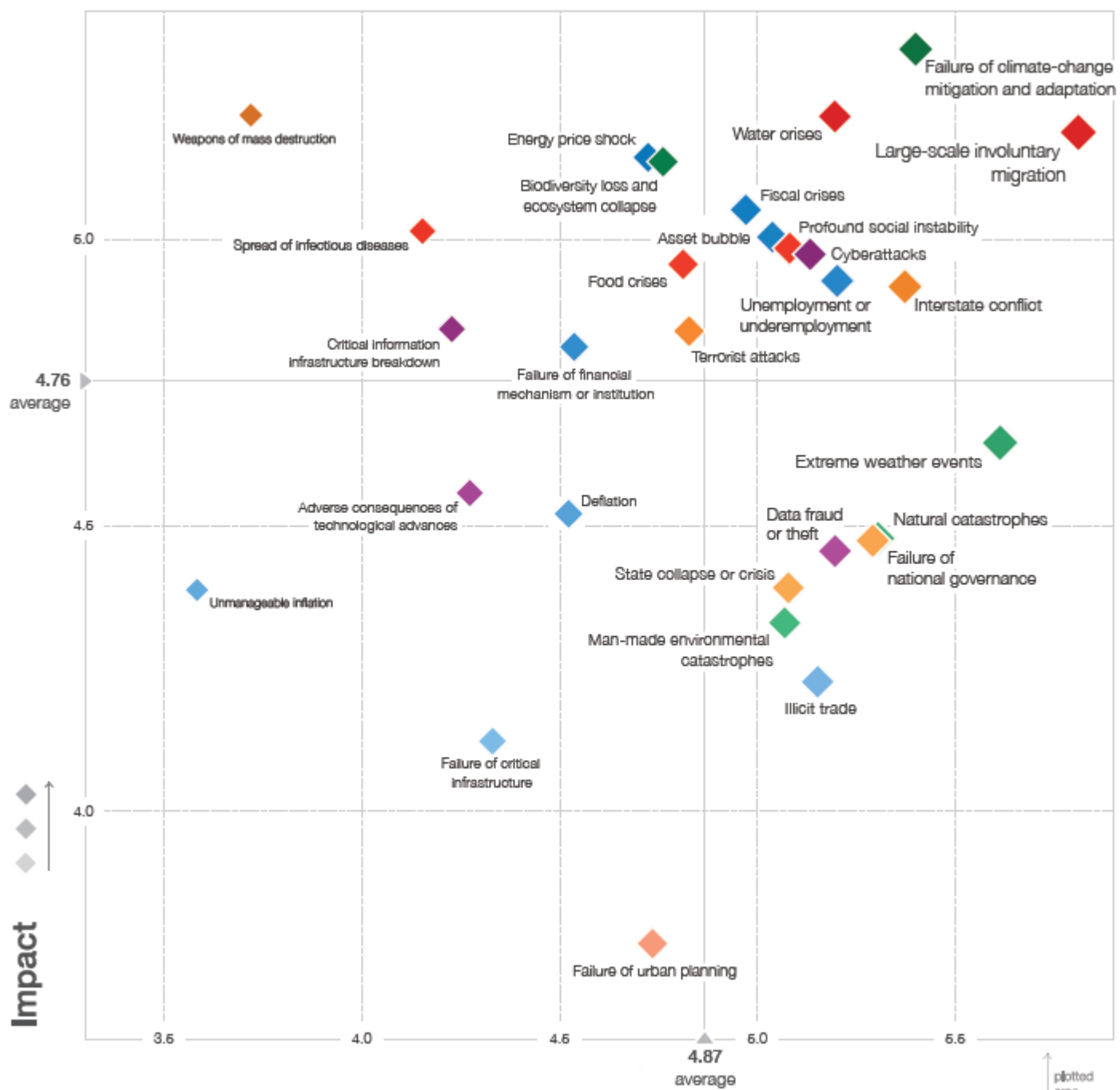
1. Cyber
2. Law enforcement activities
3. Crumbling infrastructure
4. Emerging technologies
5. Eroding tort caps
6. Distracted drivers

