CERTIFIED INSURANCE SERVICE REPRESENTATIVES

Elements of Risk Management

The National Alliance
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Elements of Risk Management

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THE NATIONAL ALLIANCE
for Insurance Education & Research

A Letter from William J. Hold, CEO

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Let's take the first step.

William J. Hold, M.B.A., CRM, CISR
CEO

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Section 1

Introduction to Risk Management

Introduction to Risk Management

Course Goal

The goal of this course is to build an understanding of the five-step risk management process including tools used in each step. Insurance professionals play an integral part in the risk management process, so participants will learn how to help facilitate risk management activities for their clients.

Section Goal

The goal of this section is to build common terminology on important risk management concepts such as the types of risk. Additionally, participants will learn the five steps of the risk management process and how the steps fit together to build a comprehensive risk management program.

Learning Objectives

1. Understanding the definition of risk, participants will be able to distinguish between the two types of risk.

2. With an understanding of the key risk management terms, participants will be able to properly use the terminology common to the risk management industry.

3. Understanding the risk management process, participants will be able to explain how each of the five steps is important to the overall risk management program.

Introduction

Insurance professionals play a critical role in the financial health and stability of an organization. All businesses face uncertainty, but the insurance industry provides products and services to organizations to help mitigate and respond to much of this uncertainty. Risk and uncertainty are not always self-evident. By understanding and utilizing the five-step risk management process, insurance professionals can better address the needs of their clients by recommending appropriate risk control measures to prevent claims and recommending suitable insurance products to respond when an event occurs.

What is Risk?

Before understanding the risk management process and the important role of insurance professionals in the process, a familiarity of risk and the different perspectives on risk is required.

Learning Objective 1:
Understanding the definition of risk, participants will be able to distinguish between the two types of risk.

Risk – uncertainty that may be either positive or negative, arising out of a given set of circumstances. This term and the definition are central to the risk management process. While this definition seems simple, there are often other perceptions on risk, and each varies depending on job functions or areas of expertise.

Risk and Insurance

To an agent or broker, the risk may be the insured or the exposure, such as a building or vehicle. This is slightly different than an underwriter or an insurance company that may state it is willing to insure a risk, referring to the person or property which is to be covered by an insurance policy. Similarly, a risk manager may refer to a risk as the person or property exposed to a potential loss.

Types of Risk

Risk is typically thought of as what can go wrong; however, in recalling the definition of risk, it includes both positive and negative. In business there are two types of risk: pure and speculative.

Types of Risk

PURE	SPECULATIVE
With pure risk there is only a chance of loss or no loss; insurance usually addresses pure risk Examples: a building destroyed by fire; an employee injured in an accident	A chance of loss or no loss as well as a chance of gain; speculative risk is associated with business or financial risk Examples: the value of the company's stock may go up or down; there may be a market for the company's goods or its product may have become obsolete

Knowledge Check

You have a client that manufactures and sells food products. Please provide three examples each of pure and speculative risk that would be relatable to your client.

Pure Risk	
Speculative Risk	

Risk Management Terms

Learning Objective 2:

With an understanding of the key risk management terms, participants will be able to properly use the terminology common to the risk management industry.

For the insurance professional to better prepare for their role in the risk management process, an understanding of risk management terminology is needed. Certain terminology may be thought of as terms of art for risk management. The following key risk management terms are common to the industry:

LOSS	A reduction in the value of assets Example: Loss of income due to business interruption, physical damage to property, injury to employee or customer
EXPOSURE	A situation, practice, or condition that may lead to an adverse financial consequence or loss; an activity or resource; people or assets Example: A building, fleet of trucks, a grocery delivery business
PERIL	The cause of loss Example: Extreme weather events (hurricane, tornado), theft, vandalism, cyber attacks
HAZARD	A condition or characteristic that may create or increase the likelihood or severity of a loss Example: Slippery floors increase the likelihood of a slip and fall resulting in an injury or claim
INCIDENT	An event that disrupts normal activities and *may become* a loss, claim or business interruption Example: Fall on steps with no immediate injury

OCCURRENCE	An accident with the limitation of time removed; an "accident" that is extended over a period of time rather than a single, observable event Example: Repetitive stress injury
CLAIM	A demand for payment or an obligation to pay as result of a loss or occurrence Example: Workers' comp claims, car insurance claims, homeowners insurance claims, health and dental claims
FREQUENCY	The number of losses occurring in a given period Example: Number of Workers' comp claims, auto insurance claims, homeowners insurance claims, health and dental claims over the last 12 months
SEVERITY	The dollar amount of a given loss or the aggregate dollar amount of all losses for a given period Example: Total dollar amount of Workers' comp claims, auto insurance claims, homeowners insurance claims, health and dental claims over the last 12 months
EXPECTED LOSSES	A projection of the frequency or severity of losses based on loss history, probability distribution, and statistics; the expected loss projection is commonly called a loss pick
RISK APPETITE	An organization's willingness to accept or tolerate risks Example: CEO is very conservative and wants little risk, so the organization purchases an insurance policy with a small deductible
RISK ABILITY	An organization's financial capacity to assume risks Example: Organization cannot afford to self-insure, so they purchase an insurance policy
ACCIDENT	An unplanned event, definite as to time and place, that results in injury or damage to a person or property Example: Being caught in or struck by moving machinery, an automobile crash

Let's Check-in

Match the definition to the correct term.

_____	Loss	A.	The cause of loss
_____	Exposure	B.	An unplanned event, definite as to time and place that results in injury or damage to a person or property
_____	Peril	C.	An event that disrupts normal activities and may become a loss or business interruption
_____	Hazard	D.	A demand for payment or an obligation to pay as a result of a loss or occurrence
_____	Incident	E.	A situation, practice, or condition that may lead to an adverse financial consequence or loss; an activity or resource; people or assets
_____	Accident	F.	A reduction in value
_____	Occurrence	G.	An accident with the limitation of time removed; an "accident" that is extended over a period of time rather than a single, observable event
_____	Claim	H.	A condition or characteristic that may create or increase the likelihood or severity of a loss

Risk Management

Risk Management – managing and minimizing the uncertainty of exposures that can adversely affect an organization's assets and financial statements

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Learning Objective 3:

Understanding the risk management process, participants will be able to explain how each of the five steps is important to the overall risk management program.

Five Steps of the Risk Management Process

The risk management process consists of five steps. Each step is necessary for an effective risk management program.

Risk Identification – the process of identifying and examining the exposures of an organization. This is the most important step of the entire process. Organizations that fail to identify risk may expose themselves to negative financial consequences.

Risk Analysis – the assessment of the potential impact of the various exposures on an organization

- Qualitative – Examines the question of "should we do this". It may not be measurable by traditional methods.

- Quantitative – Examines the question of "can we do this" by determining financial impact. It accurately measures risks by using traditional methodologies.

Risk Control – minimizing the probability, frequency, severity, or unpredictability of loss

- General theories of Risk Control

    1. Human approach – people cause accidents

    2. Engineering approach – things and pent-up energy cause accidents

    3. Systems approach – internal system failures or weaknesses cause accidents

- Techniques of Risk Control

    1. Avoidance

    2. Prevention

    3. Reduction

    4. Segregation/Separation/Duplication

    5. Transfer (contractual, physical, or both)

Risk Financing – the acquisition of internal and external funds, at the most favorable cost, to pay losses

- Retention – internal funds used to pay losses
    1. Active retention (planned)
    2. Passive retention (unplanned)

- Transfer financial responsibility – external funds used to pay losses
    1. Non-insurance contractual transfer of control or responsibility for an exposure
    2. Non-insurance contractual indemnification or financial responsibility

- Insurance – a promise of compensation for specified losses in exchange for payment of premium

Risk Administration – ongoing implementation and monitoring of the Risk Management Process

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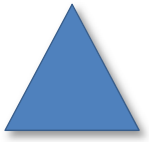

Practical Application

In which step of the risk management process do you think the insurance professional has the most significant role and why?

Throughout the risk management process there are many activities. Each activity provides potential benefits to the organization.

THE VALUE OF RISK MANAGEMENT

Activities	Potential Benefits
Identifying exposures & risks	Raises awareness
Determining the organization's risk appetite & ability	Supports managerial objectives
Reducing & mitigating losses	Protects brand & reputation
Distributing the Total Cost Of Risk	Supports managerial objectives
Integrating risk control and safety	Raises awareness and improves morale & productivity
Improving the ability to budget & plan	Increases profitability

Summary

Insurance professionals have a critical role in the risk management process. To fulfill this role, an understanding of the risk management process is needed. Insurance professionals with a foundation in risk management can better protect the clients they serve.

Review of Learning Objectives

1. Understanding the definition of risk, participants will be able to distinguish between the two types of risk.

2. With an understanding of the key risk management terms, participants will be able to properly use the terminology common to the risk management industry.

3. Understanding the risk management process, participants will be able to explain how each of the five steps is important to the overall risk management program.

Important Key Terms

Risk – uncertainty that may be either positive or negative, arising out of a given set of circumstances

Pure Risk – a chance of loss or no loss

Speculative Risk – a chance of loss or no loss as well as a chance of gain

Risk Management – managing and minimizing the uncertainty of exposures that can adversely affect an organization's assets and financial statements

Risk Identification – the process of identifying and examining the exposures of an organization

Risk Analysis – the assessment of the potential impact of the various exposures on an organization

Risk Control – minimizing the probability, frequency, severity, or unpredictability of loss

Risk Financing – the acquisition of internal and external funds, at the most favorable cost, to pay losses

Risk Administration – ongoing implementation and monitoring of the Risk Management Process

Knowledge Check: POSSIBLE ANSWERS

You have a client that manufactures and sells food products. Please provide three examples each of pure and speculative risk that would be relatable to your client.

Pure Risk	A food product could either contain contaminants or not
	A line worker could suffer a back injury or not
	A fire could either happen or not happen
Speculative Risk	The organization decides to introduce a keto line which could either have a lasting impact or be a short-lived fad
	The organization uses an athlete for endorsements. The brand is now tied to the image of an athlete that could become immensely popular or could soon have a tarnished reputation.
	Expanding into a new geographic territory could result in a gain, loss or breakeven.

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Section 2

Risk Identification

Risk Identification

Section Goal

The goal of this section is to build knowledge on the first and most important step of the risk management process, risk identification. To facilitate this critical step, participants will learn the general classes of risk and the four logical classifications of risk.

Learning Objectives

1. With an understanding of the risk management process, participants will be able to explain why risk identification is the most important step in the risk management process.

2. With knowledge of the seven general classes of risk, participants will be able to give examples of the loss exposures related to each.

3. With an understanding of the four logical classifications of risk, participants will be able to give examples of the loss exposures related to each.

Introduction

The risk management process consists of five steps: risk identification, risk analysis, risk control, risk financing, and risk administration. Before any other step can be completed effectively, the risk must be identified.

Learning Objective 1:
With an understanding of the risk management process, participants will be able to explain why risk identification is the most important step in the risk management process.

To effectively manage and control exposures, perils, and hazards that may interfere with the achievement of an organization's objectives, they must first be identified. **Therefore, risk identification is the most important step of the risk management process.**

To properly identify exposures, the risk manager must use effective identification methods and be able to classify exposures.

Practical Application

Identify as many potential risks as you can for your organization in two minutes.

Did you find it difficult to know where to start?

General Classes of Risk

It is helpful to first understand where risk can originate and what risk can impact. The general classes of risk and the logical classifications of risk provide a framework for risk identification. The general classes of risk help the risk manager identify different risks by thinking about how risk may arise. It is also important to remember the two types of risk; pure and speculative when applying the general classes of risk to exposures.

