


Alligators?"

Applied Risk Management
Tools, Techniques, and Case Studies



A Primer on not Getting Bit

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Risk Management 101

- We can make this real short and take the rest of the day off

This is Your Future

Hopes, Dreams, Fears, Budget, Goals, etc.



—————→
Your Future/Life

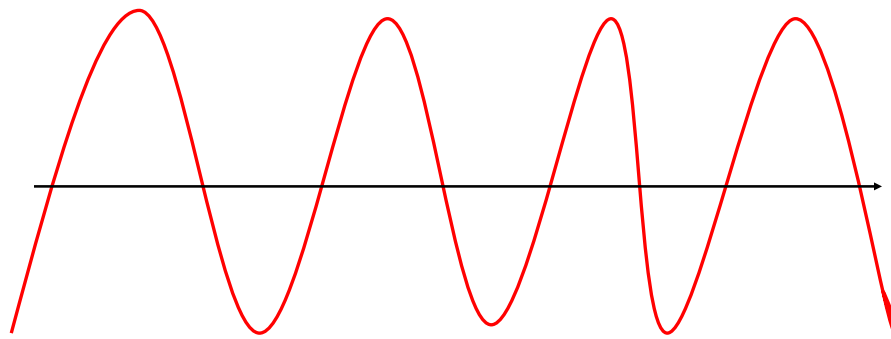
Or, if you're an:

OPTIMIST

PESSIMIST

This Is Risk – Variance

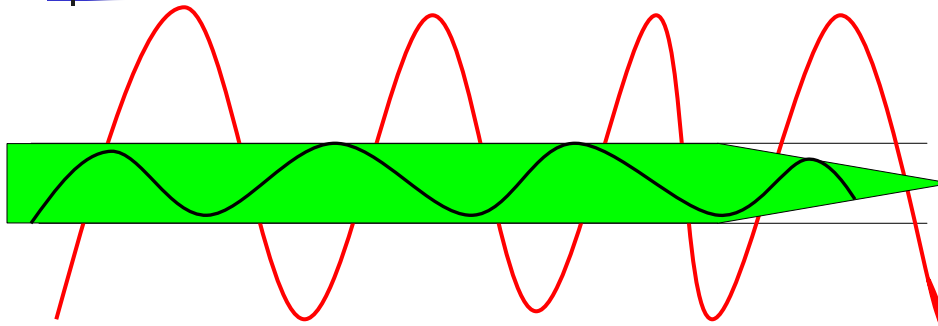
Potential Actual Goal, Budget, etc. Results



“Life is what happens when you’re busy making other plans” - John Lennon



This Is Risk Management



**Maintaining Actual Results Within a
Tolerable Level of Uncertainty**

ANY QUESTIONS?



Seminar Purposes

- Introduce attendees to risk management
- Demonstrate the value of risk management
- Provide simple and practical recommendations for implementing risk management practices



Outline

- Risk management and its value
- An overview of risk and risk management tools, techniques and practices
- Making risk management work for you, your organization, or your clients



Risk Management & Its Value

- All organizations *exist* to manage risks
 - Business risks - sales, expenses
 - Public Safety & Services
 - Regulatory - government requirements
 - Product safety
 - Service E&O
 - Traditional risks of general and auto liability
- **“If you're not a risk taker, you should get the hell out of business.” - Ray Kroc**



Risk Management & Its Value

“The primary purpose of government is to protect its citizens” – from what?

- Harm to persons or property
 - Police
 - Fire
 - Emergency Response - Natural Hazards
 - Water
 - Sewer
 - Building & Health Codes



Risk Management & Its Value

- Many organizations can't afford a full time risk manager
- If organizations are fundamentally in the business of risk management, but not large enough to have a risk manager, who is the risk manager in fact, if not in name?



Risk Management & Its Value

- Answer: Officers, Directors, and managers, *whether they like it or not*, are the chief risk managers for their organization
 - When something goes wrong they are held accountable
- **If the risk hits the fan, will you be covered with it?**
 - If yes, congratulations, *it's your risk*.
- Goal is to make everyone a risk manager, accountable for managing their own risks, but still need coordinator of info and responsibility



Risk Management & Its Value

- Is risk really that big an issue?
 - Studies suggest that 5% to 20% of the typical budget is consumed by the cost of risk.
 - What are you paying for Work Comp?
 - For admin costs related to preventing and processing claims?
 - Research shows when losses occur there are \$10-25 in indirect losses that occur for every \$1 of direct losses.
 - How much are you paying in overtime while others are out?
 - Are you capturing your "soft" costs of risk?