<http://www.riskandinsurance.com/6-challenges-for-public-entities-2/>

# The Global Risks Report 2016 11th Edition



- Survey of 750 experts and decision-makers
- Risk categories:
  - Societal
  - Technological
  - Economic
  - Environmental
  - Geopolitical
- Horizons of 18 months and 10 years considered



# Pools are Uniquely Positioned to Help Members Improve Risk Management

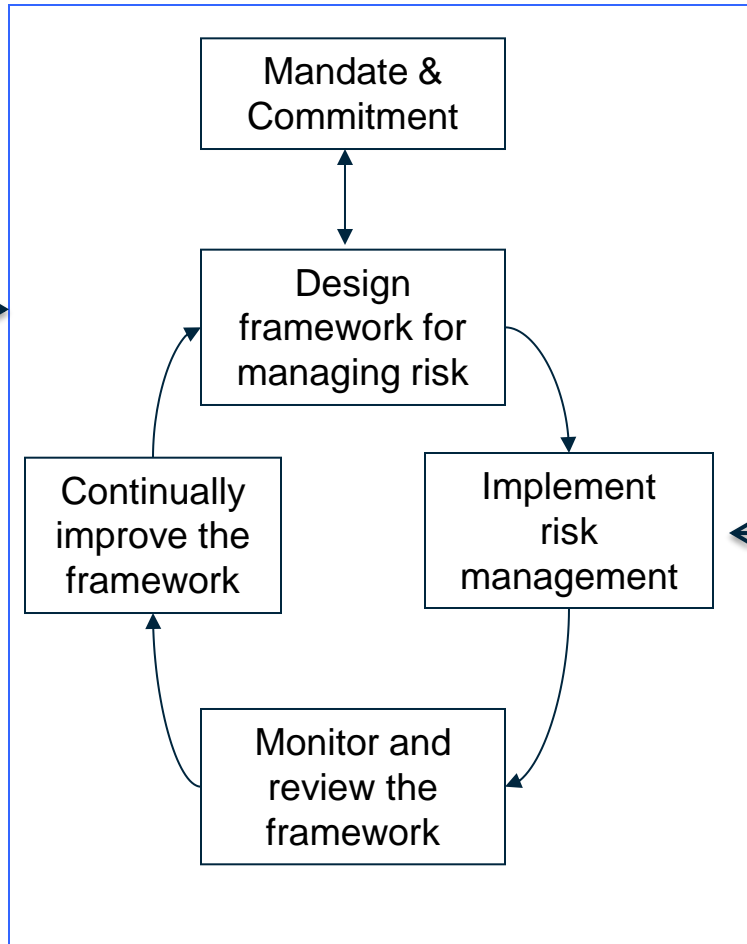
- Designed to see “big picture” and multiple points of view
- Watchful of trends and emerging risks
- Service driven
- Wider array of resources available