Learning Objective 2:

With knowledge of the seven general classes of risk, participants will be able to give examples of the loss exposures related to each.

The following general classes of risk can provide a framework for risk identification:

ECONOMIC	Arising from operations, marketplace, financial marketplace or entrepreneurial activities Example: Exchange rates, inflation, new tariffs on imports/exports
LEGAL	Risks inherent in compliance or arising from statutory liability Example: Government regulation, new legislation, compliance
PHYSICAL	Risks arising from property, people, or information Example: Fire, water damage, loss of equipment, bodily injury, cyber theft
SOCIAL	Risks arising from public relations, loss of reputation, damage to brand, social and cultural trends Example: Product recall due to safety issue or product defect
TECHNOLOGICAL	Risks found in the potential for technology shortfalls to result in losses Example: Failures in infrastructure resulting in downtime, management of mobile devices, loss of data

JURIDICAL	Risk of an adverse decision by a judge or jury, or adverse trends in the legal climate Example: Lawsuit against the organization resulting in large settlement costs due to the litigious nature of the venue
POLITICAL	Risks arising from changes in the law or governmental interpretations of rules and regulations Example: Participation in regional trade agreements, international relations

COMBINATION:

Most risks are going to fall into more than one category, for example:

A large retail box store's customer database is accessed by unauthorized persons and their personal information is compromised.

This could be social, technological, or even legal.

An oil rig in the North Sea explodes injuring workers and spilling thousands of barrels of oil.

This could be social, legal, economic, and physical.

Let's Check-in

Circle all the general classes of risk.

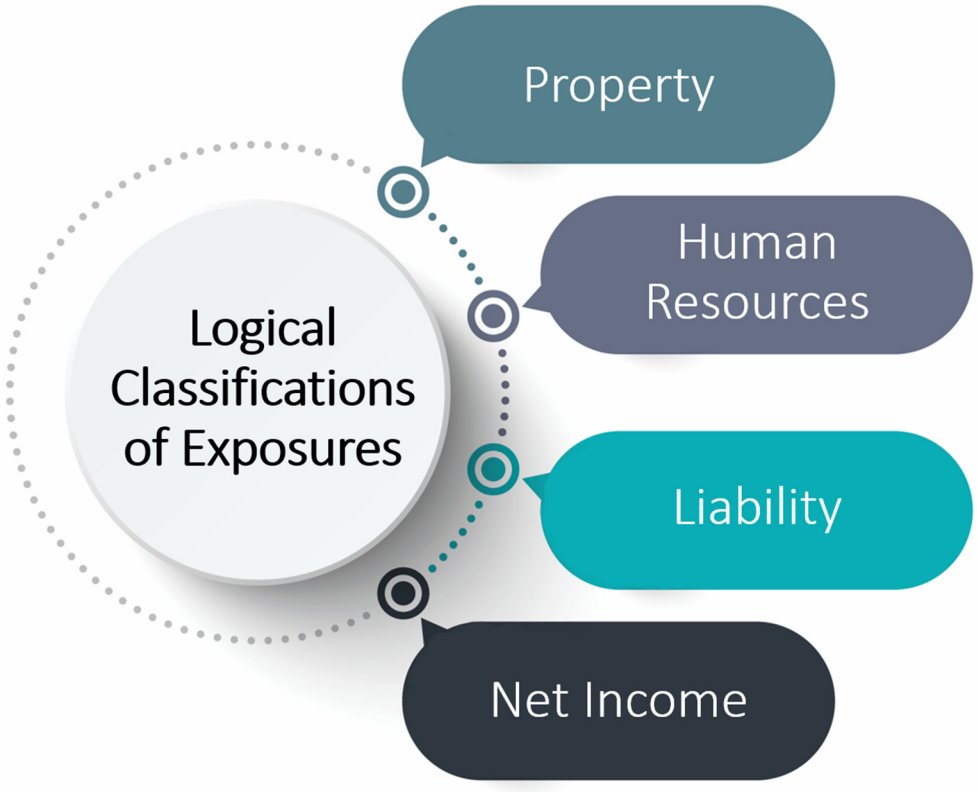
Social	Pure	Net Income	Physical
Liability	Juridical	Legal	Speculative
Economic	Human Resources	Political	Technological

Four Logical Classifications of Loss Exposures

Logical classifications provide a systematic way of classifying and categorizing exposures, perils, hazards and losses so that they can be analyzed, controlled, transferred, and financed. The structure of the four logical classifications provides a starting point for analyzing exposures, perils, and hazards. While the seven general classes of risk provide a framework for identifying risk based on how risk may arise, the four logical classification of loss exposure provide another possible framework for risk identification.

Learning Objective 3:

With an understanding of the four logical classifications of risk, participants will be able to give examples of the loss exposures related to each.



While the classifications are separate categories, they are not mutually exclusive. A property loss may also give rise to a net income loss. When classifying such items, think of where or how the loss originates. For example, a fire loss starts as a property loss. Even if it could cause a loss to net income, it could be classified in the property logical classification.

PROPERTY

Property may take two forms – tangible and intangible. Tangible property is anything which can be seen or touched it includes real property (buildings) and personal property (equipment). Intangible property has no physical form, but has value (patents, intellectual property).

EXPOSURES: REAL PROPERTY	▪ **Buildings and structures** – Office buildings, manufacturing plants, warehouses – Storage silos or bins – Concrete mixing plants – Tenant improvements and betterments (owner's interest) – Retaining walls, piers, docks ▪ **Land** – Golf courses – Landscaping (trees, shrubs, paths)
EXPOSURES: PERSONAL PROPERTY	▪ Cash and securities ▪ Records and documents ▪ Inventory ▪ Mobile equipment ▪ Equipment, furnishings, and supplies ▪ Computer systems, hardware, software, databases
EXPOSURES: INTELLECTUAL PROPERTY	▪ Copyrights and patents ▪ Trademarks, service marks and trade names ▪ Trade secrets ▪ Licenses and franchises ▪ Leases and leasehold interests
PERILS	▪ Windstorm, Fire, Flood ▪ Theft ▪ Infringement on intellectual property rights
HAZARDS	▪ Faulty wiring ▪ Nature of operations ▪ Lack of security, physical and network ▪ Poor housekeeping, maintenance

Human Resources

Exposures	▪ Owners, officers, senior management ▪ Employees ▪ Independent contractors, leased, temporary, and borrowed employees ▪ Clients, suppliers, vendors
Perils	▪ Death ▪ Disability ▪ Illness/Injury ▪ Resignation, termination, and retirement
Hazards	▪ Non-adherence to safety practices ▪ Poor morale, poor performance, or natural aging process ▪ Workplace violence

Liability

Exposures	▪ Premises and operations ▪ Advertising and communications ▪ Products and completed operations ▪ Statutory compliance
Perils	▪ Slip and fall on premise ▪ Libel, slander, false imprisonment ▪ Product malfunction ▪ Unknowing transmission of a computer virus
Hazards	▪ Poor housekeeping ▪ Poor quality control ▪ Failure to enforce or inadequate policies and procedures

Net Income

Most hazards affecting net income losses are the same as those affecting the other classifications. While a net income loss may be the result of a property, liability, or human resource loss, many net income losses are the result of factors and forces which do not fall within those classifications.

Exposures	▪ Investment activities ▪ Market conditions and fluctuations ▪ International business interests ▪ Decreased revenue and/or increased expenses
Perils	▪ Loss of primary supplier, primary customer or "magnet" business ▪ Weather (no property damage) ▪ Impact of governmental action (e.g. nationalization, shutdown)
Hazards	▪ Poor product positioning ▪ Overextension of credit or excessive borrowing ▪ Inadequate research and development ▪ Imprudent investment activities

Practical Application

Thinking of your organization, provide at least one example for each of the four logical classifications of loss exposures.

Property	
Human Resources	
Liability	
Net Income	

Knowledge Check

As the new risk manager for JCB corporation, you have been tasked with building a risk management program. Explain to the CEO how the risk management process begins and the two frameworks that can help accomplish this important step.

Summary

Risk Identification is the initial step in the risk management process and the most critical. Both the seven general classes of risk and the four logical classification provide frameworks to help accomplish this important step.

Review of Learning Objectives

1. With an understanding of the risk management process, participants will be able to explain why risk identification is the most important step in the risk management process.

2. With knowledge of the seven general classes of risk, participants will be able to give examples of the loss exposures related to each.

3. With an understanding of the four logical classifications of risk, participants will be able to give examples of the loss exposures related to each.

Important Key Terms

Economic – Arising from operations, marketplace, financial marketplace or entrepreneurial activities

Legal – Risks inherent in compliance or arising from statutory liability

Physical – Risks arising from property, people, or information

Social – Risks arising from public relations, loss of reputation, damage to brand, social and cultural trends

Technological – Risks found in the potential for technology shortfalls to result in losses

Juridical – Risk of an adverse decision by a judge or jury, or adverse trends in the legal climate

Political – Risks arising from changes in the law or governmental interpretations of rules and regulations

Knowledge Check: ANSWERS

As the new risk manager for JCB corporation, you have been tasked with building a risk management program. Explain to the CEO how the risk management process begins and the two frameworks that can help accomplish this important step.

Before any other actions can be taken, the risk must first be identified, so Risk Identification is the first step. To assist with this step there are two possible frameworks: general classes of risk and logical classifications of risk.

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Section 3

Risk Identification Methods

Risk Identification Methods

Section Goal

The goal of this section is to provide participants with a toolbox of Risk Identification methods to assist in the risk identification step of the risk management process.

Learning Objective

With an understanding of the 10 Risk Identification methods, participants will be able to describe and provide examples of each.

Introduction

Various methods exist to identify exposures. The choice depends on the type of exposure that the risk manager is trying to identify. Some are simple and could be performed by almost anyone while others are more sophisticated and require expertise. Often, two or more methods are used to address the same type of exposure.

Learning Objective:
With an understanding of the 10 risk identification methods, participants will be able to describe and provide examples of each.

Risk Identification Toolkit

Checklists, Surveys, and Questionnaires

Used to systematically search for as many exposures, perils, and hazards as possible.

Examples:
List of assets, activity or situation list, perils analysis, insurance checklist, industry list

Practical Application

What types of checklists, surveys, or questionnaires does your organization use?

Compliance Review Method

Used to determine the organization's compliance with regulations and laws, which can be statutory (local, state, or federal) or professional (voluntary, involuntary, industry, or governmental insurance programs).

Examples:
OSHA inspections, city code enforcement, state, or federal mandates

Safety Checklists

The following checklists may help you take steps to avoid hazards that cause injuries, illnesses and fatalities. As always, be cautious and seek help if you are concerned about a potential hazard.

Personal Protective Equipment (PPE)

Eye and Face Protection

- Safety glasses or face shields are worn anytime work operations can cause foreign objects getting into the eye such as during welding, cutting, grinding, nailing (or when working with concrete and/or harmful chemicals or when exposed to flying particles).
- Eye and face protectors are selected based on anticipated hazards.
- Safety glasses or face shields are worn when exposed to any electrical hazards including work on energized electrical systems.

Foot Protection

- Construction workers should wear work shoes or boots with slip-resistant and puncture-resistant soles.
- Safety-toed footwear is worn to prevent crushed toes when working around heavy equipment or falling objects.

Hand Protection

- Gloves should fit snugly.
- Workers wear the right gloves for the job (for example, heavy-duty rubber gloves for concrete work, welding gloves for welding, insulated gloves and sleeves when exposed to electrical hazards).

Head Protection

- Workers shall wear hard hats where there is a potential for objects falling from above, bumps to their heads from fixed objects, or of accidental head contact with electrical hazards.
- Hard hats are routinely inspected for dents, cracks or deterioration.
- Hard hats are replaced after a heavy blow or electrical shock.
- Hard hats are maintained in good condition.

