RISK

MICHIGAN MUNICIPAL
RISK MANAGEMENT
AUTHORITY

Risk Management Overview

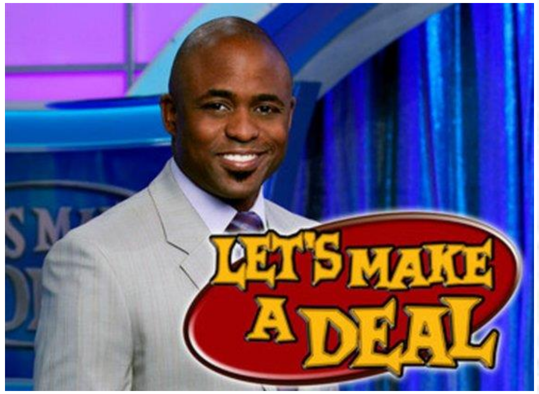
Stephen J. Tobler
MA, ARM-P, CPCU, CPP, SHRM-SCP, SPHR

July 2021

Objectives

- Overview of the risk management process
- Discussion of exposures and controls
- Reporting parameters
- How immunities impact public entities

Risk Management/Insurance ?
Who do you call?


LET'S MAKE A DEAL

Let's Make A Deal
1
2
3

LET'S MAKE A DEAL

- ?s about pricing and coverage – door # 1
- ?s about risk management/risk control – door # 2
- ?s about claims – door # 3

Risk Management Fundamentals

Risk Management is a process designed to assist organizations in identifying and analyzing loss exposures then taking steps to eliminate, minimize, mitigate and prepare to litigate.

This program may not address all risk management exposures or controls. Program advice from your entity's legal staff is recommended.

Terminology

Relevant risk management terminology to assist with understanding and communicating risk occurrences.

Exposure**:** A potential loss.

Risk**:** Uncertainty of outcomes with the possibility that some outcomes can be negative. The likelihood or probably that a loss will occur.

Incident**:** An occurrence that could result in a claim.

Notice only**:** Making the coverage provider aware that there was an incident, but no claim, yet.

Claim**:** An allegation of damage and formal demand, usually for money, based on an incident, to be made whole.

Lag Time: Measure of time between an incident's occurrence and its reporting

Loss**:** Expenditures as a result of an incident. The expenditures may include investigation, mitigation costs, defense costs, judgements, etc. The loss can be both financial and non-financial (loss of reputation, employee's services, ability to provide services to the public, etc.).

Liability**:** Any legally enforceable obligation. Within the context of insurance, the obligation to pay a monetary award for injury or damage caused by one's negligent or statutorily prohibited action.

