

THE RISK MANAGEMENT PROCESS

An ongoing process of identifying exposures, measuring them against your firm's loss withstanding capabilities and the handling of risk with appropriate control, transfer and financing techniques.

WHAT IS "RISK"?

CHANCE OF LOSS
UNCERTAINTY CONCERNING LOSS
A POSSIBILITY OF A VARIATION OF OUTCOMES FROM A GIVEN SET OF CIRCUMSTANCES

TYPES OF RISK

PURE – CHANCE OF LOSS ONLY
SPECULATIVE – CHANCE OF GAIN OR LOSS
GAMBLING – CHANCE OF GAIN OR LOSS – ODDS FAVOR A LOSS!

IN RISK MANAGEMENT WE ARE PRIMARILY DEALING WITH PURE RISK – THE CHANCE OF LOSS

STEPS IN THE RISK MANAGEMENT PROCESS

- I. IDENTIFY
- II. ANALYSIS OF THE RISK
- III. CONTROL / MANAGEMENT OF THE RISK
- IV. RISK HANDLING / RISK FINANCING
- V. RISK ADMINISTRATION

I. IDENTIFYING THE RISKS



FOUR CLASSIFICATIONS OF RISK IDENTIFICATION

- ✓ **THINGS (PROPERTY, EQUIPMENT, STUFF)**
- ✓ **PEOPLE**
- ✓ **LEGAL LIABILITY**
- ✓ **MONEY**

1) **THINGS** – MEASURABLE LOSS EXPOSURES –

- PROPERTY OF ALL KINDS

HOW YOU MAY BE AT RISK -

- HUMAN – MISHANDLING OF EQUIPMENT, THEFT, ARSON
- NATURAL – WIND, FIRE, MOLD
- **ECONOMIC**

2) **PEOPLE** - IMMEASURABLE EXPOSURES –

- EMPLOYEES
- VOLUNTEERS

ALL NONPROFITS SHOULD CONSIDER THE POSSIBILITY THAT:

- **A VOLUNTEER WILL SUFFER ANY INJURY**
- **A VOLUNTEER WILL CAUSE INJURY TO A CLIENT**
- **A VOLUNTEER WILL DAMAGE THE NONPROFIT'S REPUTATION OR DO SOMETHING THAT WILL THREATEN THE ASSETS OF THE ORGANIZATION.**

HOW YOU MAY BE AT RISK -

- ACCIDENTS AND HEALTH
- INJURY, DEATH, CARE OF FAMILY MEMBERS
- RETIREMENT, RESIGNATION, TRAVEL

3) **LEGAL LIABILITY** – IMMEASURABLE, UNLIMITED EXPOSURES AND HOW YOU MAY BE AT RISK -

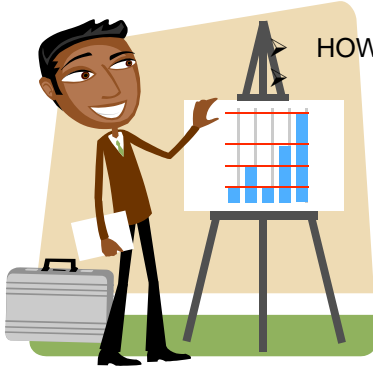
- OFFICES
- ACTIVITIES / EVENTS / FUNDRAISERS
- PRODUCTS OR SERVICES – INCLUDING PROFESSIONAL
- VOLUNTEERS
- CONTRACTS
- TRANSPORTATION
- EMPLOYEES – MANUALS, JOB DESCRIPTIONS, COMPLIANCE, BENEFITS

4) **MONEY**

EXPOSURES –

- STUFF, PEOPLE AND LEGAL LIABILITY!!
- OTHER

II. ANALYSIS OF THE RISK



HOW MUCH IS AT RISK?

FREQUENCY -

HOW OFTEN IS THE RISK LIKELY TO MATERILIZE?

SEVERITY –

WHAT COST CAN WE EXPECT IF THE RISK DOES MATERILIZE?

		FREQUENCY	
		LOW	HIGH
S E V E R I T Y	LOW		
	HIGH		

III. CONTROL / MANAGEMENT OF THE RISK

The root causes of all accidents are Unsafe Acts or Unsafe Conditions.

PRIOR TO THE LOSS –

- AVOIDANCE
- PREVENTION
- REDUCTION
- SEGREGATION
- PHYSICAL TRANSFER

AFTER THE LOSS –

- CLAIMS INVOLVEMENT/MANAGEMENT
- LITIGATION MANAGEMENT
- DISASTER RECOVERY !