Scaffolding

- Scaffolds should be set on sound footing.
- Damaged parts that affect the strength of the scaffold are taken out of service.
- Scaffolds are not altered.
- All scaffolds should be fully planked.
- Scaffolds are not moved horizontally while workers are on them unless they are designed to be mobile and workers have been trained in the proper procedures.
- Employees are not permitted to work on scaffolds when covered with snow, ice, or other slippery materials.
- Scaffolds are not erected or moved within 10 feet of power lines.
- Employees are not permitted to work on scaffolds in bad weather or high winds unless a competent person has determined that it is safe to do so.
- Ladders, boxes, barrels, buckets or other makeshift platforms are not used to raise work height.
- Extra material is not allowed to build up on scaffold platforms.
- Scaffolds should not be loaded with more weight than they were designed to support.

Source:
https://www.osha.gov/Publications/OSHA3252/3252.html

Contract Review

Used to identify obligations and maintain compliance with contractual requirements.

Examples:
Leases, hold harmless or indemnification agreements, purchase orders and sales contracts, bills of lading, warranties, advertising materials, mergers and acquisitions, joint ventures and alliances, employment contracts, service contracts

Contract Review

For: _____ By: _____

Date: _____

General Information

Party(ies) to Contract: _____

_____

Type of Contract: _____

_____

- ☐ Construction Agreement
- ☐ Purchase Order Agreement
- ☐ Automobile Lease
- ☐ Service Agreement
- ☐ Subcontractor
- ☐ Lease of Premises
- ☐ Equipment Lease
- ☐ Other (specify)_____

Term of Contract (including options):_____

Consideration:_____

- ☐ Fixed:_____
- ☐ Percentage:_____% of _____
- ☐ Additional Cost paid by:_____ for:
  - ☐ Maintenance and repair
  - ☐ Insurance
  - ☐ Taxes
  - ☐ Damage to Property
  - ☐ Other (specify)_____

    _____

Let's Check-in

Which of the following Risk Identification methods requires the least specialized expertise to perform?

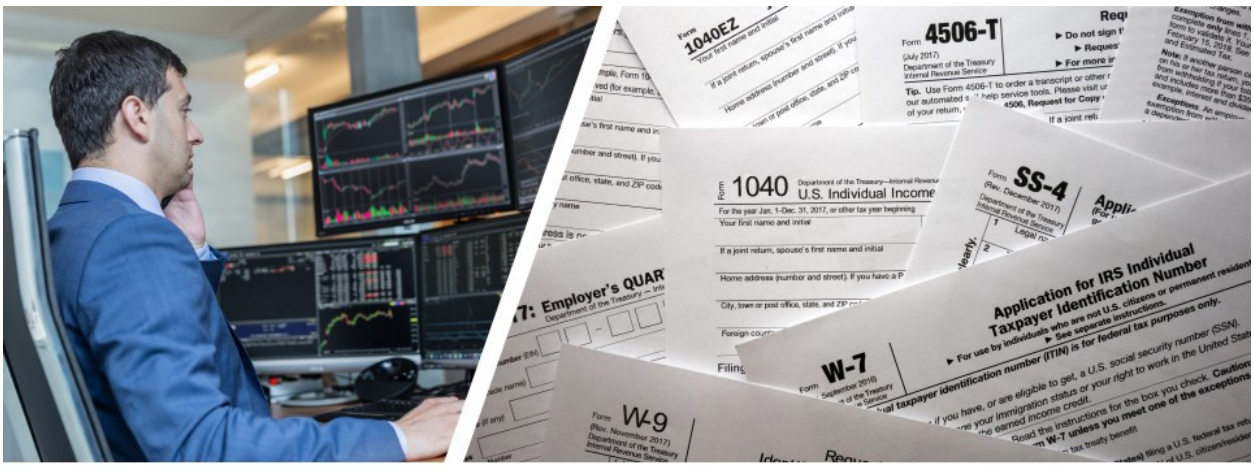
- ☐ Checklists, surveys, and questionnaires
- ☐ Compliance review
- ☐ Contract review

Experts

Used to identify exposures, hazards, and perils. Experts provide professional advice, opinions, and direction for resolving issues associated with a topic.

Examples:

Human resources consultants, accountants, those with craft skills, i.e., vehicle manufacturing, maintenance, loss control specialists, brokers/agents, actuarial services



Insurance Policy Review

Used to identify exposures and perils arising from coverage gaps, insufficient limits, coverage limitations, and exclusions.

Examples:
Internal review, outside expert review

COMMERCIAL GENERAL LIABILITY
CG 00 01 04 13

COMMERCIAL GENERAL LIABILITY COVERAGE FORM

Various provisions in this policy restrict coverage. Read the entire policy carefully to determine rights, duties and what is and is not covered.

Throughout this policy the words "you" and "your" refer to the Named Insured shown in the Declarations, and any other person or organization qualifying as a Named Insured under this policy. The words "we", "us" and "our" refer to the company providing this insurance.

The word "insured" means any person or organization qualifying as such under Section **II** – Who Is An Insured.

Other words and phrases that appear in quotation marks have special meaning. Refer to Section **V** – Definitions.

SECTION I – COVERAGES

COVERAGE A – BODILY INJURY AND PROPERTY DAMAGE LIABILITY

1. Insuring Agreement

a. We will pay those sums that the insured becomes legally obligated to pay as damages because of "bodily injury" or "property damage" to which this insurance applies. We will have the right and duty to defend the insured against any "suit" seeking those damages. However, we will have no duty to defend the insured against any "suit" seeking damages for "bodily injury" or "property damage" to which this insurance does not apply. We may, at our discretion, investigate any "occurrence" and settle any claim or "suit" that may result. But:

(1) The amount we will pay for damages is limited as described in Section **III** – Limits Of Insurance; and

(2) Our right and duty to defend ends when we have used up the applicable limit of insurance in the payment of judgments or settlements under Coverages **A** or **B** or medical expenses under Coverage **C.**

No other obligation or liability to pay sums or perform acts or services is covered unless explicitly provided for under Supplementary Payments – Coverages **A** and **B.**

b. This insurance applies to "bodily injury" and "property damage" only if:

(1) The "bodily injury" or "property damage" is caused by an "occurrence" that takes place in the "coverage territory";

(2) The "bodily injury" or "property damage" occurs during the policy period; and

(3) Prior to the policy period, no insured listed under Paragraph **1.** of Section **II** – Who Is An Insured and no "employee" authorized by you to give or receive notice of an "occurrence" or claim, knew that the "bodily injury" or "property damage" had occurred, in whole or in part. If such a listed insured or authorized "employee" knew, prior to the policy period, that the "bodily injury" or "property damage" occurred, then any continuation, change or resumption of such "bodily injury" or "property damage" during or after the policy period will be deemed to have been known prior to the policy period.

c. "Bodily injury" or "property damage" which occurs during the policy period and was not, prior to the policy period, known to have occurred by any insured listed under Paragraph **1.** of Section **II** – Who Is An Insured or any "employee" authorized by you to give or receive notice of an "occurrence" or claim, includes any continuation, change or resumption of that "bodily injury" or "property damage" after the end of the policy period.

d. "Bodily injury" or "property damage" will be deemed to have been known to have occurred at the earliest time when any insured listed under Paragraph **1.** of Section **II** – Who Is An Insured or any "employee" authorized by you to give or receive notice of an "occurrence" or claim:

(1) Reports all, or any part, of the "bodily injury" or "property damage" to us or any other insurer;

(2) Receives a written or verbal demand or claim for damages because of the "bodily injury" or "property damage"; or

(3) Becomes aware by any other means that "bodily injury" or "property damage" has occurred or has begun to occur.

e. Damages because of "bodily injury" include damages claimed by any person or organization for care, loss of services or death resulting at any time from the "bodily injury".

Procedures and Policies Review

Used to ensure current and relevant policies and procedures and to identify exposures throughout the organization.

Types of review:
Internal review, external review, legal review

Examples:
Charter and/or articles of incorporation – including mission statements, organizational charts, legal policies, board minutes and public records of meetings, employee manuals, procedure manuals and adequacy of risk management policies, such as those related to safety

Financial Statement Analysis

Used to assist with exposure identification and valuation, financial capabilities, and financial-based decision-making.

Examples:
Evaluation of revenues, evaluation of expenses, review of financial statements (income statement, balance sheet, statement of cash flows), review of indebtedness and outstanding loans, financial ratio analysis

Sample Consolidated Balance Sheet

For the years December 31, FYX1 and FYX0
($ in thousands)

Assets	FYX1	FYX0
Current assets		
Cash	$147,000	$122,000
Inventories	26,000	32,000
Accounts receivable	13,000	15,000
Total current assets	$186,000	$169,000
Fixed assets		
Property	$344,000	$344,000
Less: Accumulated depreciation	67,000	52,000
Net fixed assets	$277,000	$292,000
Total assets	**$463,000**	**$461,000**
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 11,000	$ 9,000
Notes payable	25,000	25,000
Other current liabilities	3,000	3,000
Total current liabilities	$ 39,000	$ 37,000
Long-term debt	289,000	293,000
Total liabilities	$328,000	$330,000
Stockholders' equity		
Common stock (5,000,000 shares outstanding at par of $10)	50,000	50,000
Retained earnings	85,000	81,000
Total stockholder equity	$135,000	$131,000
Total liabilities and equity	**$463,000**	**$461,000**

Loss Data Analysis

Used to identify exposures and their valuation, based on history.

Examples:

Insurance carrier and/or TPA loss runs, internal loss runs, incident and accident reports, indexing loss against exposure information, trend analysis in losses and exposures

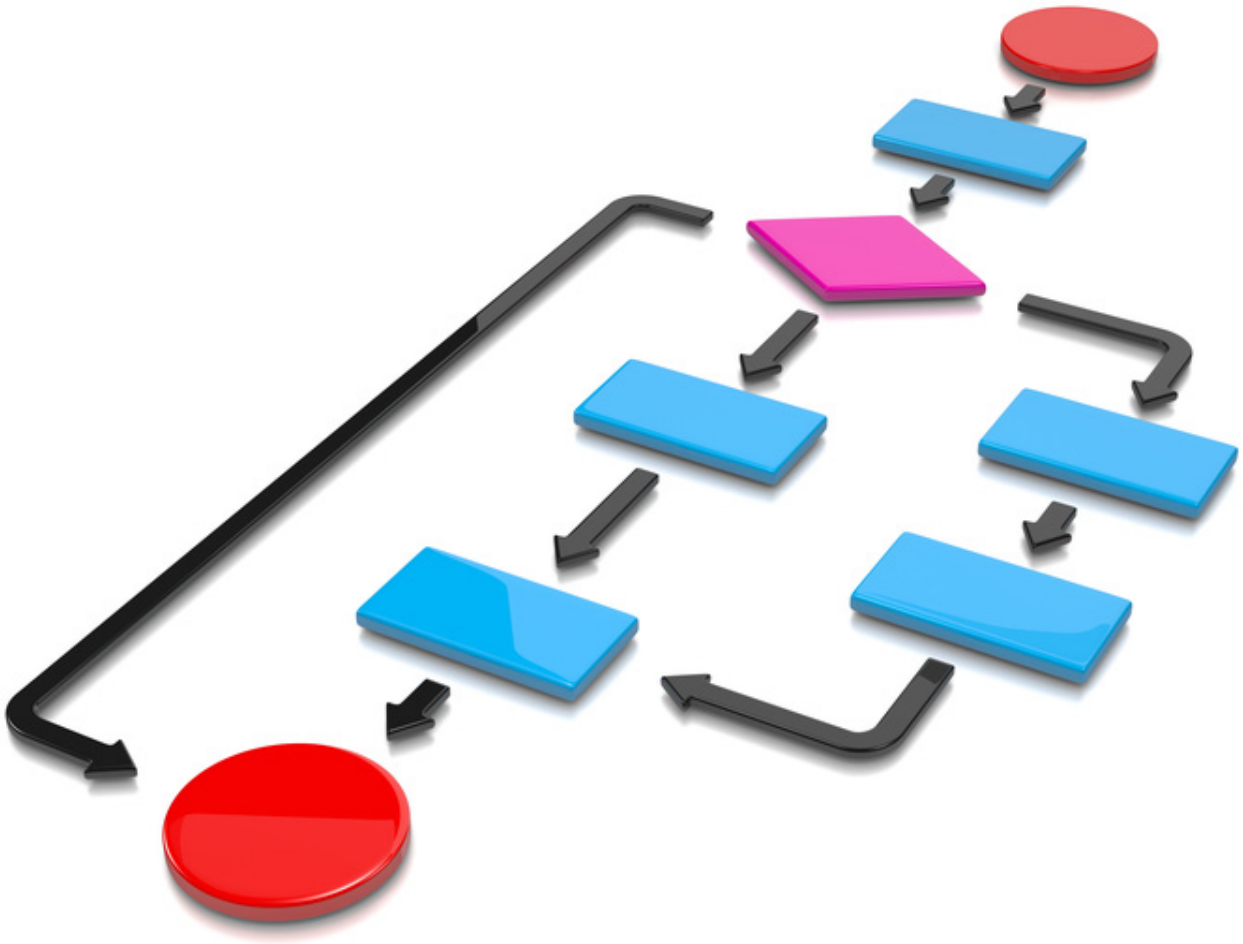
Diamond Creek Resort International (DCRI) Loss Run — **Chronological**

