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Proudly Presents…

How To Establish Functional Risk Management in Your Public Entity

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What is Risk Management?

- A (great) management tool
- Focus
  - Protecting assets (people & things)
  - Reducing liability exposures
- Combines
  - Common sense
  - Safety
  - Resource management
  - Good business practices

What Do Many Risk Managers Do?

1. Buy Insurance
2. Handle Claims
3. Administer Insurance Policies
4. Report to management on:
   1. Losses
   2. Insurance marketing results
   3. Loss Prevention Programs

(In this order!)

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What Do Some Risk Managers Do?

1. Identify Exposures
2. Identify and negotiate insurance product solutions
3. Hope to get the policies in under 6 months
4. Assess prevention techniques and recommend them to management
5. Attempt to minimize the cost of claims
6. Report to management on
    1. premium and claim dollars
    2. loss prevention techniques implemented
    3. the total cost of risk against a typically municipality
7. Collaborate with internal & external sources to achieve the above

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What Should Risk Managers Do?

1. Develop knowledge on
   1. key aspects of core operations,
   2. key staff functions and
   3. business strategies that generate or have potential to generate significant exposures.
2. Use a comprehensive, customized R/M management approach to material risks
3. Collaborate with colleagues to develop appropriate R/M techniques
4. Ignore insurance until all the other steps are complete

3 Typical Approaches

1. Traditional
2. Progressive
3. Advanced

Which phase has your organization reached?

The R/M Process

1. **Identify** significant or material risks
2. **Assess** the magnitude of identified risks
3. **Measure** each risk quantitatively and qualitatively
4. **Develop and implement** mitigation strategies
5. **Monitor** to ensure strategies are effective
6. **Report results** to managers who can use this information to improve their process

Implementing R/M:

Pros:

- Narrow focus easier to execute
- Potentials for loss understood
- More likely to identify significant risks
- Increased ability to seek multiple solutions to risks
- Pre-planned risk financing

Cons:

- Identifies risks some would rather ignore
- Less dependence on external expertise may prevent learning from others' experiences

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2 Views of R/M

Bad News

- Risk managers' are imperfect!
- We make mistakes!

- We save our employers' money
- We help achieve project success

Good News

- We are pretty smart!
- We can learn from
  - Our mistakes
  - Mistakes of others

- We cost our employers' money
- Some think we stop projects

2 Views of R/M

Pros

- More likely to be prepared for uninsurable events
- More management and governance attention to risk issues
- Less dependency or third party services

Cons

- In the start-up phase can be difficult to gain senior mgt. support
- Difficultly finding external experts who understand public sector environment & exposures

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Traditional Approach

- Limited perspective on the entity's risks
- Hazard-Focused
- Reliant on brokers & consultants
- Insurance-focused
- Low on priority list of
  - Senior management
  - Board/Council priority list
- Executed with
  - Part time, casual, inexperienced staff, or
  - Outsourced resources

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Progressive Approach

- Look beyond insurable risks
- Recognize that engaging operational managers is key
- Promote governance-focus and 'big picture' perspective
- Strategically use external expertise
- Recognize need to align with key risk stakeholders
- Success depends on:
  - Full time dedicated, internal expertise, plus
  - Trust of management and governing body

Risk Management Stakeholders

Advanced Approach

- Supported by key functional leaders
- Corporate culture recognizes risk management methods, tools & techniques represent *good management*
- Clear boundary between process & risk ownership
- Recognizes insurance as just one strategy
- Integrates with strategic planning processes

Using R/M Tools

Pros:

- Identifies key risks faster & more effectively
- Establishes the organizations' risk appetite
- Encourages engagement of key risk stakeholders & process owners
- Improves chances of staying with risk tolerance sphere
- Controls overall cost of risk

Cons:

- Expensive to implement
- Expertise difficult to find and keep
- May slow adoption of new corporate strategies

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Collaborate – Don't Dictate

- Clearly communicate R/M processes
- Establish an agreed-upon definition of "risk"
- Regularly communicate on relevant risk issues
- Establish incentives & measure accountability
- Establish information flow to <u>and</u> from
  - The right people,
  - At the right time,
  - For the right reasons

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Encourage Best Practices

- Identify and mitigate business-critical exposures by line.
- Promote a R/M culture: whoever delivers the service is the front line risk manager.
- Encourage risk mitigation and reward those who 'get it'
- Customize risk reports for the target audience.

Source: CFO Working Council

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R/M Best Practices

- Leverage cross-functional expertise
- Assign owners for each critical mitigation step
- Encourage regular risk/opportunity assessments in key reporting processes
- Encourage senior managers to defend consider risk issues when reporting the Board/Council

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Should You Bring R/M In-house?

Criteria:

- The trade-off: on-going cost of internal resources vs. ad-hoc external expertise
- Need for regular, competent advice
- Your organizational structure, management style & risk appetite
- Management:
  - Expectations of Risk Manager
  - Location of R/M in overall org. structure
  - Level of concern over current cost of risk & existing R/M practices

How to Embed R/M

- Raise awareness of the overall cost of risk; use examples
- Encourage colleagues to rely on you.
- Join industry R/M groups to learn what others are doing.
- Communicate regularly with colleagues on risk management topics.
- Build relationships with managers at all levels.

Why R/M Initiatives Fail

- Senior management lacks
  - Understanding of risk exposures
  - Recognition that managing risk increases achievement of goals
- Corporate culture sees risk identification as a negative analysis
- Organizational structure does not support 'accountability'

Source: 2003 KPMG Operational Risk Study

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Why R/M Initiatives Fail

- Poorly defined & communicated risk policy
- Poor risk identification & mitigation process
- Risk processes are “too much work – too few results”
- Insufficient tracking, monitoring, reporting abilities, and *Communication*!

Source: 2003 KPMG Operational Risk Study

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Yes, you CAN establish functional risk management in <u>your</u> public entity

Thank you for attending the Ottawa Capital Connexions Conference

QUESTIONS?