## Principles

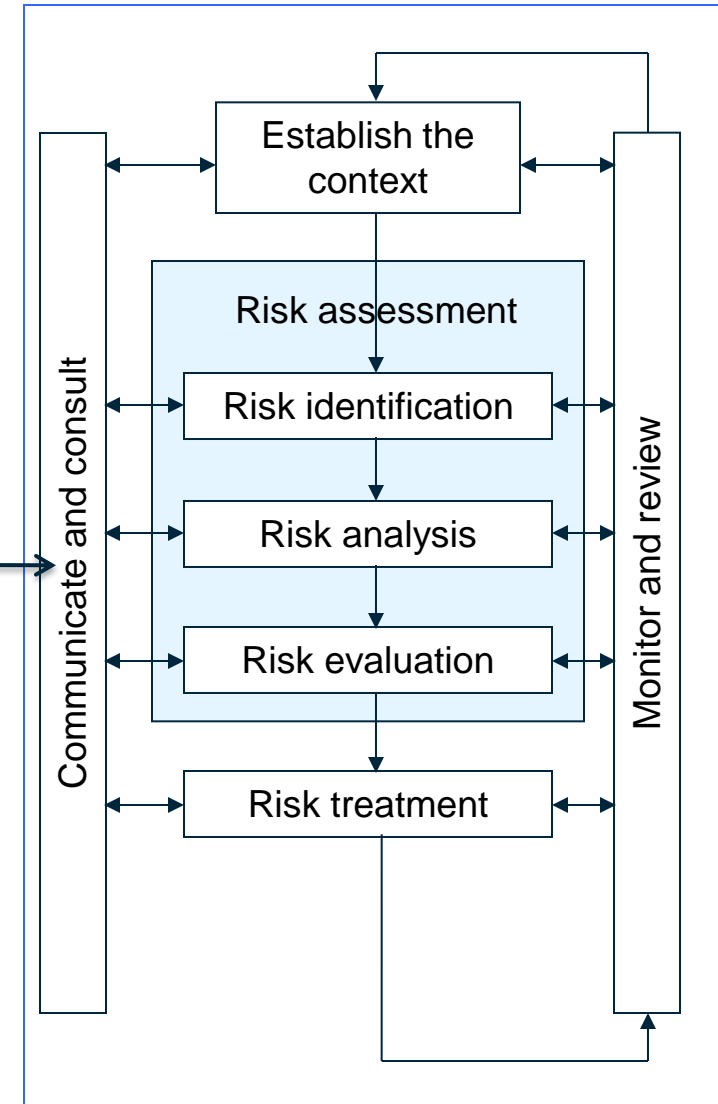
- Creates value
- Part of org. processes
- Part of decision making
- Explicitly addresses uncertainty
- Systematic, structured & timely
- Based on best avail info
- Tailored
- Takes human & cultural factors into account
- Transparent & inclusive
- Dynamic, iterative & responsive to change
- Facilitates continual improvement

## Framework



ISO/ANSI/ASSE 31000: 2009

## RM Process



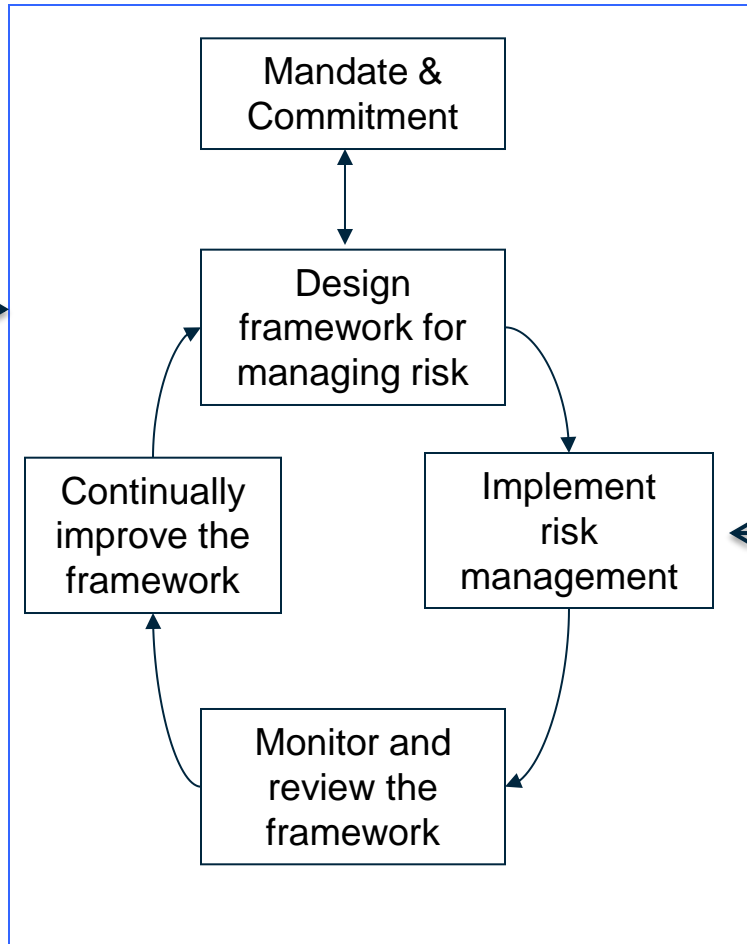
# The Principles

- Ground us in the *value* of risk management and *value creation* not just value protection
- Govern how we build and sustain a framework for managing risk
- Can provide “test points” for risk management
  - *How do we explicitly address uncertainty?*
  - *Is risk management integrated into organizational processes – like budgeting, performance evaluations?*
  - *How have we tailored the standard to our culture and organizational needs?*