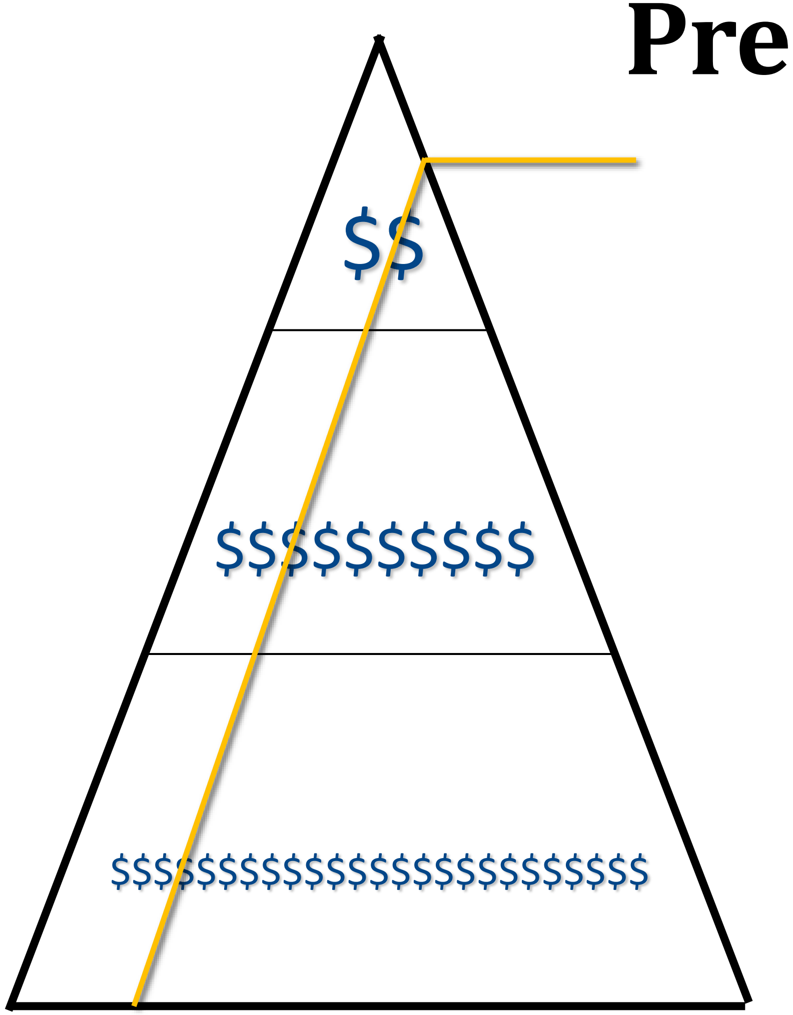
Risk Management's Six Steps

1. Identifying loss exposures
2. Analyzing loss exposures
3. Examining the feasibility of risk management techniques
4. Selecting the appropriate risk management techniques
5. Implementing the selected risk management techniques
6. Monitoring results and revising the risk management program

1. Identifying Loss Exposures

- What’s an exposure?
- Identifying the potential losses
- Various methodologies
- Systematic and enterprise wide (ERM) approaches

2. Analyzing Loss Exposures
Predictability



Frequency → $everity

(Likelihood of loss and severity of loss)

The broken windows theory

Predictability =

- Foreseeability =
  - **Duty**

An Exposure’s Loss Potential

		%	%	%
		HIGH	MED	LOW
$$$$	HIGH	1	2	3
$$$	MED	2	3	4
$$	LOW	3	4	5

Fundamental Concepts

- Risk avoidance (and why this usually does not work well in public entities)
  - Legal mandates
  - Quashes organizational opportunities

- Minimize (both frequency of incident and severity of exposure)
- Mitigate incident
- Prepare to litigate

Controls

- Avoidance
  - The most restrictive technique / no exposure
  - Deciding to not engage in an operation, own a specific property, or allow specific activities, etc.
    - Sometimes difficult in public entities because of:
      - Legal mandates
      - Organizational opportunities desired

Controls

- Segregation of resources – separate
  - Physically separating assets to minimize the impact of a loss
  - Can be unique assets (such as key personnel) or homogeneous assets (such as similar vehicles)

- Segregation of resources – duplicate
  - The process of creating backups of duplicable assets (such as computer files) and physically storing them in separate locations

Controls

- Risk transfer
  - Technique used to transfer risk / responsibility to another outside the public entity
  - Usually done by contract with some form of consideration provided to the party accepting the risk
  - Some risks cannot be transferred

○ Available resource: ***MMRMA Risk Transfer Manual***

Controls

- Risk financing
  - Recognizing that there may be some losses, including those losses at lower levels (that may be within a deductible) an entity may choose to set some money aside to pay for these losses directly
  - Self Insured Retention (SIR) –
    - Deductibles count against your aggerate policy limit SIRs don’t
    - Insured responsible for all expenses under SIR
    - Deductible may require insurer to initially pay with insured reimbursing insurer later
    - May impact when reinsurers are notified
    - Not always inclusive of loss control

Controls

- No controls
  - On the extreme left side of the controls spectrum is having no controls at all – this is the “anything goes” situation
  - In this situation the probability of risk being realized is highest as well as the potential for the highest level of severity
  - This may be considered an example of mismanagement

4. Selecting the Appropriate Risk Management Techniques

- What technique(s) are actually feasible, from both a pragmatic and financial perspective, and acceptable to a public entity

- Keep in mind that public entitles have varying forms of government, levels of complexity, sophistication and financial resources.

5. Implementing the Selected Risk Management Techniques

- How can the public entity actually implement best practices?

- Let’s also discuss MMRMA RAP/CAP grants

Workers' Compensation?

- What about injured employees, i.e. Workers' Compensation (WC)?

- The controls for some exposures will be the same for both property/casualty and workers' compensation. The auto line is a good example of this

Tracking and Reporting Incidents

- Tracking incidents provides insight into areas where additional risk management efforts are needed and/or where the current efforts are not effective

- Reporting assists in post-incident mitigation efforts

- When to report – As soon as possible – It saves $$

Governmental Immunity

- While governmental immunity is a valuable tool, it is one reserved for attorneys to use; i.e., it is a reactive, rather than a proactive, tool. As such, risk management should not be engaging in operations with the idea that there is, or will be, governmental immunity.
- There are also exceptions to governmental immunity!
- If you're thinking of governmental immunity, from a proactive stance, you've already lost!!!

Thank You