

Risk Management and Insurance

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The goal of Risk Management is to “*Protect not only the assets and income of an organization from the potential of accidental loss, but also other stake holder’s dependant upon the organization*”. The steps of Risk Management are the same whether you work in the private sector or public sector.

Insurance is only a portion of what Risk Management is all about. Whether a loss is insured or uninsured, a loss is a loss. The financial consequences of a loss will impact the organization and it may result in further significant costs such as repair, loss of income and additional expense.

Identifying the *risks* of potential loss requires an assessment of not only the services provided, but also the assets owned. In addition, the organization needs to identify where they have legal obligations and what level of funding is required to operate the various services and facilities.

Once the exposures have been identified by department, the department must evaluate how these services are managed or provided and how a loss in their department will effect not only their operations, but also the overall organization, including other departments.

What is Risk Management?

Risk management is a management tool, which can be used by any organization or department, regardless of size, for the purpose of minimizing the adverse financial effects of accidental loss. In its most basic application, risk management is an ongoing systematic effort to identify and control the risk of losses to which an organization is exposed and to finance those losses, which do occur, in a cost effective manner.

First and foremost, risk management is a management procedure that has an identified purpose and which employs recognized techniques and tools. A “Risk Assessment” will examine exposures to Property, Liability, Personnel and Net Income. These loss exposures include the following

- **Property**
 - ◆ Tangible Property
 - ▶ Facilities, land, equipment
 - ◆ Intangible Property
 - ▶ Reputation, Goodwill, Accounts Receivable
- **Liability**
 - ◆ Common Law Duty of Care
 - ◆ Statute Law including
 - ◆ Occupiers Liability
 - ◆ Auto

- ◆ Environment Regulations
- ◆ Workers Compensation
- **Personnel**
 - ◆ Key Personnel
 - ◆ Employee
- **Revenue**
 - ◆ Income Sources
 - ◆ Extra Expenses in the event of a loss

Effective risk management will reduce and manage the hazards associated with the loss exposures within an acceptable level of risk as well as, evaluate services provided. The assessment will also assist the organization to determine their self insurance and insurance protection needs. The assessment will bring an assurance that the organization will be covered in the event of a significant or catastrophic loss.

A risk assessment will review the “goals and objectives” of each service to be provided and determine the resources required to meet the goals and objectives, including the identification of physical assets required, personnel skills and funding. Upon the completion of the assessment of asset needs, the organization can then examine its exposures to liability, including legal liability. A liability assessment can not be completed without first determining other related exposures such as equipment and vehicle operator needs, facilities, outside contractual resources, etc.

Steps of Risk Management

Risk Identification

Risk Identification is the key to the process. The organization begins by identifying all of the resources required to meet the goals and objectives of the organization, by department and by function or service. These resources include the organization’s property, liability, personnel and net income.

Risk Identification tools include *Regular, Routine and Recorded Inspections, Annual Reports, Schedules of Equipment, Vehicles, Facilities, Operating Budgets and Contracts* to name but a few.

Risk Measurement and Evaluation

The second step in the risk management process is measurement and evaluation of risk in order to project the frequency and severity of future losses. Some organizations now maintain detailed computer-based data on all losses, including such information as location, time, cause and financial impact. In many organizations “incident reports” have become a key element in identifying loss trends. Trends can also be found in national statistics on types of losses, including records of natural disasters in certain geographical areas and studies of judicial decisions in liability cases.

Measurement and evaluation includes reviewing internal policies and procedures as well as examining external standards.

Risk Control

Identified exposures to loss can be reduced to acceptable levels of risk by examining the risk control methods used to manage and reduce the frequency and/or severity of losses. These methods include avoidance (do not accept the risk), loss reduction (reduces the severity of loss i.e. alarms, sprinklers, etc.) loss prevention (reduces the frequency of loss i.e. warning signs, training, barricades etc.), duplication and segregation of assets to reduce the severity of loss, including the non-insurance transfer of risk through contract to other responsible parties.

Ideally, loss control programmes should also include emergency/catastrophe plans. For instance, if a facility was damaged by fire or flood, the plan might outline recovery procedures and/or alternate facilities to be used. Arenas are not used for just skating.

Although loss control programmes may seem expensive on occasion, they are actually far less costly than the losses that might occur if no preventative measures were taken. In the long run, money spent on risk control is money well spent.

Risk Finance

Risk Finance boils down to two questions: how much risk should the organization retain, by type of loss exposure and how much should it transfer to an insurer? All organizations purchase some insurance, but the amount will vary depending on the nature and needs of each organization and the type of risk. For instance, how willing is the organization willing to assume risk? How much can it afford to assume on an annual basis? Is the organization prone to small, frequent and therefore predictable losses or must it also prepare for a rare, but potentially catastrophic loss? The answers to these questions are crucial for they will assist the organization to determine the right balance between risk transfer to an insurer and risk retention. The goal of risk finance is to have enough funds available after any loss so that the organization can continue to function and maintain a reasonable level of service.