## Principles

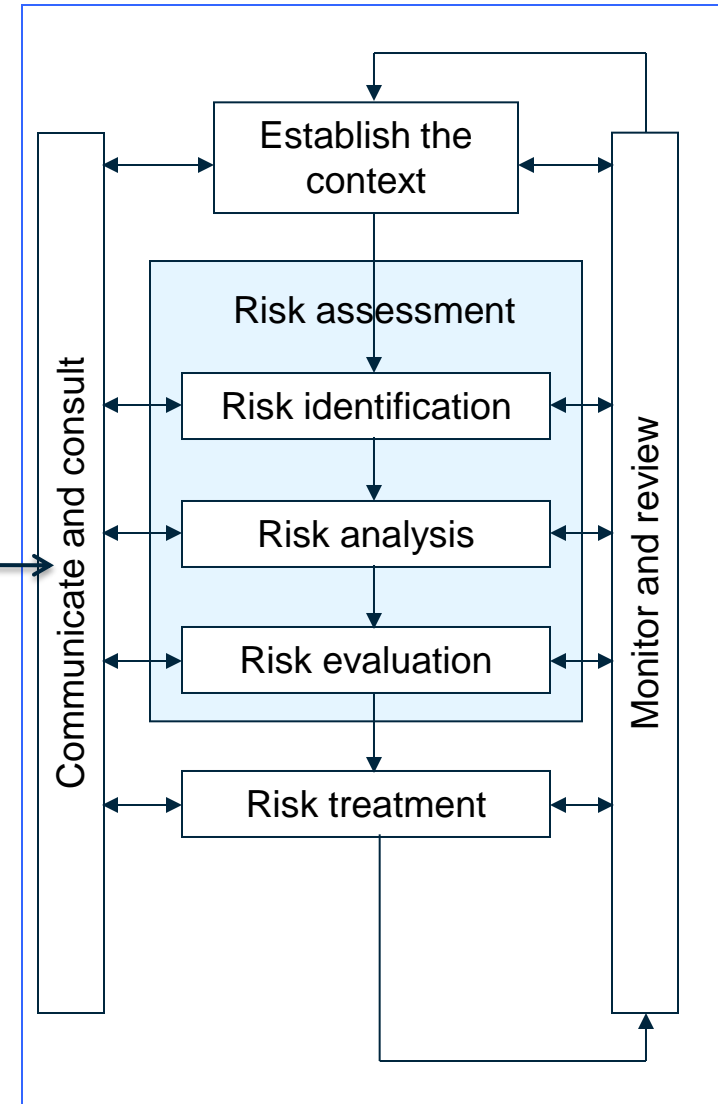
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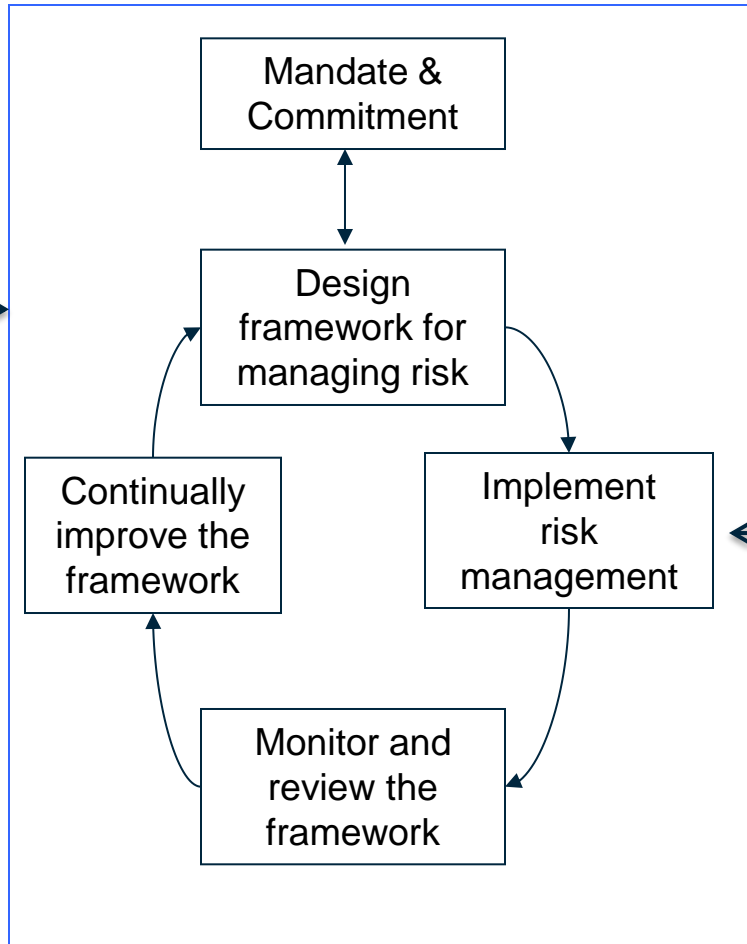
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- Plans for implementation, communication and continual improvement
- Creates a sustainable, consistent process for managing risk
- Includes understanding the organization's context of operations, values and commitment to managing risk
- Creates a standard approach, language and evaluation criteria