Risk Management & Its Value *Key Concept*

- **Cost of risk**

= Retained Losses + Transfer Costs
+ Admin Costs + Loss Control

- Expressed as % of sales, \$ per \$100 payroll, employees, work hours, population, miles driven, etc.
- PLAN rate for cost of liability losses = \$1.03 for every \$100 of payroll.
 - + admin, deductible, loss control and indirect costs!

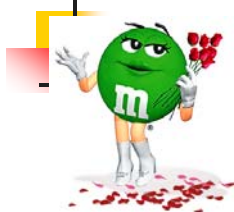


Risk Management & Its Value

- Management is Risk Management
- Can use tools in any number of applications
- Do it every day without thinking about it
 - Hiring Someone
 - Dealing with an angry customer or boss
 - Buying a car

**“Risk Management should be called
GOOD Management”**

Risk Management & Its Value



■ Risk Management =
Management's
EVIL TWIN



- It's the Flip Side of your Goals & Dreams
- Reactive – have to have goal 1st.
 - Why it gets no respect, but critical to your success!

Limiting Your Liability

=

Improving Your Chances of Success!

Risk Management & Its Value

- Improved Strategic Management (CEO)
 - Better choices of what is to be accomplished
 - Greater ability to achieve realistically set goals
- Improved Financial Management (CFO)
 - Better financial control
 - Lower cost of risk - premiums and losses
 - **Better allocation of scarce resources**
 - Better informed decision making



Risk Management & Its Value

- Improved day-to-day Management (COO)
 - Better delivery of services
 - Less time spent dealing with loss consequences
 - **More systematic approach to addressing competing demands**
 - Improved health and safety and condition of property and equipment
 - Improved control of risks of contracted work



Risk Management & Its Value

- Bottom Line Reason to Implement Risk Management: ***TO SAVE MONEY!***
 - Need to be able to frame it that way, even if imprecise, to “sell it”. Don’t make it the only reason or oversell. Prefer to say:
- *A Primary Goal of Risk Management is budget stability through control of the cost of risk.*



Risk Management & Its Value

- “OK, I’m convinced this risk management thing is worth implementing. How do I do it?”
 - Your audience
- First, a bit of history and the evolving definition of risk.
- “Great deeds are usually wrought at great risks.” - [Herodotus](#) (484 BC - 430 BC),



Evolution of Risk Management

- Began With Insurable Risks - accidental loss. Limited to Pure Risk: loss or no loss.
 - v. Speculative Risk – add possibility of *gain*.
- Over time has grown, with definition of risk expanding and organizations taking on more risk themselves
 - Expanded Scope of Risk Control
 - Further Expansion & Recognition of R.M.
 - Greater assumption of insurer functions, especially financing – ART: captives, pools, RRGs, etc.



Evolution of Risk Management

- Enterprise Risk Management
 - **Goal is to balance risk/reward tradeoffs *across the entire organization***
 - To do so, **must aggregate information**
 - Build risk thinking and accountability into the organization, *closer to the transaction*, and to *prioritize responses to risk*, making **wiser decisions regarding allocation of scarce resources**



RM101 Key Concept

- Always treat risk at the lowest possible level, where the decisions are made that can prevent or cause a loss.

Risk Management means getting people to recognize and take ownership of the risks they face in performing their daily tasks.



Case Study – 9/11

- Lessons learned
 - Insurance Industry
 - Government
- Traditional “silo” approach to risk –pre 9/11
- Enterprise Risk Mgmt. Model – post 9/11
- Is it working?



Evolution of Risk Management

- | | |
|---|---|
| <ul style="list-style-type: none">■ Traditional RM<ul style="list-style-type: none">■ Risk as individual hazards■ Risk ID & Assessment■ Focus on all risks■ Risk mitigation■ Risk limits■ Risks with no owners■ Haphazard risk quantification■ Risk is not my responsibility | <ul style="list-style-type: none">■ Enterprise RM<ul style="list-style-type: none">■ Risk in the context of business strategy■ Risk “portfolio” development■ Focus on critical risks■ Risk optimization■ Risk strategy■ Defined risk responsibilities■ Monitoring & measuring■ Risk is everyone’s responsibility■ Communication across functional lines |
|---|---|



Why Implement Enterprise RM?

- 38%- Respond Better to Full Range of Risks
 - Avoid being too myopic/narrow & miss something in planning or execution that could prove catastrophic
- 28%- Improve Capital Allocation
 - Risk based capital
 - **Focus scarce resources on best alternatives**
 - Lower overall cost of risk
 - CFO Research Services Study



Why Implement Enterprise RM?