	Date	Employee Name	Type	Length of Emp. (Months)	Cause of Injury	Type of Injury	Body Part Injured	Paid	Reserve	Total
Jan-19	01/01/X1	Cohn, Deborah	MO	6	Bitten by dog	Puncture	Lower leg	378	0	378
Jan-19	01/08/X1	Disla, Xiomara	MO	20	Fell Off Bike	Contusion	Mult body	0	0	0
Jan-19	01/08/X1	Kane, Dean	MO	58	Hit by object			130		130
Jan-19	01/09/X1	Morales, Rosanne	MO	33	Turned/Wrenched Knee	Strain	Knee	2,004	0	2,004
Jan-19	01/11/X1	Lunas, Frances	MO	97	Hit by object			48		48
Jan-19	01/12/X1	Walker, Cynthia	MO	27	Hit by bottom of door	Laceration	Toe	60		60
Jan-19	01/13/X1	Beals, Marta	MO	13	Bitten by ants	Inflamation	Hand	0		0
Jan-19	01/18/X1	Benton, Katherine	MO	1	Unknown	Contagious Disease	Int organs	0	400	400
Jan-19	01/19/X1	Delburn, John	MO	3	Punctured by fish hook	Laceration	Finger	286		286
Jan-19	01/25/X1	Benoit, Louise	MO	2	Lifting guest from floor	Strain	Back	0		0
Jan-19	01/27/X1	Crightower, Mark	MO	4	Pushed by customer	Contusion	Arm	0		0
Jan-19	01/27/X1	Writz, Julia	MO	6	Slip/fall	Contusion	Head	83		83
Jan-19	01/29/X1	Dumes, Holly	MO	25	Hit by customer	Contusion	Face	48		48
Feb-19	02/02/X1	Roeder, Vicki	MO	8	Hit by customer	Contusion		48		48
Feb-19	02/02/X1	Gonzalez, Leslie	MO	8	Tripped getting out of tour bus	Contusion	Face	46	0	46
Feb-19	02/02/X1	Mack, Pamela	MO	36	Fell while skiing	Strain	Finger	404	0	404
Feb-19	02/03/X1	Herrera, Raymond	MO	2	Hit by customer	Contusion	Nose	156		156
Feb-19	02/05/X1	Porter, Sherry	MO	8	Hit by customer	Bruise/laceration	Face	143		143
Feb-19	02/16/X1	Vazquez, Jose	MO	1	Pushed by customer	Contusion	Elbow	0		0
Feb-19	02/16/X1	Shropshire, Vincent	MO	18	Injesting prepared food from kitchen	Pain	Stomach	0		0
Feb-19	02/16/X1	Kirkpatrick, Billy	MO	1	Restraining intoxicated guest	Strain	Back	64		64
Feb-19	02/16/X1	Hebert, Michael	MO	6	Slip/fall	Contusion	Knee	281		281
Feb-19	02/17/X1	Stein, Elmer	MO	5	Restraining intoxicated guest			445		445
Feb-19	02/17/X1	Fitts, Kenneth	MO	102	Seizure	Laceration	Head	150		150
Feb-19	02/21/X1	Thompson, Janet	MO	6	Make Photo Copies/Reach/Struck Head	Contusion	Face	77	0	77
Feb-19	02/23/X1	Corville, Lynda	MO	1	Shoved by customer	Contusion	Hand	265		265
Feb-19	02/23/X1	Wiblin, Enid	MO	9	Tripped fell over scuba equipment	Strain	Foot	98	0	98
Mar-19	03/06/X1	Kelley, William	MO	4	Pushed by customer	Contusion	Arm	0		0
Mar-19	03/06/X1	Cilles, Sharon	MO	1	Fell Going Up Stair	Strain	Mult body	733	0	733
Mar-19	03/06/X1	Henry, Laura	LT	55	Hit Rt Knee On Chair/Fell To Floor	Strain	Knee	1,183	0	1,183
Mar-19	03/08/X1	Hickson, Sheila	MO	3	Cleaning solvent	Inflamation	Mult body	68	0	68
Mar-19	03/09/X1	Frank, Michele	MO	53	Assulted by customer	Sprain	Thumb	198	0	198
Mar-19	03/11/X1	Bagelowe, Samatha	MO	1	Hit by customer	Contusion	Face	0		0
Mar-19	03/15/X1	Holmes, Catherine	MO	1	Slapped by customer	Contusion	Face	0		0
Mar-19	03/16/X1	Bagelowe, Samatha	MO	1	Shoved by customer	Contusion	Upper arm	0		0
Mar-19	03/16/X1	Alvarez, Susan	MO	4	Sorting Bags/Boxes Spider Bit Her	Puncture	Hand	319	0	319
Mar-19	03/17/X1	Bruce, Ruby	MO	6	Hit setting up banquet sign	Laceration	Face	805		805
Mar-19	03/18/X1	Corder, Steven	MO	13	Scratched by fence	Scratch	Hand	0		0
Mar-19	03/18/X1	Wright, Sally	MO	5	Slip/fall	Contusion	Elbow	0		0

Flowcharts

Used to graphically depict a process or system in sequential order.

Examples:
Product analysis, dependence analysis, site analysis, decision analysis, critical path analysis



Physical Inspection

Used to conduct informational visits to critical sites to identify exposures to risk.

Examples:

Internal – inspectors, risk management personnel, safety department, operating personnel

External – insurance carrier personnel, agents/brokers, professional consultants, regulatory agencies

Physical Inspection

Boiler Room

Floors:_____ Ceiling:_____ Steps:_____

Walls:_____ Lighting:_____

Number of Boilers:_____

Fuel Storage (where & capacity):_____

_____

Certification (where kept):_____

Air Compressors (how many & type):_____

Pumps (type & leaks):_____

Fire Extinguisher:_____

Fan Room

Floors:_____ Ceiling:_____ Steps:_____

Walls:_____ Lighting:_____

Number of Fan Rooms:_____

Guards on Machines:_____

_____

Storage:_____

Fire Extinguisher:_____

Electrical Room

Floors:_____ Ceiling:_____ Steps:_____

Walls:_____ Lighting:_____

PECO Transformer (located):_____

Warning Signage Posted on Door:_____

Anti-shock Mat in Place:_____

Voltage Labeled:_____

Storage:_____

_____

Fire Extinguisher (type):_____

Main Storage Room

Floors:_____ Ceiling:_____ Steps:_____

Walls:_____ Lighting:_____

Equipment:_____

_____

SDS:_____

Chemical Inventory (Hazardous Substance Survey):_____

_____

Chemical Stored in:_____

_____

_____

Knowledge Check

Match the definition to the correct term.

_____	Experts	A.	assist with exposure identification and valuation, financial capabilities, and financial based decision-making
_____	Financial Statement Analysis	B.	graphically depict a process or system in sequential order
_____	Physical Inspection	C.	identify exposures, hazards, and perils
_____	Flowcharts	D.	systematic search for as many exposures, perils, and hazards as possible
_____	Contract Review	E.	conduct informational visits to critical sites to identify exposures to risk
_____	Compliance Review Method	F.	identify exposures and their valuation, based on history
_____	Checklists, Surveys, & Questionnaires	G.	identify obligations and maintain compliance with contractual requirements
_____	Insurance Policy Review	H.	determine the organization's compliance with regulations and laws
_____	Loss Data Analysis	I.	ensure current and relevant policies and procedures and to identify exposures throughout the organization
_____	Procedures & Policies Review	J.	identify exposures and perils arising from coverage gaps, insufficient limits, coverage limitations, and exclusions

Summary

Having a toolbox of risk identification methods allows for customized solutions for any type of organization. Generally, a few methods will be most effective depending on the industry. Regardless of the type of organization, using a combination of methods will yield the greatest number of identified risks. To effectively analyze, finance or control risks, it is important to identify as many risks as possible.

Review of Learning Objective

With an understanding of the 10 risk identification methods, participants will be able to describe and provide examples of each.

Knowledge Check: ANSWERS

Match the definition to the correct term.

C	Experts	A. assist with exposure identification and valuation, financial capabilities, and financial based decision-making
A	Financial Statement Analysis	B. graphically depict a process or system in sequential order
E	Physical Inspection	C. identify exposures, hazards, and perils
B	Flowcharts	D. systematic search for as many exposures, perils, and hazards as possible
G	Contract Review	E. conduct informational visits to critical sites to identify exposures to risk
H	Compliance Review Method	F. identify exposures and their valuation, based on history
D	Checklists, Surveys, & Questionnaires	G. identify obligations and maintain compliance with contractual requirements
J	Insurance Policy Review	H. determine the organization's compliance with regulations and laws
F	Loss Data Analysis	I. ensure current and relevant policies and procedures and to identify exposures throughout the organization
I	Procedures & Policies Review	J. identify exposures and perils arising from coverage gaps, insufficient limits, coverage limitations, and exclusions

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Section 4

Risk Analysis

Risk Analysis

Section Goal

The goal of this section is to introduce participants to the second step of the risk management process; risk analysis. Participants will learn how both quantitative and qualitative analysis can be used to help in understanding frequency and severity of past and predicted losses.

Learning Objectives

1. With an understanding of the risk analysis step, participants will be able to list the uses of risk analysis.

2. Understanding both quantitative and qualitative types of risk analysis, participants will be able to describe the purpose and characteristics of each.

3. With an understanding of the purpose of loss trending, participants will be able to describe how loss trending works and list the steps.

Introduction

Learning Objective 1:
With an understanding of the risk analysis step,
participants will be able to list the uses of risk analysis.

Once risks have been identified, further analysis is needed so educated decisions can be made about controlling and financing the risk. The analysis step includes not only determining frequency and severity but also adjusting loss data to account for time differences, inflation, and other changes.