IV. RISK HANDLING / RISK FINANCING

HOW TO PAY FOR LOSSES?

- 1) **RETENTION** - INVOLVES THE USE OF INTERNAL FUNDS IN PART OR IN WHOLE TO PAY FOR LOSSES.

PASSIVE –

- FAILURE TO IDENTIFY
- FAILURE TO ACT
- FORGETTING TO ACT

ACTIVE -

- PURPOSEFULLY FUNDING
- SAVE TO BUILD FINANCIAL RESERVES

- 2) **TRANSFER** – INVOLVES THE USE OF EXTERNAL FUNDS IN PART OF IN WHOLE TO PAY FOR LOSSES.

- INSURANCE
- NON-INSURANCE

V. RISK ADMINISTRATION

Plan – Implement – Monitor

- 1) Plan
 - Setting goals and standards
 - Defining responsibilities
 - Developing Policy
- 2) Implement
 - Get commitment and participation
 - Communication
 - Training
 - Accountability
- 3) Monitor
 - Indicators and Measures
 - Continuous Tracking
 - Regular evaluation
 - Adjust as needed
 - Gather feedback

BASIC TENETS OF RISK MANAGEMENT

- 1) Don't retain more than you can afford to lose.
- 2) Don't risk a lot for a little
- 3) Consider the probabilities and possibilities
- 4) Don't treat insurance as a substitute for loss control.

*** Prevention Magazine "DO ONE THING" ***

REGARDLESS OF WHETHER YOU'VE CHOOSE TO RETAIN THE RISK, TRANSFER IT CONTRACTUALLY, OR PURCHASE INSURANCE FOR IT, WE RECOMMEND THAT THE BOARD ASK CRITICAL QUESTIONS ABOUT THE ADEQUACY OF EACH APPROACH AND SOLICIT COUNSELING FROM YOUR ACCOUNTANT, YOUR INSURANCE AGENT AND YOUR ATTORNEY.

Non-profit Risk Management Center's website describes resources available
www.nonprofitrisk.org

Insurance Words & Their Meanings

accident insurance

Insurance covering death, dismemberment, loss of sight, loss of income, and medical expenses caused by accidental injury.

additional insured

A person, other than the named insured, who is protected by the terms of the policy. Usually a specified individual such as a spouse or a member of the insured's family but sometimes, as in automobile insurance, any person, provided that person is driving the insured vehicle with the insured's permission.

business auto policy

Coverage designed to provide a "standard" form for insuring commercial vehicles (other than private passenger cars).

business income insurance

A time element coverage which pays for loss of earnings or income when business operations are interrupted, curtailed or suspended due to property loss as a result of an insured cause of loss. Also covered are loss of rents and rental value. Extra expenses incurred to continue operations at another location are included as long as they reduce the total amount of loss.

claim

1. The formal request by a policyholder or a claimant for payment of loss under an insurance policy.
2. The final amount made in payment of a covered loss.

claims-made

A liability insurance method covering losses from claims asserted against the insured during the policy period, regardless of whether the liability-imposing causes occurred during or prior to the policy period. (However, many underwriters may not cover liability-imposing causes occurring prior to the policy period.) The coverage trigger is based on the retroactive date stated in the Declarations.

deductible

In a policy providing a deductible clause, the amount which must first be subtracted from the total damage incurred before determining the insurance company's liability. Of several types used, the straight deductible establishes the insurer's liability above the deductible but not below it; the franchise deductible establishes the insurer's liability for the entire amount of damage once the deductible amount is exceeded in a loss; and the disappearing deductible establishes the insurer's liability for an increasing proportion of the loss, as the total damage rises above the deductible, until the deductible finally "disappears." Then the insurer is liable for the entire amount. The deductible may be in the form of an amount of dollars, a percent of the loss, a percent of the value of the insured property, or a period of time, as in health insurance.

directors and officers liability insurance

Protects officers and directors of a corporation against damages from claims resulting from negligent or wrongful acts in the course of their duties. Also covers the corporation (and even the officers and directors in some cases) for expenses incurred in defending lawsuits arising from alleged wrongful acts of officers or directors. These policies always require the insured to retain part of the risk uninsured.

employment-related practices liability (ERPL) or employment practices liability insurance (EPLI)