- Sooner or later all organizations are faced with a crisis or galvanizing event that forces them to think across the broader organization.
- Start preparing for that event *before* it happens, not after.
- "Progress always involves risk; **you can't steal second base and keep your foot on first base.**"
 - Frederick B. Wilcox



Impediments to Enterprise RM

- Can't do a ROI on ERM.
- Value proposition hard to quantify in \$.
- You haven't had that crisis - *yet*

"Bold and comprehensive changes are sometimes only possible in the wake of catastrophic events - events which create a new consensus that allows us to transcend old ways of thinking and acting."

- Condoleeza Rice, 9/11 Commission Testimony



Impediments to Enterprise RM

- "It seems to me that people have vast potential. Most people can do extraordinary things if they have the confidence or take the risks. Yet most people don't. They sit in front of the telly and treat life as if it goes on forever." - Philip Adams

Impediments to Enterprise RM



HUMAN NATURE!
We don't want to think about the bad things
that could happen

What is Risk?

- Risk is anything that could prevent you from achieving your goal.



What is Risk?

RISK = VARIANCE

- Risk refers to how events vary from our expectation
 - We expect sunshine but it rains
 - We expect office to be open but it burns down
 - We expect employees to drive safely but they get in to accidents
 - We expect tourism tax revenues but 9/11 demolished our budget



What is Risk?

- Risk is the obstacle that stands between us and a predictable future.
- Thus, risk management means taking steps to improve the chances that our plans, hopes, and actions lead to the intended results!
 - "Only those who will risk going too far can possibly find out how far one can go."
 - T. S. Eliot



What is Risk?

- Remember that while risk often arises because surprises occur - it can also arise when the plan, the hope or the action is wrong or faulty in the first place.
 - This is an important risk for top managers: a badly conceived idea or action is bad even if it encounters no outside risks!



What is Risk?

- Consider a recent activity or decision in your organization where the outcome did not meet your expectations.
 - Why did the unexpected result occur?
 - Could the problem have been anticipated?
 - If so, what could have been done to avoid the problem?
 - *How can you avoid being "crushed"?*



What is Risk Management?

- Risk Management refers to all efforts to:
 - Identify and assess risks
 - Analyze & weigh options to control those risks
 - Implement measures to control those risks
 - Monitor results & adjust as needed to meet objectives



What is Risk Management?

- *System* For Making Decisions
- Process v. Product
- Never Finished
- Last step is to monitor results and make changes as needed to improve
- No "cure" or vaccine to prevent risk

Risk Management Means Asking

- **What can go wrong?**
 - Risk ID
- **How do I keep it from going wrong?**
 - Loss Prevention
- **If it does go wrong, how can I fix it?**
 - Loss Reduction
 - *OR*

Where Are The Alligators?



- **How do I keep them from biting me?**
- **If I do get bit, how do I stop the bleeding?**



The Risk Management Process

1. Identify, Analyze & Prioritize Risks
2. Examine Alternative Techniques
3. Select Apparent Best Techniques
4. Implement Chosen Techniques
5. Monitor and Improve Program



1. Identify, Analyze & Prioritize Risks

- This is the most important step!
- The main challenge for most organizations is to establish a basis for understanding its risks.
- How can this be done in a simple & low cost way?
- Requires imagination & insight
 - Easily squashed by management oversight!
- **“Risk comes from not knowing what you're doing.”**
 - Warren Buffett



1. Identify, Analyze & Prioritize Risks

“As we know,
There are **known knowns**.
There are things we know we know.
We also know
There are **known unknowns**.
That is to say
We know there are some things
We do not know.
But there are also **unknown unknowns**,
The ones we don't know we don't know.”

- Donald Rumsfeld



1. Identify, Analyze & Prioritize Risks

Components of All Loss Exposures

- **Value** exposed to loss
 - assets, people
- **Peril** causing/threatening loss
 - Natural: Fire, Flood, earthquake, mildew and molds, subsidence, wind, etc.
 - Human: Arson, assault, negligence, fraud, riot, theft, etc.
 - Economic: strikes, stock market, budget impasses, interest rates

1. Identify, Analyze & Prioritize Risks

Components of All Loss Exposures

- **Consequences of the loss:**
 - **Financial, operational & political**, not necessarily proportionate to physical loss
 - Cost of repair
 - Loss of sales or rental income
 - Hard drive or network crash
 - Resignation of key manager, or
 - Negative media attention