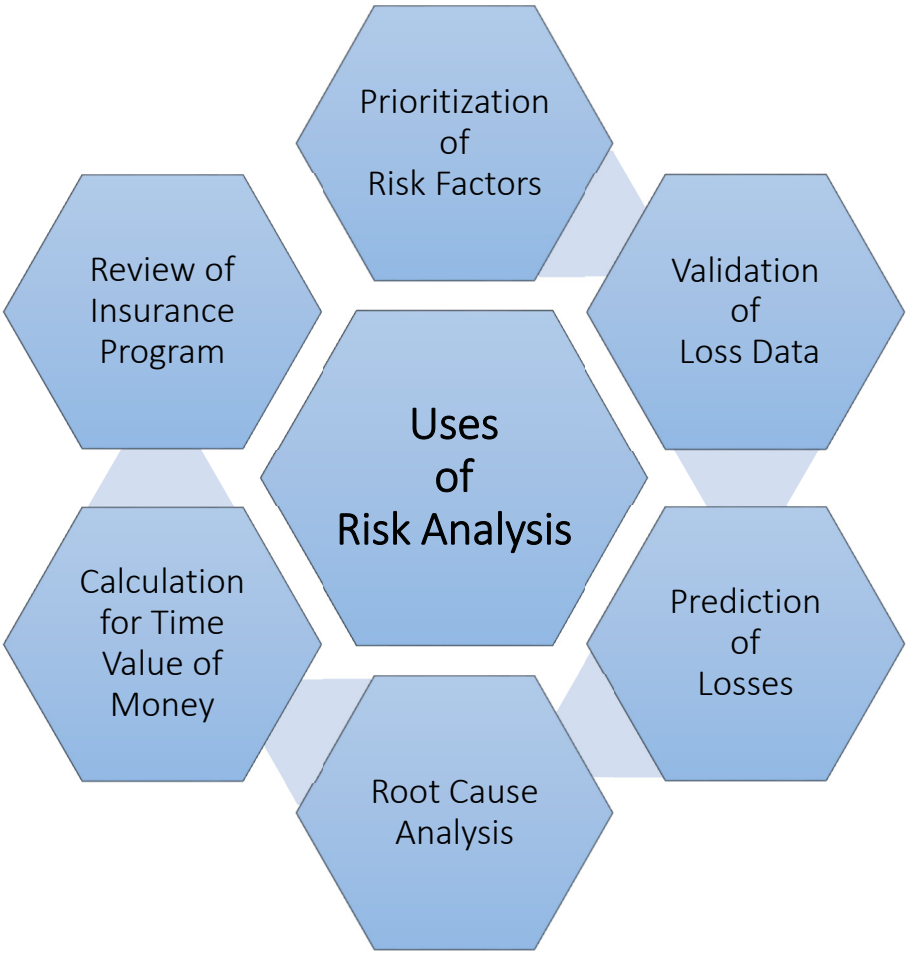
Risk Analysis – the assessment of the potential impact of various exposures on an organization.

It is an essential part of the Risk Management Process. Once risks have been identified, they must be properly analyzed before a risk management professional can effectively determine if the exposure should be controlled and/or financed.

Uses of Risk Analysis

While risk analysis is commonly thought of as part of the process for insurance program decisions, there are many uses of risk analysis. These include:

1. Prioritization of Risk Factors
2. Validation and Refinement of Loss Data
3. Prediction of Losses and Ranges of Losses
4. Root Cause Analysis – a systematic method to drill down to the root cause of an incident
5. Calculation for Time Value of Money – the value of money over a given amount of time considering a given amount of interest. Money is more valuable today than at a future time.
6. Review of insurance program structure to determine:
    - Viability of a retention program and retention levels
    - Appropriateness of coverages purchased
    - Insurance purchasing decisions, including limits of liability



Practical Application

What uses have you found for risk analysis?

Do you or your organization have a formal risk analysis procedure?

What experience do you have with risk analysis?

Risk Analysis Tools

To facilitate the risk analysis step, there are tools to assist with understanding frequency and severity.

Tools used to assess the <u>likelihood</u> an event will occur (frequency)

1. Loss Analysis

   Examining loss data to recognize trends in loss frequency and severity, measure the effectiveness of risk management program initiatives and determine priorities. Loss runs from your insurance carrier or TPA is the most common source for this information.

2. Risk Mapping or Risk Factor Analysis

   A visual analytical tool from which all risks of an organization can be identified, and their potential impact can be understood

Tools used to assess the <u>impact</u> of the event should it occur (severity)

1. Payback Analysis

   measurement of the length of time needed to recoup the cost of a capital investment

2. Accounting Rate of Return

   Measurement of the percentage return of average annual cash flows on initial investment. The ARR is the average annual cash flow divided by the initial investment.

3. Cost-Benefit Analysis

   Measurement of the total anticipated benefit once the sum of the costs has been subtracted. Generally, an organization should proceed with a project if there is funding available and the benefits outweigh the costs.

Types of Risk Analysis

These analysis tools help with both types of risk analysis: quantitative and qualitative analysis. To have a full understanding of these risks an organization faces, both types of risk analysis are needed.

Learning Objective 2:

Understanding both quantitative and qualitative types of risk analysis, participants will be able to describe the purpose and characteristics of each.

Quantitative Analysis

Identifies those loss exposures that can be precisely measured using traditional methodologies and is used to find out how much losses cost.

Qualitative Analysis

Identifies those loss exposures that cannot be measured by traditional statistical or financial methods but still have an impact on the organization. It's used to know what losses are occurring.

Quantitative Analysis

Quantitative analysis is often used when determining appropriate limits of liability for insurance purchasing; however, there are also other purposes.

Purposes

1. Provides numerical data for decision-making

2. Attempts to accurately measure risks by assigning a defined dollar amount or probability value to a particular risk

3. Examines the question of "can we do this" by determining financial impact

Characteristics

1. Conducted by using analysis of losses, exposures, costs, benefits, and financial statements

2. Frequently addresses the following questions:

   - Can we do this?
   - What is the financial impact?

Quantitative Analysis Methods

There are several methods or tools that may be used in quantitative risk analysis. These tools include:

Loss Projections or Forecasts
Using historical loss data to predict future frequency and severity

Time Value of Money Calculations
The value of money over a given amount of time considering a given amount of interest

Cost-Benefit Analyses
Measurement of the total anticipated benefit once the sum of the costs has been subtracted

Total Cost Of Risk (TCOR) Calculations and Analyses
Calculating and understanding the sum of all costs and expenses associated with the risks and the management of risks within an organization

TCOR =
insurance costs + retained losses + risk management departmental costs + outside services fees + indirect costs

Loss Trending

One of the most critical aspects of quantitative loss analysis is loss trending.

Learning Objective 3:
With an understanding of the purpose of loss trending, participants will be able to describe how loss trending works and list the steps.

Loss data is collected as reported and stored in a loss run or RMIS as raw data. To be used for risk management decision-making, this data must be adjusted. Complex losses, such as a workers compensation or liability claim, could take years to develop or reach their final claim amount. Loss development is used to calculate the final anticipated ultimate losses. When making these calculations, the following factors are considered:

1. Length of time to close claims
2. Accidents that have occurred but have not yet been reported
3. Inflation
4. Change in exposure base

Adjusting Loss Data

Definitions

Loss Development is the process by which data is adjusted to account for lag time to settle claims, recognize frequency development and index for inflation

Loss Development Factor is used to adjust (multiply) known claims to determine the anticipated value for claims over a specific time period

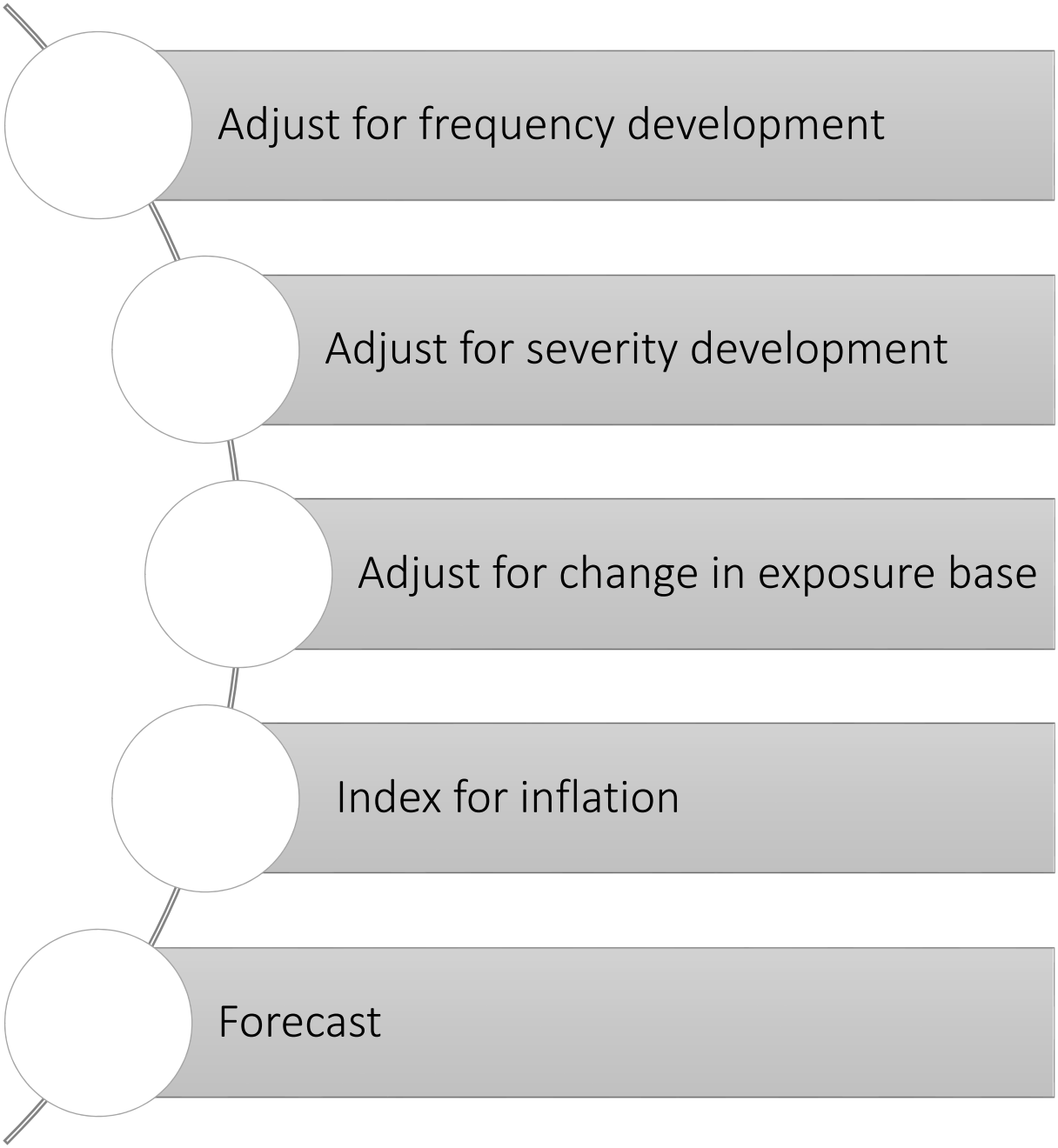
Purpose

To provide a more accurate calculation of loss trends to improve predictability of future losses

How it Works

- Data may be incomplete because of delays in reporting (frequency) and the natural growth of losses over time (severity); therefore, data must be developed
  - Frequency data is developed to discover true number of claims on a year-to-year basis
  - Severity data is developed (overall development) because of lengthy payout periods or "long tails"
  - Overall loss development includes both frequency and severity
  - Payout development calculates how the overall developed losses are paid overtime by measuring actual dollar payment outflows

Loss trending or adjusting loss data is a multi-step process. While the actual calculations for adjusting loss data are beyond the scope of this course (covered in CRM Analysis of Risk), it is important to understand the concept and steps of loss trending.



