RISK MANAGEMENT CONFERENCE

DESIGNING AND IMPLEMENTING AN INTEGRATED RISK MANAGEMENT SYSTEM THAT EFFECTIVELY MINIMIZES YOUR EXPOSURE

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DEFINITION OF RISK

RISK = DEGREE OF VARIABILITY

THE DIFFERENCE BETWEEN WHAT IS EXPECTED AND WHAT IS EXPERIENCED
LOW UNCERTAINTY

- Small Variance between upper & lower bounds
- Should require less management.
HIGH UNCERTAINTY

NEED TOOLS TO MEASURE

- Large Variance Between Upper & Lower Bounds
- Requires Highly Focused Management.
WHY INTEGRATED RISK MANAGEMENT SYSTEMS?

- Manage Physical Risk
- Manage Finance Risk
- Minimize Risk & Maximize Profit

ACHIEVE LASTING BUSINESS BENEFIT
WHY INTEGRATED RISK MANAGEMENT SYSTEMS?

- Treat the cause
- Not the symptoms

SMALL INCIDENTS UNRECORDED GIVE RISE TO CATASTROPHES
MOST INCIDENTS CAN BE PREVENTED
WHY INTEGRATED RISK MANAGEMENT SYSTEMS?

Analyse trends in a manner that enables proactive action to be taken to anticipate and prevent major losses and to identify the true cause of recurrent losses.

REQUIRES DECISION SUPPORT INFORMATION
DESIGNING A RISK MANAGEMENT SOLUTION

- Assess potential impact of hazards
- Define steps to achieve objectives
- Develop risk improvement programs
- Develop strategies to control consequences of risk and impact

INTEGRATE INTO DECISION FRAMEWORK
DETERMINE COST OF RISK

- Insurance premium cost
- Retention costs
  - Risk control expenditure
  - Maintenance programmes
  - Training costs
- Fire protection & security
- Management & administration

BALANCE COST OF RISK IMPROVEMENT AND LEVEL OF RISK FINANCE
THE RISK MANAGEMENT OBJECTIVE

RISK MANAGEMENT OBJECTIVE

EXCELLENT

GOOD

FAIR

INSURE ALL

INSURANCE DEDUCTIBLES

INSURANCE SELF INSURANCE DEDUCTIBLES

CATASTROPHE COVER LARGE SELF FUND

RISK FINANCING
WHY INTEGRATED RISK MANAGEMENT SYSTEMS?

A means of acquiring and analyzing comprehensive and detailed loss statistics is essential.

A COMPUTER BASED SOLUTION IS THE ONLY WAY
RISK MANAGEMENT DEFINED

- A comprehensive range of activities for dealing with risks
- Manage the interdependence between alternatives
- A integral part of the business

ACHIEVE LASTING BUSINESS BENEFIT
THE RISK MANAGEMENT ENVIRONMENT

RISK MANAGEMENT PHILOSOPHY & STRATEGY

BUSINESS PHILOSOPHY & STRATEGY

Marketing
Finance

YOUR ORGANISATION

Human Resources
Production

CHANGING ECONOMICS

CHANGING POLITICS

FUTURE CONTRACTS

ETC
DEFINITIONS

- **Pure risk:**
  - Loss, damage, disruption, injury, etc
  - Without potential gain, profit or other advantage

- **Risk control:**
  - Provision of standards of protection
  - Avoid transfer or acceptance of risk
DEFINITIONS

- Risk financing
  - Provision of funds for recovery

- Risk evaluation
  - Quantitative / qualitative measure of risk
  - Gauge potential severity and frequency

- Risk identification
  - Potential risks to which organization is exposed
URE RISK IMPROVEMENT TECHNIQUES

- Avoidance
  - Action to prevent occurrence

- Retention
  - Accept risk in present form

- Transfer
  - Insurance or contractual transfer of consequences

- Control
  - Reduce by controlling frequency and severity

REQUIRES INFORMATION
RISK FINANCING

- Provide funds to assist business to survive and recover from losses

- Internal (self) financing
  - Funds and budget
  - Unbudgeted

- External financing
  - Insurance

REQUIRES INFORMATION IN ORDER TO TAKE INFORMED DECISIONS
PHYSICAL FACTORS GIVING RISE TO EXCESSIVE RISK

- Insurance claims not a true measure of risk
- Focus on overall cost of risk
- Identify physical factors that exacerbate risk
  - Maintenance
  - Health
  - Environmental
  - etc

TRUE CAUSES OF LOSS ARE OFTEN OBSCURE
RISK BASED MAINTENANCE MANAGEMENT

- Small components
  - Often initiate failures or losses
  - Not high profile
  - Frequently neglected

- Develop a risk oriented maintenance approach

REQUIRES COMPUTER BASED MEASUREMENT AND MODELLING
TRUE CAUSE OF LOSS NOT EVIDENT

- Diabetic drivers
  - Low blood sugar
  - High accident rate

- Drivers rise at 01h00
  - Poor concentration by 10h00

- Often only identified
  - When insurance premium raised
  - When insurance refused