Business Risk Inventory SM (BRI) - Common Risk Language				
EXTERNAL RISKS				
Competitor	Financial Markets	Industry	Technological Innovation	Economic
Natural Hazard/Catastrophe	Capital Availability	Terrorism	Community Relations	Sovereign/Political
Customer Needs	Regulatory	Legal		
INTERNAL RISKS				
Strategic	Operational			Financial
Marketplace	Process		Management Information	Human Capital
Business Model	Constituent Satisfaction	Contract Commitment	Budgeting & Forecasting	Leadership
Business Portfolio	Health & Safety	Measurement	Regulatory Reporting	Outsourcing
Organization Structure	Cost of services	Alignment	Accounting Information	Hiring/Retention
Resource Allocation	Knowledge Management	Delivery Channels	Investment Evaluation	Performance Incentives
Planning	New Project Development	Physical Security	Taxation	Communications
Product Life Cycle	Efficiency	Strategy Implementation	Financial Reporting	Training/Development
Trademark	Capacity	Compliance	Pension Fund	Competencies/Skills
Brand Erosion/Image	Performance Gap	Change Response	Completeness/Accuracy	Accountability
	Cycle Time	Transaction Processing		Change Readiness
	Sourcing	Registrations		Empowerment
	Relationship Management	License and Fee Mgt.		Succession Planning
	Supply Chain		Integrity	Technology
	Business Interruption		Management Fraud	Relevance
	Service Failure		Employee Fraud	Data Integrity
	Environmental		Third-Party Fraud	Access
			Illegal Acts	Availability
			Unauthorized Acts	Infrastructure
			Reputation	Capacity
			Ethical Decision Making	Reliability
			Conflict of Interest	E-Commerce
				Interest Rate
				Currency
				Financial Instruments
				Cash Flow
				Opportunity Cost
				Concentration
				Default
				Collateral
				Credit
				Debt Rating
				Liquidity
				Modeling



1. Identify, Analyze & Prioritize Risks Approaches

- **Internal v. External**

- External =
 - Competition
 - Financial Markets
 - Legal & Regulatory
 - Political
 - Natural Hazards
 - Technology Change
 - Industry
 - Customer & Community



1. Identify, Analyze & Prioritize Risks Internal Risks

- Strategic
 - Organizational structure
 - Resource Allocation
 - Planning
 - Brand Image
 - Markets
 - Business Model
 - Product Life Cycle



1. Identify, Analyze & Prioritize Risks Internal Risks

- Operational
 - Process – strategy implementation
 - Costs, efficiency, safety, delivery, customer satisfaction, measurement, compliance.
 - Management Information
 - Budgeting, forecasting, evaluation, accuracy.
 - Human Resources
 - Hiring, retention, training, succession planning, leadership, outsourcing.

"What you risk reveals what you value."

- Jeanette Winterson



1. Identify, Analyze & Prioritize Risks Internal Risks

- Financial
 - Interest Rate
 - Credit
 - Cash Flow
 - Currency
 - Opportunity Cost
 - Financial Instruments
 - Debt rating



1. Identify, Analyze & Prioritize Risks - Methods

- Face-to-face (internal experts)
- On-site inspections and audits
- Historical Information
- Claim history/loss runs
- Financial Statements
- Questionnaires & Surveys
- Charting/Graphing - Risk Maps/Matrix
- Outside Experts



1. Identify Risks Be Curious!

- Ask Common-sense questions, like:
 - What could go wrong?
 - What must go right for us to succeed?
 - What resources do we need to protect (physical, information, human)?
 - How do we know whether we are achieving our objective?
 - What decisions are most important?
 - On what information do we most rely?



1. Identify Risks Be Curious!

- How could someone steal from us or disrupt our operations?
- On what do we spend the most money?
- What decisions require the most judgement?
- What activities are regulated?
- What activities are most complex?
- What is our greatest legal exposure?

"It is better to know some of the questions than all of the answers." — James Thurber



1. Identify Risks Be Curious!

- What are the major challenges you face?
- How have you changed in the recent past?
- What are your goals for the next five years?
- What are your major financial risks?
- What events have affected your stability in the past?
- What could cause you a major headache?
- What changes could you make to improve?



Top 10 U.S. Risks

Risk & Insurance April 15, 2004, per Risk Management Solutions, risk modeling consultants

- Hurricane
- Flood
- Oil Spill
- Terrorism
- Blackout
- Wildfires
- Industrial Accident
- Cyber Attack
- Pandemic
- Earthquake

■ **"I've asked why nobody saw it coming. It does say something about us not having a good enough pulse."**

- Condoleezza Rice, on not foreseeing the Hamas election victory in 2006.



1. *Prioritize Risks*

- Establish a means to estimate the likely significance of those possible losses
- Increased significance means actual losses become:
 - More frequent
 - More severe
 - Less predictable, or
 - Interfere more with objectives
- Prouty Approach Diagram or Risk Matrix



1. Prioritizing Risks

What's it all about?