## Principles

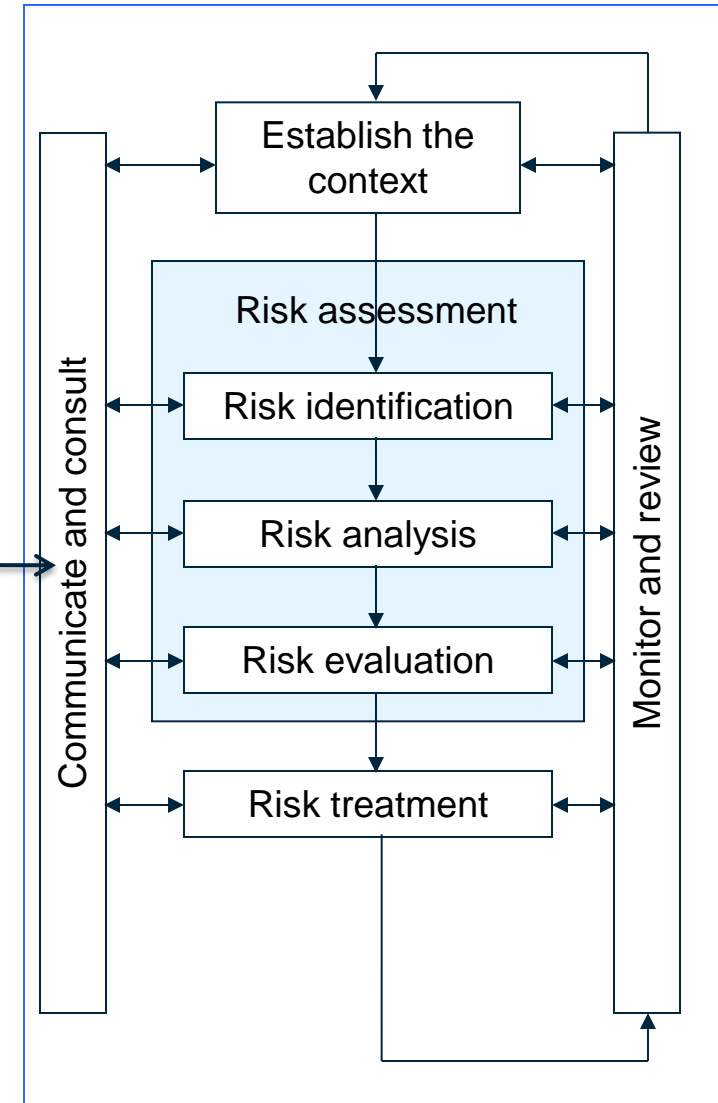
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# The Risk Management *Process*

- Consistent process used to assess and treat risk and make decisions
- Starts with *context*:
  - Is this “mission critical?”
  - What are the internal and external influences?
  - Who cares about this or would be affected by the results?  
How can we take stakeholder views into account?
  - Who should be engaged in this process?
  - What risk criteria are appropriate for this process?