Monitoring

The final step in the process is to monitor how the organization is performing relative to the risk management process, and to identify where change has occurred. For example have the exposures to loss been clearly identified and managed. Have we reduced the number of incidents and losses during the year, by type? Have our programmes changed? Have our personnel changed? Have the laws changed? Have technological changes resulted in greater or fewer exposures to loss?

Risk Management Concerns – In the Arena

Waivers

Waivers can be effective to reduce and avoid liability. Waivers can only be effective if they clearly define the causes of loss associated with activity. Waivers are legal contracts which can only be entered into by an adult. Parents and Guardians can not sign away the legal rights of a minor. For high risk activities “Informed Consent Forms” can be signed by a Parent or Guardian. The Informed Consent Form reaffirms the responsibility of the Parent or Guardian to report any injury or other challenges faced by the child in the program. Should the organization wish to use Waivers or an Informed Consent Form they should consult with legal counsel.

Contracts

When an organization does not have control over a service or activity being provided, Indemnity and Insurance requirements should be reviewed in every contract to ensure that the organization has transferred its exposures to potential loss.

The Occupiers Liability Act of British Columbia requires all Owners and Occupiers to be responsible for ensuring that the premises are kept in a reasonable safe condition, the activities that take place and the conduct of those individuals.

In addition the organization should identify those liabilities they have assumed under contract to ensure that they have control over the service or activity, i.e. scheduling additional maintenance for weekend or evening events.

User Groups & Special Events

Similar to Contracts, it is important that where the organization does not have control over an activity, that the user group assume not only responsibility for losses which may arise as a result of their negligence. They should also agree to “Indemnify and Hold Harmless” the organization and in the majority of cases provide their own general liability insurance adding the organization as “an additional insured.” Additional Insured protection is for vicarious liability arising from the relationship between both parties. Additional Insured does not transfer the facility owner / operators liability responsibilities to the User Group’s Insurer.

Regular, Routine & Recorded Inspections

As a management tool, regular, routine and recorded inspections of the facility including ice maintenance, parking lots, interior areas and the physical plant will provide the organization with important data that can also be used to defend the organization against claims. Inspection Reports that are prepared only on an exception basis do not prove that regular inspections are carried out. It is very nice to say, “We have an inspection programme”, or “policy”, however, without documentation proving that you do have such a policy of inspection, it can be difficult if

not impossible to substantiate. How does the insurer prove you have done everything “reasonable”, as defined in law.

Regular, routine and recorded inspections can assist management with budget planning, capital expenditure planning and manpower planning. .

Known Risks – a short list

Liability - Wet floors, doors that do not close properly, shower facilities, access to dumped snow, exercise equipment, concession stands, rubber mats, staircases, lighting, tables, chairs, unlocked storage equipment including flammables, blocked exits, protective glass, skate aids, step downs to rink surface for summer special events, unmarked ramp edges during non ice special events, and unsupervised activities.

Property – Mechanical Rooms, kitchen equipment, weather conditions, structural failures, increased cost of replacement to meet current building code requirements. Ice Cleaner breakdowns and accidents.

Net Income – loss of revenue, increased costs to expediate repairs.

Key Personnel – death, disability, retirement, resignation – replacing workers unable to carry out their duties.

Summary

An effective Risk Management Plan will, over time, reduce exposures to accidental loss. As a side benefit, an effective plan will extend the physical life of assets through regular, routine and recorded inspections. These inspections will also provide assistance to supervisors and managers in their budget, manpower and capital expenditure planning.

Insurance is for catastrophic losses, Risk Management is structured and responsible management, a discipline whose goal is to protect the public, the organization’s assets and net income, by reducing the potential for loss before it occurs and where a loss does occur, protect the organization in an economical and efficient manner.

About the Author.

Keith is currently the Risk Manager for the Municipal Insurance Association of British Columbia, an Insurance Reciprocal for 169 of the Province of British Columbia’s Local Governments and Instruments of Local Government. Prior to joining MIA in 1989 he held Risk Management positions in both the public and private sector.

Keith is a Board Director for the Transportation Property & Casualty Captive Insurance Company, a wholly owned Insurance Subsidiary of Translink.

He has a Diploma in Risk Management from the Risk and Insurance Management Society. His educational background also includes Personnel Management from O'Sullivan College and a Business Certificate in Finance from BCIT.

In 1995 Keith was awarded the Don Stuart Award from the Canadian Risk Management Council in recognition of his outstanding continuing achievements and superior contributions in the field of risk management.

He is a frequent speaker and educator to MIA Members, Industry Associations, the Private Sector and to all Local Government Associations. He is also a regular guest lecturer to the Capilano University Local Government Management Certificate Programme and the Local Government Management Association's MATI

Keith has been an Instructor at Simon Fraser University since 1991 where he teaches the 3 courses leading to a "CRM" designation and he has taught Property Underwriting. Keith has also authored risk management articles for national and international magazines.