- **FREQUENCY**

- "How Often?"

AND

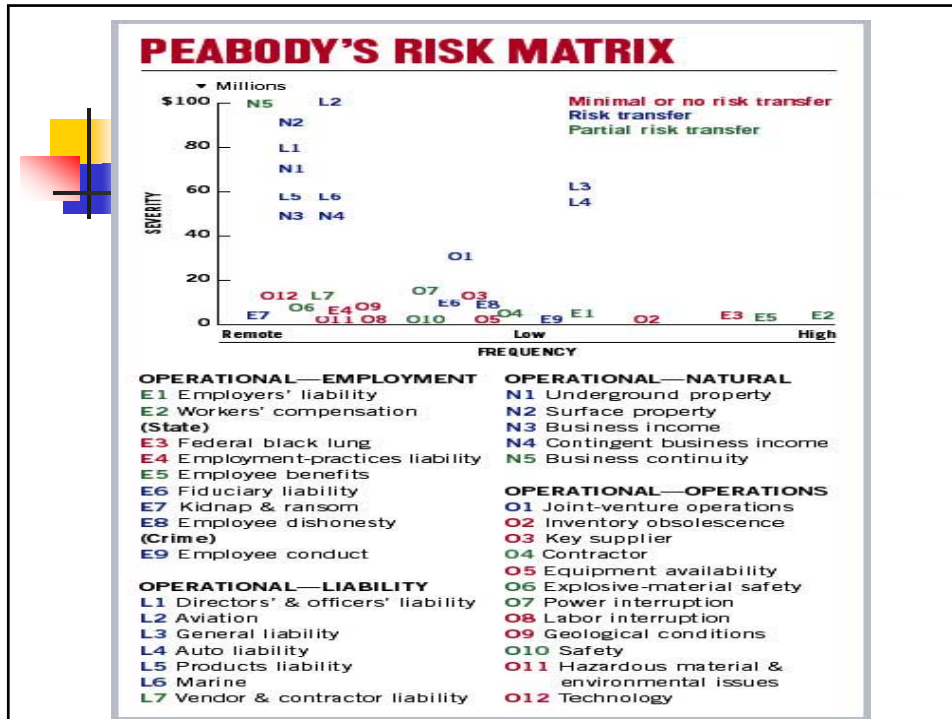
- **Severity**

- "How Much?"



Application – Poor Man's ERM

- Gather 5-8 people you consider the best and brightest - senior managers, sales execs, technical experts, etc.
- Give them expanded definition of risk – anything that can prevent you from achieving your goals, and ask:
- **What are our top 3 risks?**
 - Emphasis on critical risks - things that could severely impact or even end your business.
 - Analyze and prioritize using Risk Matrix
 - Take action to prevent or reduce impact



- ## 1. Prioritizing Risks
- **High Frequency & High Severity**
 - Rarely turn up in audit - should already be known and dealt with or you'd be out of business!
 - **High frequency & Low Severity**
 - Also should be known & often considered operational risks that should still be addressed with risk control
 - **Low Frequency & High Severity**
 - "Catastrophic" risks often treated with emergency plans and insurance, if available
 - **Low Frequency & Low Severity**
 - Who cares? Moral(e) Hazard? Lead to More FQ or \$?

1. Prioritizing Risks

Risk Assessment- Measure of Risk

- What are Consequences?
 - Catastrophic: death or out of business
 - Major: permanent disability or > 5 days out of business
 - Minor: medical treatment or 1-5 days disruption
 - Negligible: first aid, minor pd or no disruption
- What is Likelihood?
 - Very likely – is expected in the near future (> 90%)
 - Likely – will probably occur (@ 75%)
 - Occasionally – might occur at some time (@ 50%)
 - Unlikely – could occur at some time (@ 25%)
 - Highly Unlikely – may occur in exceptional circumstances (<10%)
- Measure of Risk = Consequences x Likelihood

1. Prioritizing Risks

Risk Assessment- Measure of Risk

- Relative Risk =
Consequences x Likelihood
- Start with the highest and work your way down
 - Extreme Risk – immediate action
 - High Risk – within one week
 - Moderate Risk – within two weeks
 - Low Risk – within one month

		Consequences			
		CAT	MAJ	MIN	NEG
Likelihood	X	<u>4</u>	<u>3</u>	<u>2</u>	<u>1</u>
Highly Unlikely	<u>1</u>	4	3	2	1
Unlikely	<u>2</u>	8	6	4	2
Occasionally	<u>3</u>	12	9	6	3
Likely	<u>4</u>	16	12	8	4
Highly Likely	<u>5</u>	20	15	10	5

1. *Prioritizing Risks*

- It's all about **probability**
 - Objective = known odds. Rolling dice, playing cards, roulette, lottery, etc.
 - Subjective = unknown odds. Your guess is as good as mine? Do I know more than you?
 - Expertise
 - History
 - Inside information
 - "Accident waiting to happen?"
- Which type do risk managers deal with?