Knowledge Check

Your boss has been looking at loss data (unadjusted) and points out some trends. Please explain to your boss what must be done to loss data before trends can be determined. Be sure to include the reasons.

Qualitative Analysis

Loss trending is perhaps the most critical process or method of quantitative analysis; however, as previously mentioned there is another type of risk analysis, qualitative analysis. In addition to understanding the purposes and characteristics of qualitative analysis, it is important to recognize the methods available to facilitate qualitative analysis.

Purposes

1. Identifies and evaluates of loss exposures not easily measured by traditional statistical or financial methods

2. Attempts to determine the importance and implications of particular risks on an organization using a relative scale such as "low, medium, or high"; does not try to assign hard financial values to assets, expected losses, or cost of risk controls

3. Helps management understand the potential impact of an organization's ultimate risks on performance

4. Examines the question of "should we do this"

Characteristics

1. Conducted using questionnaires, surveys, task forces, workshops, and collaboration with a variety of internal and external groups knowledgeable about an organization

2. Frequently addresses the following questions:

    - Should we do this?

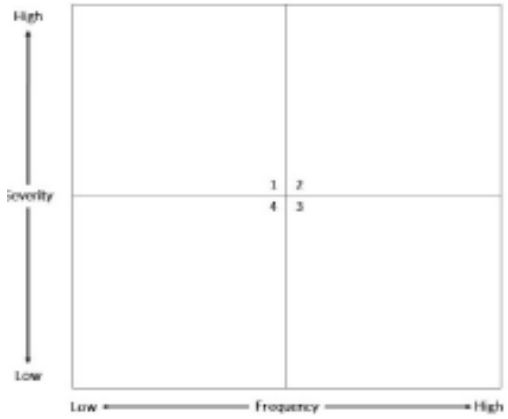
    - What is the impact on the organization's reputation or morale?

Qualitative Analysis Methods

Risk Mapping

(frequency/severity plots)

A visual analytical tool from which all risks of an organization can be identified, and their potential impact can be understood



Heat Mapping

(frequency/severity/intensity)

A visual representation of complex sets that uses colors to concisely indicate patterns or groupings, thus making the data more actionable

3x3Heat Map

Severity				
	High (3)	3	6	9
	Medium (2)	2	4	6
	Low (1)	1	2	3
		Unlikely (1)	Possible (2)	Probable (3)
		Frequency		

Risk Register

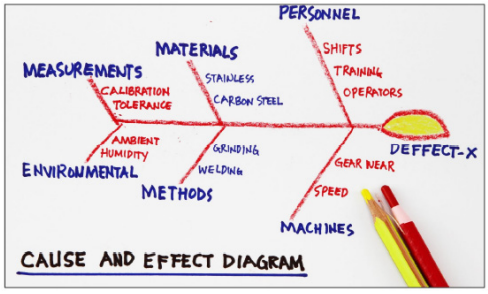
(subjective scale)

Another risk analysis method that prioritizes risks based on a scale of anticipated potential impact

	Current Risk Score				Target Risk Score		
Risk Description	Prob.	Impact	Rating	Controls	Prob.	Impact	Rating
Choking hazard							
Food poisoning							
Theft							

Root Cause Analysis

A systematic method to drill down to the root cause of an incident



Let's Check-in

Quantitative or Qualitative?

For each analysis method, identify the method as part of quantitative or qualitative analysis.

Cost-Benefit Analyses _____

Heat Mapping _____

Loss Projections or Forecasts _____

TCOR Calculations and Analyses _____

Root Cause Analysis _____

Risk Register _____

Time Value of Money Calculations _____

Risk Mapping _____

Reasons to Use Both Qualitative and Quantitative Analyses

Quantitative and qualitative analysis offer different insight to the risks an organization faces. Both are critical to properly analyzing risks. There are multiple reasons to use both. Some of these reasons include:

Valid Answers are Needed

Examples:
Predicted losses, value of claims

Costs and Benefits are Primary Factors in Decision-Making

Nonmonetary Factors are Part of the Decision-Making Process

Examples:
Reputation, morale, and citizenship

Summary

Properly completing the risk analysis step of the risk management process is almost like a due diligence process; the organization must properly analyze risk in order to make educated decisions about controlling and financing the risk.

Review of Learning Objectives

1. With an understanding of the risk analysis step, participants will be able to list the uses of risk analysis.

2. Understanding both quantitative and qualitative types of risk analysis, participants will be able to describe the purpose and characteristics of each.

3. With an understanding of the purpose of loss trending, participants will be able to describe how loss trending works and list the steps.

Important Key Terms

Risk Analysis – the assessment of the potential impact of various exposures on an organization

Loss Analysis – examining loss data to recognize trends in loss frequency and severity, measure the effectiveness of risk management program initiatives and determine priorities

Risk Mapping or Risk Factor Analysis – a visual analytical tool from which all risks of an organization can be identified, and their potential impact can be understood

Payback Analysis – measurement of the length of time needed to recoup the cost of a capital investment

Accounting Rate of Return – measurement of the percentage return of average annual cash flows on initial investment. The ARR is the average annual cash flow divided by the initial investment.

Cost-Benefit Analysis – measurement of the total anticipated benefit once the sum of the costs has been subtracted

Quantitative Analysis – identifies those loss exposures that can be precisely measured using traditional methodologies and is used to find out how much losses cost

Qualitative Analysis – identifies those loss exposures that cannot be measured by traditional statistical or financial methods but still have an impact on the organization. It's used to know what losses are occurring.

Loss Development – data is adjusted to account for lag time to settle claims, recognize frequency development and index for inflation

Loss Development Factor – adjust (multiply) known claims to determine the anticipated value for claims over a specific time period

Risk Mapping *(frequency/severity plots)* – a visual analytical tool from which all risks of an organization can be identified, and their potential impact can be understood

Heat Mapping *(frequency/severity/intensity)* – a visual representation of complex sets that uses colors to concisely indicate patterns or groupings, thus making the data more actionable

Risk Register *(subjective scale)* – another risk analysis method that prioritizes risks based on a scale of anticipated potential impact

Root Cause Analysis – a systematic method to drill down to the root cause of an incident

Knowledge Check: ANSWERS

Your boss has been looking at loss data (unadjusted) and points out some trends. Please explain to your boss what must be done to loss data before trends can be determined. Be sure to include the reasons.

Unadjusted loss data can be misleading in that it does not account for the following:

- Claims that take multiple years to develop and reach an ultimate claims cost
- Accidents that have occurred but have not yet been reported
- Changes in costs due to inflation
- Changes in exposure base such as new locations being added, an increase in product offerings or a divestiture

For these reasons, we should adjust for:

- Frequency Development
- Severity Development
- Changes in the exposure base
- Inflation

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Section 5

Risk Control

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Risk Control

Section Goal

The cheapest and most effective way to handle accidents is to prevent them. The goal of this section is to provide participants with the knowledge and skills to effectively control risks.

Learning Objectives

1. With an understanding of the risk control step of the risk management process, participants will be able to identify and apply risk control techniques in a particular manner.

2. With knowledge of the root causes of accidents, participants will be able to identify the root causes of accidents and the accident prevention steps that can be taken to help control accidents.

Introduction

Learning Objective 1:
With an understanding of the risk control step of the risk management process, participants will be able to identify and apply risk control techniques in a particular manner.

Exposures to loss that have been identified in the risk identification step of the risk management process must be controlled. Successful risk control programs are based on careful risk identification and risk analysis.

Risk Control – any conscious action or inaction to minimize, at the optimal cost, the probability, frequency, severity, or unpredictability of loss.

The purpose of the risk control step is to take action by focusing on solutions that will prevent, mitigate, avoid, or eliminate risk. This is a people process in which individuals within the organization must be involved in all aspects of an effective risk control program.

Administration of a risk control program requires prioritization, implementation, coordination, follow-up, and communication throughout the organization.

Risk Control Techniques

There are several risk control techniques available to help minimize risk. While risk avoidance is the most effective technique, it is not always practical or conducive to doing business. The appropriate technique is dependent on the type of risk and the nature of the business. Risk control techniques include:

Often, a combination of one or more risk control techniques are needed to address an exposure or activity.

Avoidance is the only technique that works solely on its own.

Avoidance

- Risk avoidance is complete elimination of an exposure to avoid the chance of loss; avoidance eliminates both positive and negative outcomes.
- Risk avoidance is a self-sufficient risk control technique. No further action may be required. Exposure may still be present from past activities.
- Difficult sell to management as this may conflict with the goals and profit motives of the organization.

Example:
After crash tests on a new auto development are performed, management has decided to discontinue the product line.

Prevention

- The term prevention implies an action taken to break the sequence of events that lead to a loss or at least to make less likely.
- It allows entities to conduct operations that might otherwise have been avoided.

Example:
A financial institution installs a server firewall and conducts regular training and maintenance in prevention of cyber-attacks.

Loss prevention does not reduce severity; it reduces frequency

Loss Reduction

Reduction minimizes the severity, or budgetary impact, from losses that are not prevented. It presumes the loss will occur but attempts to reduce the size of extent of the loss. There are pre-loss and post-loss approaches.

Example:
A warehouse has a fire suppression system installed to reduce the amount of damage a fire can cause.

Pre-loss Approach - Reduction of activities applied before the loss

- Windstorm and Flood policies
- Hurricane Blinds
- Evacuation Routes and Transportation for Guests and Employees

Post-loss Approach – Reduction activities applied after the loss

- Activation of business continuity plan

Segregation/Separation/Duplication

The goal is to reduce the severity of the loss by:

Segregation	Separation	Duplication
Isolating an exposure from other exposures, perils or hazards.	Spreading exposures or activities over several locations. Dividing assets between two or more locations or activities. If one of the locations suffers a loss, the other must have sufficient capacity to meet the needs.	Having backups for critical systems or operations Duplicating assets or activities, and kept in reserve, so as not exposed to the same loss.
Example: A university has a laboratory where flammable chemicals are used but stored in a detached building.	Example: Online retailer with separate warehouses able to fulfill orders to the same geographical area.	Example: Important documents are backed up on "the cloud" as well as the company's physical server.

Transfer

The goal is to reduce risk to the organization by transferring some or all the risk to another party.

Physical Transfer	Contractual Transfer
Shifts some or all of an operational function or exposure to an outside source	Shifts responsibility of certain liabilities to another party

Physical Transfer (examples)

- Using a common carrier to distribute manufactured goods rather than buying trucks to transport products
- Organization leases employees rather than hiring employees
- Window distributor hires independent contractors to install windows rather than hiring employees

Let's Check-in

Name the risk control techniques.

1. _____

2. _____

3. _____

4. _____

5. _____

Contractual Transfer

The classifications of contractual transfers are:

1. **Exculpatory Agreements**

   Pre-event exoneration of the fault of one party that results in any loss or specified loss to another.

   Absolves the ***tort liability*** (liability for negligence) between one or both parties to the contract – does not apply to third parties.

2. **Waivers of Subrogation**

   Pre-event agreement to waive the right to seek recovery from a responsible party's insurance carrier for loss payments made to the insured.

   Does not absolve tort liability of the parties but prevents insurers from any recovery of loss payments based on such tort liabilities.

3. **Limit of Liability Clauses**

   Pre-event limitation of the amount, type, or method of calculation of damages available by one or both parties to an agreement.

   Does not absolve the tort liability of one or both parties; however, it "caps" the recovery amount of damages available between the parties.