# Defining “Risk”

Risk is present in everything we do

Risk = the *effect of uncertainty* on your objectives

- Objectives = the outcomes you seek, the highest expression of intent and purpose
- Uncertainty = the state of not knowing, a deficiency of information

Anything that could harm, prevent, delay or *enhance* your ability to achieve your objectives = risk

ISO/ANSI/ASSE 31000:2009  
Risk management – Principles and Guidelines

# Differentiating Risks

## Pool Risks

- Excess insurance/reinsurance marketplace
- Pricing adequacy
- Surplus
- Claims practices
- Staffing & aging workforce
- Member services
- Data privacy
- Growth
- Regulation & oversight
- Governance

## Member Risks

- Law enforcement
- Employment practices
- Public relations
- Infrastructure
- Aging, retiring and changing workforce
- Drones
- Cyber & data management
- Specific loss areas (for school, city, county or special district operations)



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# ERM for Pools – a Dual Approach

- At the Pool level:
  - Strategic planning
  - Linking key risks to objectives (Are we paying attention to the “right stuff?”)
  - Apply to decision making
- At the Member level:
  - Training on ERM, emerging risks, decision making
  - Pool provides resources to help members take a broader approach to managing risks

# *Example 1*

## Managing Risk to Strategy

- Pool Board sets mission and guiding principles
- Organizational objectives drafted by staff, approved by the Board
- Board and staff discuss threats and opportunities – to achieving those goals
- Risks are prioritized and action plans developed
- Board provides oversight & monitors progress

# Mission Statement

The mission of the pool is to provide an effective, affordable and high-quality integrated risk management program for public school districts, community colleges and other qualified entities.

# Applying ERM to the Pool

- Strategic, enterprise risks are continually identified, evaluated and treatment plans developed to minimize threats and strengthen opportunities to fulfill the pool's objectives

# 1. Remain the pre-eminent source for property and casualty coverages and risk management services for public schools

Strong competition from insurance carriers and other pools

Long-standing member service issues

Pool staffing changes (retirements, new personnel, loss of historical knowledge)

Significant and widespread public relations event

Changes to financial stability

Regulatory or legislative changes

Emerging technology and innovative service delivery

Organizational Objective

Risks

4. Continually strive to reduce the pool's total cost of risk through optimal risk financing design, loss control and claims cost containment in order to keep member assessments as low as possible

Risks

Retaining too much or too little risk – thereby spending more than optimal amount on either losses or reinsurance

Lack of effective, ever-improving, dynamic risk management services

Missing opportunities for loss control or claims cost containment through lack of attention to data and analysis

Improper or inattentive claims management, leading to higher than necessary payouts

Failing to find efficient and creative means to move information from pools staff to members and on to member employees and school communities

# ERM & Strategic Planning

- Do you consider uncertainty in relation to your strategic goals?
- Do you explicitly manage your risk to strategy?
- What risks could undermine pool operations?
- What strategic risks are critical *to avoid* – or essential *to take*?



## *Example 2*

# Helping Members Use ERM

A new approach to risk management services:

- Pool staff were trained to lead risk assessment processes
- Applied risk assessment processes to hot topics in small groups at a member conference
- Individual members adopted the process and moved forward individually – with support from pool staff

# Federal Agency Executive Quote:

“My organization is better at implementing major programs because of ERM. The questions that leadership asks are more insightful and the expectations of senior leadership are higher now. They are better able to deal with the complexity of our initiatives.”