Riskiest Jobs: Annual Work Deaths Per 100,000 Workers

■ Logging	133	■ Farmers & Ranchers	40
■ Fishing	115	■ Electrical Power Line Crews	34
■ Aircraft Pilots & Crews	98	■ Drivers & Truck Drivers	27
■ Refuse & Recyclable Material Collectors	68	■ Construction Laborers	25
■ Structural Iron & Steel Workers	52	■ Roofers	24

Bureau of Labor Statistics, Report 988, "Fatal Workplace Injuries in 2003", 9/05



2. Examine Alternatives

- Now that you've identified risks, what are you going to do about it?



2. Examine Alternatives

- Systematic consideration of ALL techniques
- Avoid jumping to conclusions
- Feasibility of costs & benefits
- Far beyond "insurance" and "safety"
 - "Be wary of the man who urges an action in which he himself incurs no risk."
 - Joaquin Setanti



Case Study – Ford Pinto

- Too myopic/narrow & missed something in planning and execution that proved catastrophic
 - Looking through wrong end of binoculars
 - What was their “filter”?
 - Very poor cost/benefit analysis
 - What did they forget to include?
 - Why didn't anyone insist on corrections?
- “Safety Doesn't Sell” – Lee Iacocca



2. Examine Alternatives

- A. Risk Control Techniques
 - Seek to make loss less frequent, less severe and more predictable
- B. Risk Financing Techniques
 - Seek to provide payment to finance recovery from losses



2.A. Risk Control Techniques

- **Avoidance** - any measures taken to avoid becoming exposed to a risk or to discontinue an exposure to risk. This is widely considered the least expensive risk management tool. (Or is it?)
 - Example: close teen center to avoid crimes

- **"If you don't risk anything you risk even more."**
 - Erica Jong



2.A. Risk Control Techniques

- **Loss Prevention** - measures taken to reduce the likelihood, or *frequency*, of losses.
 - Example - video cameras
- Ideally, these measures would seek to reduce losses to zero, but this is often not possible. Key question: How much prevention do we need to undertake?
What are the costs and benefits?



2.A. Risk Control Techniques

- **Loss Reduction** - measures taken to reduce *severity* of losses

Loss has occurred, reduce its size or extent

Examples: alarms, sprinklers, seat belts, emergency response plan

- **Pre-Loss** - Design Features, good hiring, training, controls, construction materials
- **Post loss** - Mitigation response, claims handling

BOTH require pre-loss commitment!



2.A. Risk Control Techniques

- **Uncertainty reduction** - all efforts taken to improve knowledge or understanding of risk.
 - Sometimes the only option available is to reduce our uncertainty - as some risks cannot be managed.



2.A. Risk Control Techniques

- **Transference** - measures taken to transfer a risk, or responsibility for a risk, to another party. Often a combination of risk control and risk financing.
 - Risk Control: subcontract asbestos removal
 - Risk Transfer: hold harmless clause in contract
- Transfers are effective tools, but be certain what is transferred. Often, organizations transfer a risk but retain responsibility for it.



2.B. Risk Financing Techniques

- Risk Retention: using your money:
 - Passive Risk Retention
 - Retention by "oops"
 - Deductibles (reimburse insurer)
 - Self-Insured Retentions (SIRs)
 - Current expense - good for predictable low impact losses if have good cash flow
 - Funded Reserve - set aside cash or semi-liquid funds to pay for expected losses and liabilities



2.B. Risk Financing Techniques

- Risk Transfer: using others' money
 - Contractual Risk Transfer
 - Only for specified types of losses, related to the services being performed
 - Reimburse via indemnity provision
 - Pay on behalf of via hold harmless agreement
 - Pay direct via additional insured endorsement
 - Only as good as the person making the promise
 - Organization still ultimately responsible



2.B. Risk Financing Techniques

- Risk Transfer: using others' money
 - Commercial Insurance
 - only for specified losses & only up to policy limits, in exchange for premium
 - insurer can become insolvent
 - coverage disputes
 - read the exclusions!
 - Combination: sharing/pooling money
 - Intergovernmental Pools/JPAs, Mutuals