A COMPREHENSIVE LOSS RECORDING AND ANALYSIS SYSTEM CAN BE INVALUABLE
INFORMATION NEEDS IN ORDER TO IDENTIFY TRENDS FOR PHYSICAL RISK CONTROL

- Major incidents normally preceded by series of minor incidents
- Minor incidents do not individually attract attention
- Accumulated real cost of "small" losses may exceed cost of high profile losses

RECORD AND ANALYSE ALL LOSSES
TRUE COST OF RISK

- Traditional loss reporting concentrates on insurance claim
  - Costs that can be recovered
  - Not true costs

- Real cost is the hidden cost

RECORD AND ANALYSE ALL COSTS
HIDDEN COSTS

- Down time
- Management time
- Lost production
- Lost market opportunities
- Customer dissatisfaction
- Unremunerated overtime
- Staff dissatisfaction
- etc

SOME ARE READILY QUANTIFIED, OTHERS ARE NOT, ALL ARE IMPORTANT
OPTIMISE RISK MANAGEMENT FOR LOWEST OVERALL COST AND LOWEST HIDDEN COST

- Down time
- Management time
- Lost production
- Lost market opportunities
- Customer dissatisfaction
- Unremunerated overtime
- Staff dissatisfaction
- etc

Reduced expenditure on risk management gives rise to increased hidden costs.
INTERNAL COMMUNICATION NEEDS

- Risk control and insurance departments and decisions often unrelated and uncoordinated
  - No optimization is possible
  - Wrong insurance cover provided
  - Wrong level of cover provided
  - Claims not met

- Re-structure in order to support strategic decision making

PROVIDE A SINGLE RISK MANAGEMENT INFRASTRUCTURE AND COMMON DATABASE
INTERNAL COMMUNICATION NEEDS

- Capability to report full financial implications of past losses
- Single risk management department for physical and financial risk
- Comprehensive risk management information system

PROVIDE A SINGLE RISK MANAGEMENT INFRASTRUCTURE AND COMMON DATABASE
• All risk related information:
  - Planned maintenance
  - Risk audit
  - Unaccounted losses
  - All loss information
CASE HISTORY

ISO 9000 CERTIFICATION

- Database of all major items
  - Boilers, etc
- All legislative requirements
- Prioritized and scheduled all maintenance

EXPECTED INCREASED COSTS:
ACCOMPLISHED INCREASED PLANT EFFICIENCY
AND REDUCED COSTS
THE BENEFITS OF ESTABLISHING
AN INTEGRATED LOSS DATABASE

- Permits holistic risk improvement
- Accountability for losses through business model
- True cost including hidden costs established
- Quality of risk management improved and duplication of effort avoided

IMPROVED PROFITABILITY
THE BENEFITS OF ESTABLISHING AN INTEGRATED LOSS DATABASE

• Early identification of adverse trends
  - Minimize probability of catastrophe
  - Informed disaster recovery planning

• Accurate centralized information
  - Simplify risk management
  - Reduce costs
  - Better results

IMPROVED PROFITABILITY
THE BENEFITS OF ESTABLISHING AN INTEGRATED LOSS DATABASE

- Better decision making
- Big picture
  - Drill down to all levels of organization
  - Direct access to information at all levels
  - Benchmark comparable business units
- Improved communication

IMPROVED PROFITABILITY
THE BENEFITS OF ESTABLISHING AN INTEGRATED LOSS DATABASE

- Effective risk management coordination
- Summarization and drill down enable focus on key issues
- Monitor insurance policy endorsements and limitations
  - Reduce risk of policy being revoked
  - Enable aggregate and fund management
  - Best balance of self funding and insurance

IMPROVED PROFITABILITY
CONCEPTUAL REQUIREMENTS FOR THE IMPLEMENTATION OF AN EFFECTIVE RISK MANAGEMENT SYSTEM

- Develop risk exposure profile
- Identify core business activities impacted
- Analyse past losses & trends
- Determine market factors

EFFECTIVE PLANNING AND IMPLEMENTATION
Conceputal Requirements for the Implementation of an Effective Risk Management System

- Integrate risk management with business strategy
- Make part of the corporate culture
- Address environmental issues as part of cost
- Restructure risk management and risk finance
- Implement a centralized loss information acquisition system
CASE STUDY OF AN IMPLEMENTATION

- Major corporation
  - Previously self insured
  - Full risk management program

- Risk management information system installed in 1992

DRAMATIC BENEFITS AND MORE ARE EXPECTED
CASE STUDY OF AN IMPLEMENTATION

- More than 10,000 loss incidents per year
- Four operators instead of twelve
- Six regions
- Full loss reporting and analysis
- Major enhancements planned

DRAMATIC BENEFITS AND MORE ARE EXPECTED
CONCLUSION

- Effective management of risk will give rise to significant improvements in operational efficiency and profitability
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AN EFFECTIVE SOLUTION THAT WILL IMPROVE LONG TERM PERFORMANCE AND PROFITABILITY.
THE REAL ISSUES IN OUTSOURCING

QUESTIONS ?