“2015 Survey on the State of ERM in Federal Government”  
published by AFERM and PWC

<http://www.pwc.com/us/en/public-sector/publications/enterprise-risk-management.jhtml>

# *Example 3*

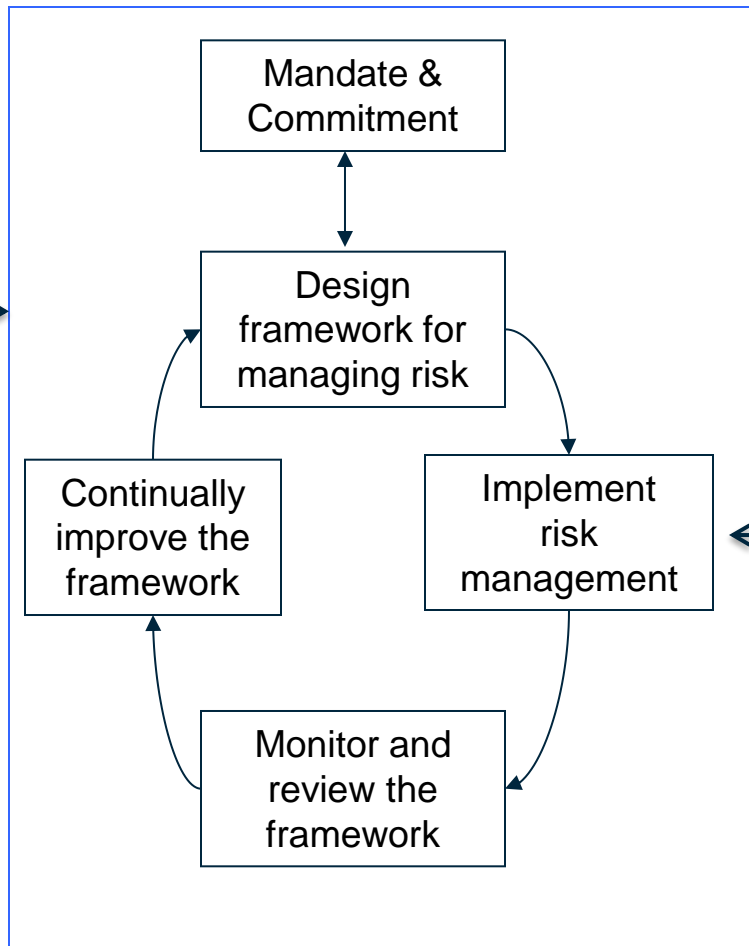
## ERM & Decision Making

- Key pool staff member took PRIMA ERM training
- Applied risk management process to pool decisions
- Currently expanding application to members – pool will provide resources and guidance

## Principles

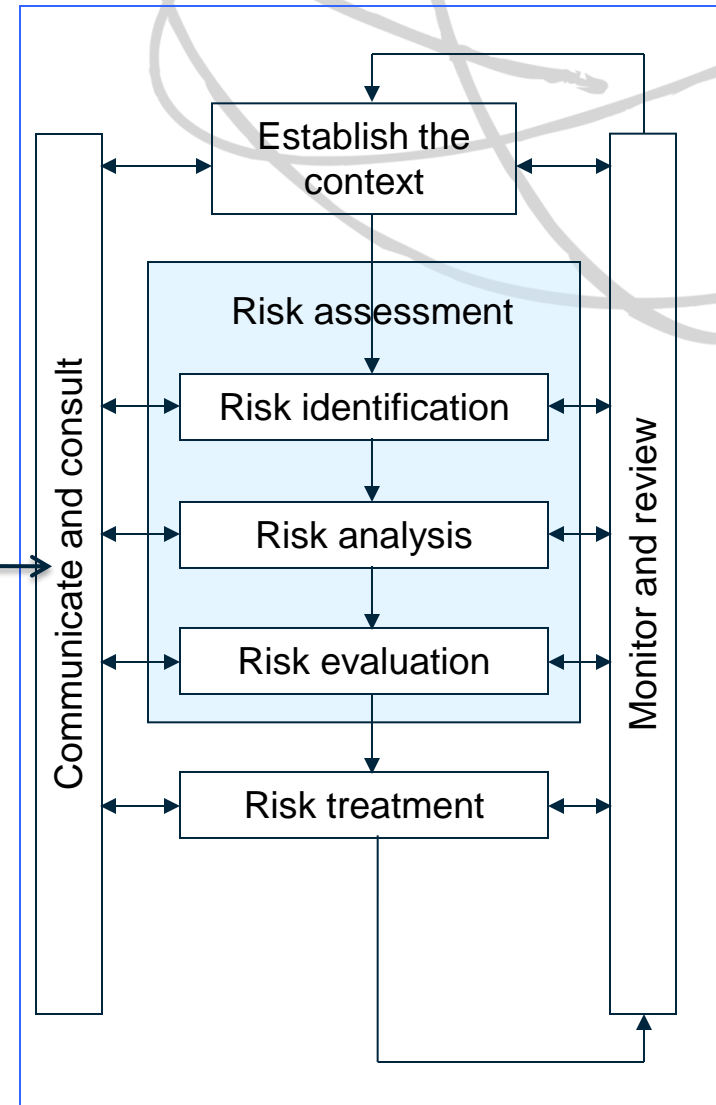
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# Risk Management Process Applied to Decision Making