2.B. Risk Financing Techniques

- **Hedging** – using futures options to buy or sell your key commodities or limit financial losses
- Beyond pure risk to speculative risk, traditionally the province of financial risk management
- If your income is dependent on interest or exchange rates, weather, or commodities prices (fuel, food, metals), you can manage your risk through hedging.
- See www.guaranteedweather.com



3. Select Best Techniques

- Choose “apparent” best techniques
 - Don’t wait for perfection
 - Don’t limit your options
 - Risk control *and* risk financing can be used
 - Another chance to be creative
- “There are risks and costs to a program of action. But they are far less than the long-range risks and costs of comfortable inaction.” - John F. Kennedy



3. Select Best Techniques

- Organizational Objectives
 - Appetite for risk
 - Legal constraints (Ordinances, Codes, etc.)
- Technical Considerations/Approach
 - Retentions v. transfers
 - SIR program v. insurance
 - Employees v. outsourcing



3. Select Best Techniques

- Operational (Practical) Considerations
 - Where to put additional staff
 - Training levels, turn-over, interest
 - Computer and IT support
 - Liability for errors and penalties



3. Select Best Techniques

- Managerial Considerations
 - Financial Criteria: time, money, people
 - Morale
 - How soon major retirement or reorganization
 - Support for risk management among Line Managers



3. Select Best Techniques

- Political Considerations
 - "Turf" issues
 - "Votes" and high profile stakeholders
 - Acceptance of reality v. fantasy
 - Election cycles

- **"Take calculated risks. That is quite different from being rash."** - George S. Patton



What is Your Appetite For Risk?

- I am going to flip a coin. If it's heads, you will win \$1,000. If tails, you get nothing.
- Your friend says "I'll give you \$300 right now to take your chance at \$1,000."
- Do you take \$300?
 - How about \$500?
 - How about \$700?
- Are you risk averse, risk neutral, or risk taker?
- What is the "Expected Value" of this transaction?



4. *Implement Chosen Techniques*

- "And the day came when the risk to remain tight in a bud was more painful than the risk it took to blossom." - Anais Nin


In other words

- **Start digging yourself out!**



4. *Implement Chosen Techniques*

- Technical Decisions
 - Staff or outsourcing
 - Meet & confer
- Managerial Decisions
 - Political, operational, and appearances
 - Adequate Resources
- MUST overcome “analysis paralysis”!
 - ***Don't Be a Deer in the Headlights***
 - They often get run over by risks!



Case Study – Tylenol Poisoning

- Implemented comprehensive response, more than was expected at the time
 - Total recall
 - Reintroduced with new design and safety features
- What did they recognize as the key ingredient of their product?
- What did that force everyone else to do?
- Lesson learned – safety first.

4. Implementing RM – Risk Communication

What is Risk from Public's View?

- **Risk = Hazard + Outrage ***

- Hazard = true risk
- Outrage = reaction to the risk
- "Risk Management" then =
 - **Outrage Reduction**, for bad hamburger meat, or
 - **Outrage Increase**, for the environmentalist, or



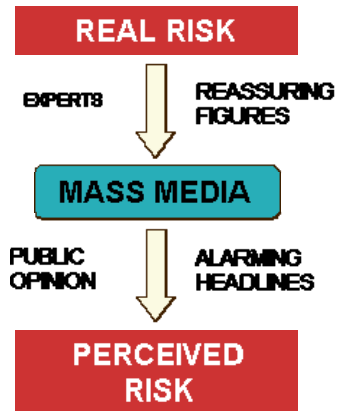
"Stop Worrying" v. "Watch Out"

* Peter Sandman's Theory <http://www.psandman.com>

Risk = Hazard + Outrage

- When **hazard** is **high** and **outrage** is **low**, people **underreact**
- When **hazard** is **low** and **outrage** is **high**, people **overreact**
- Risk of child's death due to swimming pools is higher than cars or guns?

Risk Communication Perception is Reality!



Is coffee bad again?
I can't remember!

Risk Communication Getting the Message Out

Gaining Trust is the First Step!



**"People don't care about how much you know,
until they know how much you care ... about them"**

- Zig Zigler

You have to sell yourself first

Must have trust & credibility



"Trust me, I'm a Risk Manager"

Risk Communication – Need Trust & Credibility. Key Elements



<http://www.centerforriskcommunication.com>

4. Implement Chosen Techniques Risk Communication Guidelines

- **Don't keep secrets.** Be honest, forthright, and prompt in providing risk information to affected publics.
- **Listen to people's concerns.** Don't assume you know what they are, and don't assume it doesn't matter what they are.
- **Share power.** Set up community advisory boards and other vehicles for giving affected communities increased control over the risk.