4. **Hold Harmless Agreements**

   A hold harmless agreement is an arrangement whereby one party (the indemnitor) assumes the liability inherent in a situation, thereby relieving the other party (the indemnitee) of that liability.

   This may include:

   - Cost of settlement
   - Judgment paid to a third party
   - Cost of defense

   Examples of contracts that commonly contain hold harmless agreements:

   1. Construction agreements
   2. Service contracts
   3. Purchase orders
   4. Usage permits
   5. Leases and rental agreements

THREE CLASSIFICATIONS OF HOLD HARMLESS AGREEMENTS

LIMITED

Indemnitor assumes responsibility for indemnitee's liability for indemnitor's negligence only. This classification applies to agreements requiring indemnification for occurrences arising out of the indemnitor's operations.

Mine

Example: Party A reaffirms responsibility for his own negligent acts. Party B has acquired a contractual right to indemnity where the basic tort law of the jurisdiction may or may not entitle him to it absent contractual transfer.

INTERMEDIATE

Limited + responsibility for full indemnification of the indemnitee if there is any negligence on the indemnitor's part or if the indemnitor is partially negligent, he/she pays 100%; this classification applies to agreements requiring indemnification for ALL occurrences arising out of the indemnitor's operations, excluding only the liability arising from indemnitee's sole negligence.

Mine + Ours

Example: Party A reaffirms responsibility for his own acts and agrees to assume full responsibility for joint and/or concurrent negligence of both parties. In many such contracts (especially construction contracts), Party A will agree to assume responsibility for all events except those resulting from the sole negligence of Party B; i.e., 100%, for all concurrent negligence situations. Does not apply to events arising from the sole negligence of Party B or the negligence of another subcontractor or entity beyond indemnitor and indemnitee.

BROAD

Limited + Intermediate + Indemnitor agrees to be responsible for Indemnitee's sole negligence. Can include negligence of other parties. This classification applies to agreements requiring complete indemnification of the indemnitee for all occurrences without reference to negligence – can even include those situations arising from the sole negligence of another entity.

Mine + Ours + Yours

Example: Party A assumes responsibility for all liability without regard to fault of himself and/or Party B. Here Party A assumes not only the responsibility of his acts, plus any acts arising from joint and/or concurrent negligence of Party A & Party B, but also includes those situations that result from the sole negligence of Party B. This extreme variant may require Party A to assume responsibility for the negligent acts of some other entity, over whom Party A has no control, which results (or may result) in a claim being made on Party B.

Knowledge Check



Condition:

This 5-Star Hotel is in the East Coast of Florida and suffered significant losses due to a severe hurricane season. The property had to undergo extensive repairs due to wind damage and flooding. During the storm, guests and employees had to be evacuated and injuries were reported. The hotel's fleet of golf carts and two mini vans had to be replaced due to water damage.

Knowing the extent of the damage, what are control measures that the hotel could have taken prior to the loss?

	Avoidance *Complete elimination*	Prevention *Break the sequence of events leading to the loss*	Reduction *Reducing Severity*	Segregation *Segregation, separation and/or duplication*	Transfer *Transferring some or all the risk to another party*
Guests					
Golf carts					
Damage to the building					
Mini vans					

Accident Prevention Basics

In addition to the risk control techniques, it is important to understand what causes accidents and the steps of accident prevention.

Learning Objective 2:

With knowledge of the root causes of accidents, participants will be able to identify the root causes of accidents and the accident prevention steps that can be taken to help control accidents.

Accident Prevention

The cost of losses arising from damages and/or injuries are a key component of any organization's TCOR.

Root Cause of Accidents

- Unsafe acts or behaviors
- Unsafe conditions
- Uncontrollable events
- Lack of Communication and Training

Accident Prevention Steps

1. Elimination of hazards
2. Substitution for a less hazardous substance or process
3. Engineering controls – physical modifications design to reduce potential of injury
4. Administrative controls – rules or activities aimed to reduce the potential for injury
5. Personal protective equipment
6. Training

Practical Application

For each of the following, list one way your organization could implement the accident prevention step.

Eliminate the hazards	
Substitution for a less hazardous substance or process	
Engineering controls	
Administrative controls	
Personal protective equipment	
Training	

Summary

Risk control is the most effective and efficient way to address risk. While these techniques help lessen the frequency and severity of loss. Only avoidance will eliminate the risk. Avoidance is often difficult as risk is inherent to doing business. It is important to control risk as much as possible, by the organization also needs a risk financing program.

Review of Learning Objectives

1. With an understanding of the risk control step of the risk management process, participants will be able to identify and apply risk control techniques in a particular manner.

2. With knowledge of the root causes of accidents, participants will be able to identify the root causes of accidents and the accident prevention steps that can be taken to help control accidents.

Important Key Terms

Risk Control – any conscious action or inaction to minimize, at the optimal cost, the probability, frequency, severity, or unpredictability of loss

Exculpatory Agreements – pre-event exoneration of the fault of one party that results in any loss or specified loss to another

Waivers of Subrogation – pre-event agreement to waive the right to seek recovery from a responsible party's insurance carrier for loss payments made to the insured

Limit of Liability Clauses – pre-event limitation of the amount, type, or method of calculation of damages available by one or both parties to an agreement

Hold Harmless Agreements – a hold harmless agreement is an arrangement whereby one party (the indemnitor) assumes the liability inherent in a situation, thereby relieving the other party (the indemnitee) of that liability

Knowledge Check: SAMPLE ANSWERS

	Avoidance *Complete elimination*	Prevention *Break the sequence of events leading to the loss*	Reduction *Reducing Severity*	Segregation *Segregation, separation and/or duplication*	Transfer *Transferring some or all the risk to another party*
Guests	Resort closed to guests a few days prior to anticipated storm		Basic medical supplies and ample food and water on hand		
Golf carts			Stored in higher levels of the parking garage rather than in the open		
Damage to the building		Seawall between the resort and beach	Storm resistant roofing and building materials		
Mini vans	No shuttle service offered, so no need for mini-vans			Mini vans could have been parked in different locations rather than all together	Shuttle service could be contracted out

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Section 6

Risk Financing

Risk Financing

Section Goal

The goal of this section is to build skills and knowledge of the financing step of the risk management process. Participants will build an understanding of the risk financing options, which risks are insurable, and the continuum of risk financing.

6

Learning Objectives

1. With an understanding of the definition of risk financing, participants will be able to identify the three risk financing options.

2. Understanding both the underwriter and risk manager's perspectives, participants will be able to describe which exposures are insurable and which fall outside the standard insurance market.

3. With an understanding of risk tolerance, participants will be able to identify risk financing plans.

Introduction

Once risks have been identified and analyzed, the next step is to either control or finance the risk. These are two separate steps, but either one can be done in lieu of the other. In reality, most risks should be both controlled and financed. It is cheaper to avoid the risk than it is to finance it; however, risk is inherent to business. It is impossible to avoid or control all risk, so there must also be a risk finance program. This program should include what risk should be retained, when transferring financial responsibility is appropriate and what type of insurance program meets the organization's needs.

Risk Financing – The acquisition of internal (retention, planned, or unplanned) and external funds (borrowing, insurance, non-insurance contractual transfers) at the most favorable or optimal cost, to pay losses

- "Optimal" is a flexible term, defined broadly as the best, the most satisfactory, or the most desirable

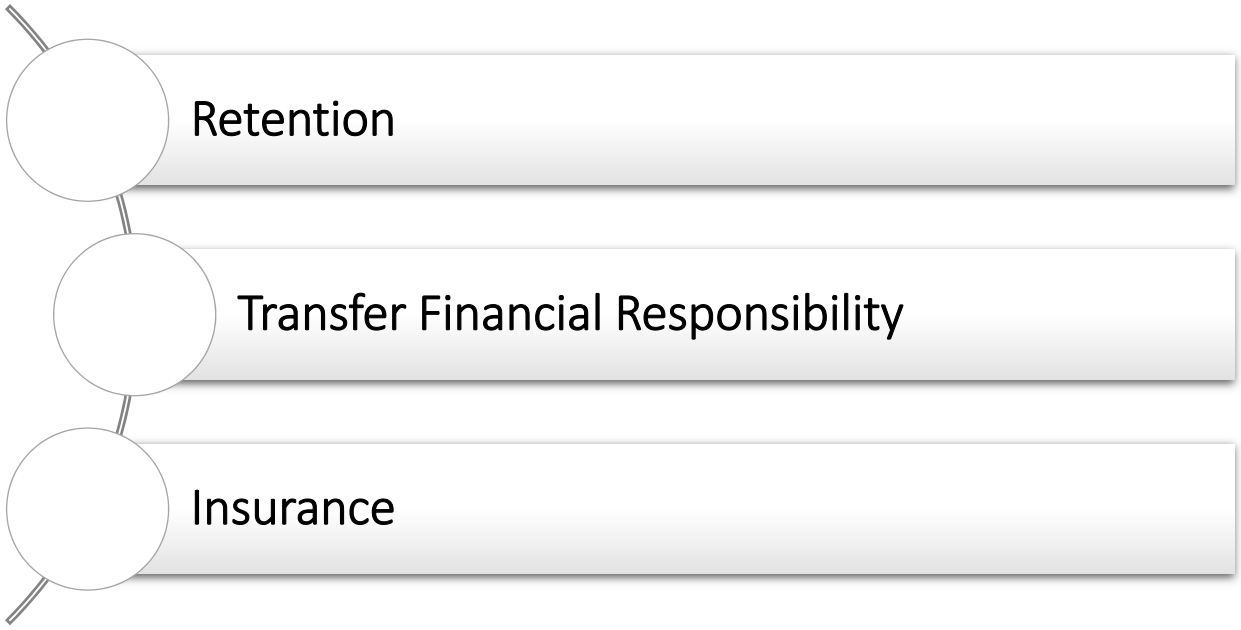
- Whether or not "the optimal cost" is the best, most satisfactory, or most desirable to a risk manager depends upon the risk manager's goals and objectives
  - Is it the most efficient use of resources?
  - Is it the lowest cost?
  - Is it the best value?

Risk Financing

Learning Objective 1:
With an understanding of the definition of risk financing, participants will be able to identify the three risk financing options.

In the risk financing step of the risk management process, the objective is to find the appropriate balance of financing options. When we think of risk financing options, we most often think of insurance, but there are three options.

These options include:



Retention

Retention – the internal funds used to pay losses

- Active retention (planned) – funding could come from reserves or the general budget
- Passive retention (unplanned)

Transfer Financial Responsibility

Transfer Financial Responsibility – the external funds used to pay losses

- Non-insurance contractual transfer of control or responsibility for an exposure
- Non-insurance contractual indemnification or financial responsibility
- Risk transfer shifts the physical responsibility (e.g. outsourcing valet service) or non-insurance contractual responsibility for financial responsibility of certain liabilities from one party to another

Insurance

Insurance – a promise of compensation for specified losses in exchange for payment of premium

- Insurance is a contractual relationship between one party (the insurer) which receives consideration (the premium) and agrees to reimburse another party (the insured) for a loss to a specific subject (the exposure) caused by specific perils.
- Insurance is not a transfer of risk; it is a contractual responsibility to assume the financial consequences of a risk. If the transferee (the insurer) cannot or will not pay the financial consequences, the obligation falls back upon the transferor (the insured).

Let's Check-in

What are the three risk financing options?

1._____

2._____

3._____

What Risks are Insurable?

The perception of what risk is insurable is different depending on the perspective. An underwriter and a risk manager have different ideas about insuring risk. It is helpful to understand how each sees risk so that both sides can better understand who they are working with.

Learning Objective 2:
Understanding both the underwriter and risk manager's perspectives, participants will be able to describe which exposures are insurable and which fall outside the standard insurance market.

