Risk Management – A Short Course

Planning, Organizing, Leading, and Controlling operations of the organization to minimize the adverse effects of accidental and avoidable losses without unduly curtailing or modifying activities necessary to the mission of the University.

STEP 1 - Identification of Risk

There are four basic types of (risk) exposures to loss that need to be identified:

Personnel – injury to employees, medical costs, loss of productivity due to absence and/or disability from on the job injury
Liability – legal claims that the University harmed someone or something, or violated a regulation
Property – damage to or loss of property
Net Income – reduced resources, due to expenses for Personnel, Liability or Property losses, for overall operations of the University.

Basically for everything we are and do, we need to ask:

- Could someone be hurt?
- Could the University be sued?
- Will property be damaged or lost?

If the answer is yes to any of the above – When there are injuries, claims and/or damages there will be costs for medical services, legal services, repair or replacement in order for operations to continue as before. These costs are a loss of net income due to risk.

STEP 2 - Analysis of Risk

Two important aspects of each risk are:

Frequency – How often could the injury, damage or liability occur?
Sometimes history can help predict future frequency – "Has it ever happened before?" If it is new or different, history may not be a good indicator.

Severity – How much injury, damage or liability could occur?
This might be in dollars, or it might be in terms of result

One way to visualize these two aspects in analyzing risk is:

	Frequency	
Severity	Frequent and Severe **I**	Not Frequent and Severe **III**
	Frequent and Not Severe **II**	Not Frequent and Not Severe **IV**

The third, and critical aspect of each risk is how a loss from a particular risk fits with the **Goals of the University** and how the University is perceived by students, parents, community, donors, the state, the nation and internationally.

For example: If a loss results in the University being fined for violation of an occupational safety or environmental regulation and receives significantly negative publicity and a student or employee is seriously injured and a building is burned and a large amount of money must be spent on the losses vs. on the educational program - a loss can significantly impact the University's attainment of it's goals in addition to the direct losses.

STEP 3 - Managing Risks – Identifying Alternative Techniques

The risks are always there, it is how you choose to manage them that make the difference between exposure and loss. There are costs to control and to finance losses.

<u>Risk Control</u>

Exposure Avoidance – DON'T DO IT, DON'T GET IT, DON'T HAVE IT

Unfortunately this is deceptively simple and may expose the University to the risk of not accomplishing our goals and objectives. Sometimes risk is necessary to "Learning by Doing".

Loss Prevention – SAFETY - prevent injury or damage

In addition to regulatory requirements, there is a wealth of safe practices information, instruction and training available that is an essential part of a program of education. <u>"Learn by Doing it Right!"</u> This is where supervision plays a key role in both education and operation of the University.

Loss Reduction – RESPONSE – reduce injury or loss as quickly as possible

With all possible safety, sometimes there are factors which may not be controlled and a loss occurs. Injury and/or damage needs immediate programmed response. The answer to "What do I do if….?" needs to be established in advance for all activities and operations. Where is the nearest exit? Who do I call for help? What if there is a fire?, How do I turn off the machine? What if it doesn't go as planned?

Exposure Segregation – ARE ALL YOUR EGGS IN ONE BASKET?

Do you have one critical piece of equipment without which your program cannot operate? Are your computer files only on the computer in your office? Does your program depend entirely on a material for which you have only one supplier? Do you have a back up generator for electrical service that is essential to some continuously operating piece of equipment? What would be the impact of a loss, injury, damage, inability to get your job done?

Contractual Transfer – AVOID THE RISK AND GET THE JOB DONE!

Don't have the expertise, the equipment, the time or the personnel to do a job you need done or don't want to take on the exposures in doing the job? Don't have the money to hire and equip a permanent staff to do the work? Identify what you need to have done, resources for paying someone to do it and get in touch with Contracts and Procurement Services. Contract for services! (see **Contractual Transfer** in <u>Risk Financing</u>)

No matter how good your Risk Controls are, you need to prepare for how you are going to pay for losses that do occur.

Risk Financing

Retention of Losses – This is a “fancy” term for YOU PAY,
(Some people say “Self Insured”)

Current resources -
Painful as it may be, this is often the cheapest way to pay for a loss. No ongoing insurance premiums, no “profit” to an insurance company - just pay the claim, pay for the replacement, etc. Unfortunately, if you didn’t budget to pay a claim, you may not have enough funds unless you have:

Reserve resources –
Recognizing that there will be losses and you will need to pay claims, many will save some money over time so that when they have to pay a claim they have the funds available and don’t have to:

Borrow - (and have to pay it back)
This can be more painful than paying from current resources as you will not only pay the claim but also the interest over a number of coming years.

NOTE: The CSU is primarily “Self Insured” for General Liability, Vehicle Liability, Professional Liability, Worker’s Compensation and related employee benefits.

Transfer of Losses – Usually, YOU PAY someone else to pay the loss

Contractual Transfer –
The University requires that a contractor not only promises to pay for any injury or damage that they might cause while doing the work they have been hired to do, but also that they protect the university from any claim by an injured party, and show proof that they have insurance to cover any such losses or claims for which they are responsible. The contractor figures the cost of the insurance in their contract price. (see **Contractual Transfer** in Risk Control)

Commercial Insurance –
An insurance company is contracted to provide insurance funds to pay for any losses. They are willing to do that for a fee (premium).

Release Agreement (Waiver) –
Someone is allowed to participate in an activity or do something on university property in exchange for an agreement that they will assume all the risk of the activity and/or release you from any liability for any loss they have related to the activity. NOTE: A court may decide that even with a signed agreement, you are responsible for the injury or the damage.

NOTE: The CSU purchases property insurance for the buildings through a large group purchase program at a very low premium.

STEP 4 - Selecting Techniques To Manage Risk

Many of the techniques for managing risk can and should be used together. In particular it is usually best to have at least one Risk Control and one Risk Financing technique for each exposure to risk. For example:

- Prevent loss and if any occurs Reduce any further loss

- Self Insure the first $xxx dollars of a loss (deductible) and buy insurance (Contractual Transfer) for any losses beyond that amount.

The choice of what techniques to use may depend upon the costs of risk control or risk financing. Accurate estimation of costs for safety and payment of losses may also encourage consideration of AVODIANCE OF THE EXPOSURE depending upon the frequency and severity of a loss. The costs for safety, response and financing for losses may also be a small amount to pay for the value to be gained by DOING IT RIGHT.

Serious consideration of the Goals of the University and potential impact of a loss, even if efforts to prevent and respond to the loss are in place AND financing is available may also result in a decision not to risk our reputation and our ability to reach goals for funding, enrollment, gifts, and relationships.

STEP 5 - Implementing Risk Management Techniques

Time and time again, the single most important factors are the managerial decision, direction and support of the implementation of risk management techniques. Administrators, managers, supervisors, employees, and students must understand, value and commit to the management of risk to prevent and reduce losses as well as to have financing plans and resources for losses. To minimize losses and thereby maximize limited resources for the educational endeavor through responsible stewardship is the goal of risk management for the university.

Many technical actions and decisions must also take place to effect controls and establish financing programs.

STEP 6 - Monitoring and Improving Risk Management

We will never be finished, the effort does not end, although we can succeed day to day.

We will need to constantly:

- Ensure implementation of the selected techniques
- Identify changes in our environment and adapt or select other techniques
- Ensure our results and standards are producing a learning and working environment consistent with the goals and objectives of the University.