## 1. Understand the context

- a. How important is this decision/project/opportunity in relation to organizational objectives?
- b. Who should be part of the decision-making process?
- c. How will we rank and evaluate the potential risks?
- d. What will we do with the results (data) and who needs to know about them?

# Risk Management Process Applied to Decision Making

## 2. Assess the risks

- a. Identify both positive and negative outcomes (threats and opportunities)
- b. Describe them as fully as possible – sources, triggers, potential consequences, cascading effects
- c. Rank them for likelihood and consequence (impact)
- d. Which risks are inter-related?

# Risk Management Process Applied to Decision Making

## 3. Treat the risks

- a. You want to *support* the opportunities and *minimize* the threats – in order to “Take risk, wisely”
- b. Identify risk owners – those in direct control
- c. Prioritize treatment, considering current resources
- d. Continually loop through the process – “Did we get that right? Can we tolerate the risk at this level?”

# Risk Management Process Applied to Decision Making

## 4. Monitor, Review, Communicate

- a. Communicate with appropriate stakeholders
- b. Review results against performance measures (activity, output, outcomes)
- c. Monitor and scan for environmental changes or changes in context
- d. Report on outcomes of the process!



# Three Best Practices

1. Strike the right balance between risk and reward
2. Focus on decisions, not process
3. Make employees the first line of defense

*Harvard Business Review*, July-August 2015, “How to Live with Risks.”

# Recommendations For Integrating ERM Into Pool Operations

- Embed risk management into decision making
- Link prioritization of risk to strategy – not just historical data
- Assess the risks to your pool’s strategic goals
- Support member implementation of ERM

# Benefits of ERM for the Pool

- Improves the quality of organizational decisions
- Prioritizes major risks and risk treatments – for optimal resource allocation & stakeholder value
- Identifies evolving risks & uncertainties
- Clarifies risk-reward trade-offs & exploits opportunities
- The explicit involvement of stakeholders improves engagement and confidence
- Improves communication and reporting

# Resources

- PRIMA training: “How to Implement ERM Using ISO 31000” – [www.primacentral.org](http://www.primacentral.org)
- Deloitte Survey: “Exploring Strategic Risk”
- Strategic Risk: “Future of Risk and Insurance”
- ISO 31000 Risk Management standards – [www.iso.org](http://www.iso.org) or [www.asse.org](http://www.asse.org)
- “Improving Government Decision Making through Enterprise Risk Management” – IBM Center for the Business of Government

# Resources

- “2015 Survey on the State of ERM in Federal Government” published by AFERM and PWC
- *Harvard Business Review* “How to Live with Risks,” July-August 2015 – report on “Reducing Risk Management’s Organizational Drag”
- 2015 Survey on the State of ERM in Federal Government, published by AFERM and PWC
- “Reducing Risk Management’s Organizational Drag” research by CEB



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# Time for Questions



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Thank You!!