4. *Implement Chosen Techniques* Risk Communication Guidelines

- **Don't expect to be trusted.** Instead of trust, aim at accountability; prepare to be challenged, and be able to prove your claims.
- **Acknowledge errors**, whether technical or nontechnical. Apologize. Promise to do better. Keep the promise.
- **Treat adversaries with respect** (even when they are disrespectful). If they force an improvement, give them the credit rather than claiming it yourself.



Selling Risk Management

- No one wants to “buy”!
- People want to assume everything will be OK
- Ask questions to ID the risk
- Often the answer presents itself
- The best solution is the one you helped them to create, not one you imposed or “sold”
- Your job is to get others to start asking the questions on their own

Implementing RM Resource v. Roadblock

How do others see your role?

Are you a resource?



Or a "roadblock?"



Do you listen, ask questions, and make suggestions,
or tell them why they can't do that?

Implementing RM Resource v. roadblock

- If you are a resource, **people will seek you out**
 - Is your phone ringing?
 - Get invited to the meeting?
- If you are a roadblock, **people will find a way around you**
 - "Here Comes Mr. No"
 - Do people turn around in the hall when they see you?



Telling people they are wrong doesn't work, no
matter who it is or what the situation.

"Find a way to say yes"



5. Monitor Results & Improve

- Make everyone responsible for results and improvement
- If you keep getting poor results **change your approach!**



5. Monitor Results & Improve

- Include in up-front planning
- Activity measures – “4 trainings this year”
- Results measures – “reduce claims by 10%”
- Comparison with standards, benchmarking
- Bottom-line, dollar measures
- Even if subjective or imprecise - measure it!
- Reassess risks and start all over



Making Risk Management Work For Your Organization

- Coordinating risk management efforts
 - How can organizations introduce risk management measures without making it just “one more thing to do?”
 - For an answer, we turn to the final section of our presentation: Making Risk Management Work For Your Organization



Making Risk Management Work For Your Organization

- Introducing risk management into your organization involves a collection of activities that can be categorized as:
 - Necessary-to-do activities
 - Nice-to-do activities



Making Risk Management Work For Your Organization

- Necessary-to-do activities

Create a **Risk Management Framework**

- Establish a **Risk Management Policy** Statement
- This is the authorizing document and blueprint for risk management activities.

MUST have support from the top!



Making Risk Management Work For Your Organization

- Necessary-to-do activities
 - Assign responsibility for risk management activities to one person, an existing committee, or, if possible, **create a risk management committee**. This person or group translates the policy statement into action.



Making Risk Management Work For Your Organization

- Necessary-to-do activities
 - The person or committee responsible for risk management activities must:
 - Take responsibility for procuring insurance or pooling services
 - Confirm that the organization is in compliance with safety requirements and other legal standards
 - Take responsibility for emergency preparedness planning



Making Risk Management Work For Your Organization

- Nice-to-do activities
 - The responsible person or group would be advised to:
 - Establish **Operational Best Practices**
 - Review all contracts, purchases and proposals for risks
 - Develop safety training programs
 - Establish claims and accident reporting procedures
 - Provide rewards and incentives for employees



Making Risk Management Work For Your Organization

- Nice-to-do activities
 - Additional activities could include:
 - Creation of a risk management manual
 - Production of **annual performance reports**
 - Public forums and community safety programs
 - Periodic risk audits

Set goals & tell them how you're doing!



Making Risk Management Work For Your Organization

- It is important to know that:
 - The introduction of any or all of these measures need not be overly intrusive
 - Risk management is really nothing more than thinking about the impact of risk on the everyday actions of an organization and then acting on those conclusions.



For More Information

- Professional RM organizations
 - PARMA, PRIMA, CAJPA, PERI, RIMS
- Governmental Entities and Trade Groups
 - FEMA, OSHA, COSO
- Insurance Education Organizations
 - IEA, CPCU, ARM
- RM Framework & Best Practices
 - www.abag.ca.gov/plan



Credits and More Information

- **Against the Gods** - The Remarkable Story of Risk, Peter L. Bernstein, Wiley & Sons, 1996
- Institute of Internal Auditors:
www.iaa.org
- <http://www.ultimateinsurancelinks.com/>
- My email = marcus@abag.ca.gov



A Final Thought on Risk

- "I don't think you can measure life in terms of years. I think longevity doesn't necessarily have anything to do with happiness. I mean happiness comes from facing challenges and going out on a limb and taking risks. ***If you're not willing to take a risk for something you really care about, you might as well be dead.***"
 - **Diane Frolov and Andrew Schneider**, Northern Exposure, Northern Lights, 1993



Questions or Comments?

THANK YOU!