Impetus for this coverage started with public interest in the allegations made by Anita Hill during the confirmation hearings of Supreme Court Justice Clarence Thomas. Changes in federal and state laws, such as the Americans with Disabilities Act and the Civil Rights Act of 1991, resulted in increased consumer awareness of sexual harassment and discrimination in the workplace. Coverage is available for legal costs to defend claims involving sexual harassment, wrongful termination and discrimination including legal liability for such acts. The coverage is known by various titles. Employment-related practices liability, management risk protection, employers E&O and Americans with Disabilities Act insurance are basically the same coverage. Most policies provide limits ranging from as low as \$25,000 per claim up to \$1 million. Policies may cover employees as additional insureds.

excess liability insurance

Liability insurance designed to provide an extra layer of coverage above the primary layer. The excess insurance does not respond, however, until the limits of liability in the primary layer have been exhausted. Because of the method of response, it is often much less costly than the primary layer, per \$1,000,000 of coverage. The excess layer provides not only higher limits, but catastrophic protection for very large losses.

fidelity bond

An insurance policy which reimburses an employer for losses resulting from dishonest acts of employees. May be written to cover specific employees or all employees, using either a schedule or blanket basis, or by scheduling positions versus named persons.

general liability

A form of insurance sold to businesses to indemnify the business for third party liability claims due to negligence. Coverages can include premises and operations liability for onsite and jobsite accidents and products liability claims for products that injure third parties.

insurable interest

A potential for financial loss from a certain event which a person must have before acquiring insurance against that event. The event may be illustrated by the following: the destruction of property owned (in fire insurance), the incurring of legal liability for negligence in causing loss to others (in liability insurance), the compliance with law (in workers compensation insurance), the loss or impairment of human life value (in life insurance, disability insurance, and annuities), or expenses fortuitously incurred (in hospitalization insurance). In life insurance, the applicant of the policy must suffer a financial loss, or the loss of love and affection, by the death of the insured.

liability

1. An obligation imposed by law or equity.
2. Money owed or expected to be owed. In an insurance company financial statement, the two columns it contains are its "assets" (or the amounts it owns) and the "liabilities" (or the amount it owes or expects to owe). Liabilities generally are defined by state statute or insurance department regulation for use in the annual statement of an insurer. The term is also defined for special purposes by other regulatory officials, such as the Securities and Exchange Commission.

liquor liability insurance

Coverage where the basis for legal liability is a dram shop, liquor control, or alcoholic beverage law. The laws vary, but most provide that the owner of an establishment which serves alcoholic beverages is liable for injury or damage caused by an intoxicated person if it can be established that the liquor licensee caused or contributed to the intoxication of the person.

machinery breakdown insurance

Protection against loss from disruption of boilers and machinery by an insured cause of loss, consisting of loss to the boiler and machinery itself, damage to other property, business interruption losses, or all three. Also known as breakdown insurance.

occupational accident

Injury or accident occurring at or because of an employee's job, usually caused by a condition resulting from that job or occupation.

occurrence policy

The traditional occurrence liability insurance method provides coverage for losses from liability-imposing causes which occurred during the policy period, regardless of when the claim is asserted. Once the policy period is over in a claims-made form, the approximate extent of the underwriter's liability is known. With the traditional occurrence liability coverage method, the underwriter may not discover the extent of liability for years to come from losses claimed to have occurred within the policy period.

policy

The formal written contract of insurance

premium

The amount of money an insurance company charges to provide coverage.

prior acts coverage

Usually applies to professional errors and omissions policies which are normally on a “claims made” versus “occurrence” basis. Prior Acts coverage responds to claims which are made during a current policy period, but the act or acts causing the claim occurred prior to the inception of the current policy period.

professional liability

A class of insurance policies that indemnifies the insured for third-party liability claims due to negligence in the performance of professional services. Professionals include doctors, lawyers, engineers, insurance agents and others.

retention

1. The amount which an insured or an insurer assumes as its own liability and which is not insured otherwise.
2. In reinsurance, the amount which a primary insurer assumes for its own account. In pro rata reinsurance contracts, the retention may be a percentage of the policy limit. In excess of loss contracts, the retention is a dollar amount of loss.

risk

1. Defined variously as uncertainty of loss, chance of loss, or the variance of actual from expected results. However defined, its existence is the reason people buy insurance.
2. The subject matter of an insurance contract, such as the building, cargo or liability exposure insured.

workers compensation insurance

Protection which provides benefits to employees for any injury or contracted disease arising out of and in the course of employment. All states have laws which require such protection for workers and prescribe the length and amount of such benefits provided.