To an Underwriter…

The following are insurable:

- A risk shared by many
- A fortuitous risk, unexpected, and unintended
- A risk which is reasonably calculable to the industry as to likelihood (Law of Large Numbers)
- A risk which generates enough premium paid by the many to pay for the losses of the few
- A risk which is not catastrophic, or likely to strike many simultaneously

To a Risk Manager…

The following are insurable:

- A risk that is not reasonably calculable by the organization (Law of Small Numbers)
- A risk whose severity is crippling to the organization
- A risk which needs additional services that can be provided more efficiently or conveniently by an insurer (equipment breakdown engineering, glass-board up services, etc.)
- A risk whose pricing by the industry is less that the cost of retaining because of insurance market conditions
- A risk that exceeds the organization's risk appetite

Risks that Fall Outside the Standard Insurance Market

- Some catastrophic risks, such as flood, earthquake, and windstorm, can be commercially insured. The majority of coverage available is provided through the Excess & Surplus Lines market.
- Some catastrophic risks can be commercially insured through social insurance mechanisms such as the National Flood Insurance Plan, various state windstorm plans and earthquake insurance plans, and state Fair Access to Insurance Requirements (FAIR) plans because the social impact of uninsured risks is unacceptable

Practical Application

What are some of the sources of insurance for risks that fall outside the standard market?

Risk Retention and Transfer

In considering risk finance, risk managers and supporting insurance professionals face the same challenge – how to determine the right mix of internal funds (retention) and external funds (insurance). An organization seeks to choose the risk financing option that is least costly but also ensures financial resources are available to continue its objectives after a loss event occurs.

Learning Objective 3:
With an understanding of risk tolerance, participants will be able to identify risk financing plans.

Determining risk tolerance includes making decisions related to:

- Setting deductible amounts
- Establishing limits of liabilities
- Determining which insurance coverages to purchase and which risks to self-inure (if any)

Definitions

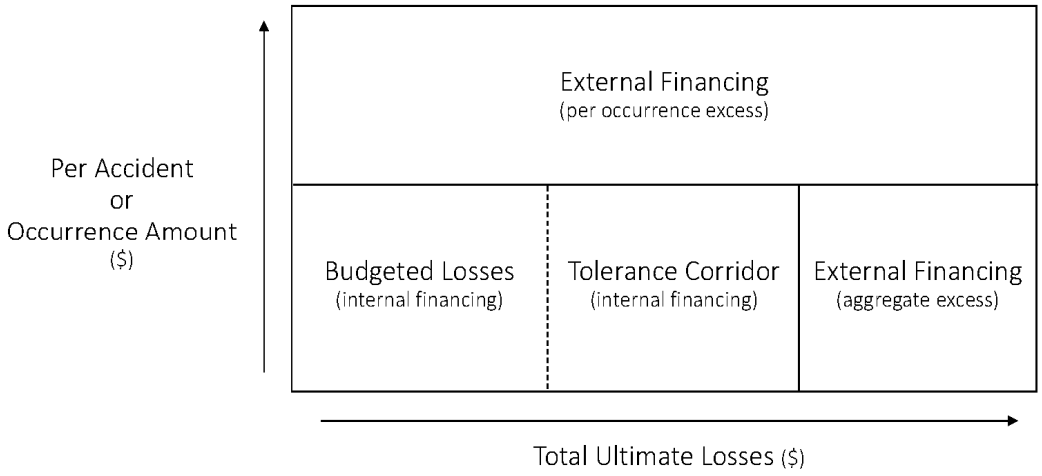
Budgeted Retention – the portion of expected losses the organization is willing and able to retain

Tolerance Corridor – the marginal retention beyond the budgeted retention an organization may also choose to retain all or part

Retention/Transfer Diagram – a graphic depiction of an organization's financial ability and risk appetite.

It includes the budgeted retention, the tolerance corridor, both internal risk financing and the external sources of risk financing (per occurrence and aggregate) for the portion of losses that are unexpected or beyond what the organization chooses to retain.

Retention/Transfer Diagram



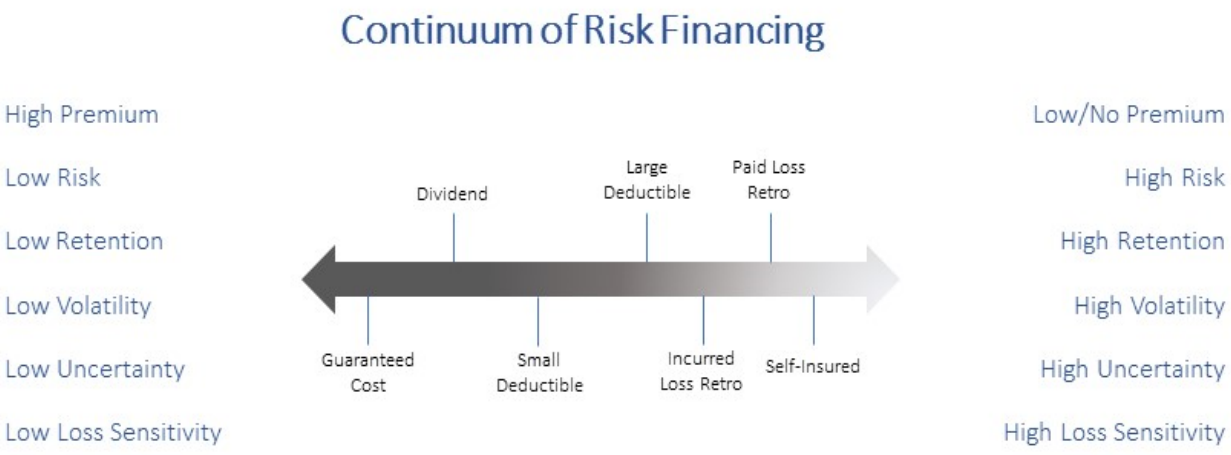
Most per occurrence and aggregate excess external financing is handled with insurance policies.

Risk Financing Plans

The organization's goals, risk taking appetite and risk-taking ability must be considered with determining which risk financing plan is most appropriate. Plans range from a very conservative to very loss sensitive programs. These plans include:

- Guaranteed Cost
- Dividend
- Deductible
- Retrospective
- Self-insured

These plans may be compared by arranging them on a risk financing continuum. Moving from left to right, the organization retains more risk.



Knowledge Check

For each scenario below, determine which risk financing plan would be most appropriate.

1. Your organization is extremely risk adverse and desires a plan with the lowest loss sensitivity.

2. Your organization has a sophisticated risk management program and prefers to retain risk as opposed to paying premium.

3. Your organization is interested in retaining more risk as they can control most of their risk and they have the financial resources to retain much of their risk. They would still like coverage for shock losses.

Summary

A risk finance program is essential to the success of an organization. This program should include what risk should be retained, when transferring financial responsibility is appropriate and what type of insurance plan meets the organization's needs. The appropriate risk financing program for the organization depends upon the goals, risk appetite and risk ability of the organization.

Review of Learning Objectives

1. With an understanding of the definition of risk financing, participants will be able to identify the three risk financing options.

2. Understanding both the underwriter and risk manager's perspectives, participants will be able to describe which exposures are insurable and which fall outside the standard insurance market.

3. With an understanding of risk tolerance, participants will be able to identify risk financing plans.

Important Key Terms

Risk Financing – The acquisition of internal (retention, planned, or unplanned) and external funds (borrowing, insurance, non-insurance contractual transfers) at the most favorable or optimal cost, to pay losses

Retention – the internal funds used to pay losses

Transfer Financial Responsibility – the external funds used to pay losses

Insurance – a promise of compensation for specified losses in exchange for payment of premium

Budgeted Retention – the portion of expected losses the organization is willing and able to retain

Tolerance Corridor – the marginal retention beyond the budgeted retention an organization may also choose to retain all or part

Retention/Transfer Diagram – a graphic depiction of an organization's financial ability and risk appetite.

Knowledge Check: ANSWERS

For each scenario below, determine which risk financing plan would be most appropriate.

1. Your organization is extremely risk adverse and desires a plan with the lowest loss sensitivity.

   Guaranteed Cost

2. Your organization has a sophisticated risk management program and prefers to retain risk as opposed to paying premium.

   Self-Insured

3. Your organization is interested in retaining more risk as they can control most of their risk and they have the financial resources to retain much of their risk. They would still like coverage for shock losses.

   Large Deductible

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Section 7

Risk Administration

Risk Administration

Section Goal

The fifth and final step of the risk management process is risk administration. The goal of this section is to build an understanding of risk administration which includes implementation and monitoring of the risk management program. Additionally, participants will learn the roles of the risk manager and the risk management network that is needed for an effective risk management program.

Learning Objectives

1. Understanding the risk administration definition, participants will be able to describe the implementation and monitoring of a risk management program.

2. With knowledge of what a risk manager does, participants will be able to list the requirements for long-term success.

3. With an understanding of when additional resources are needed, participants will be able to list the members of the risk management network and be able to identify how to determine the best fit for network members.

Introduction

By this point in the process the risks have been identified and analyzed, and a decision has been made to control the risk and/or finance the risk. The final step in the process is the risk administration step.

Risk Administration – ongoing implementation and monitoring of the Risk Management Process

Implementation and Monitoring of a Risk Management Program

Learning Objective 1:
Understanding the risk administration definition, participants will be able to describe the implementation and monitoring of a risk management program.

Implementation and Monitoring of a Risk Management Program

Implementation	Monitoring
The part of administration where the desired actions and plans of the risk management department are initiated.	The part of administration where risk management examines and evaluates the results of the actions and plans and then uses that feedback to modify the process.

Implementation

- Present the risk management policy and procedure manual to the organization and other applicable service providers
- Communicate risk management goals and objectives throughout the organization
- Demonstrate the organization's commitment to risk management principles
- Create an organizational chart or flowchart showing risk management's interaction with other departments
- Establish and communicate individual responsibilities and accountabilities for the success of the risk management program
- Partner with various levels of the organization

Executive Management	Middle Management/Supervisors	All Other Employees
• Actively involved in the rollout of the program • Provide resources to achieve program objectives	• Provide necessary support to achieve risk management goals and objectives • Active engagement of this group is required for executing loss control programs, claims gathering information, observations, ideas, and feedback	• Daily activities are affected by risk and loss control measures; therefore, their cooperation, input, and insight are needed • Engagement determines the effectiveness of the risk management policies and loss control procedures

Monitoring

- Evaluate the effectiveness of the program
  - Significant incidents/accidents
  - Open/closed claims
  - Litigated claims, large loss claim reports
  - Risk financing options with an analysis of the deductible/SIR (Self-Insured Retention) levels and limits
  - Total cost of risk and allocation
  - Loss trend analysis
  - Contractual issues

Let's Check-in

Risk Administration is the ongoing _____ and _____ of the Risk Management Process.

The Effective Risk Manager

Often leading the charge on the implementation and monitoring of the risk management program is the risk manager. It is important for people from both the organization and insurance prospective to understand the role of the risk manager. To an insurance professional, the risk manager is often heavily involved if not responsible for the insurance placement decisions.

The Risk Manager

... is mindful that the practice of risk management is constantly evolving, growing and maturing and is always committed to treating current and emerging risks using the methods most beneficial, economical, feasible and sensible on behalf of management, boards of directors, shareholders, employees and the general public.

... understands that the risk management department is uniquely positioned to be a repository of vast amounts of information which may need to be analyzed and communicated to many different stakeholders.

… is committed to ensuring that risk management is understood throughout the organization. Its success rests entirely with those who have the ability to execute risk management strategy, regardless of the individual's role in the organization.

… could be a single dedicated risk manager, a risk management department, other employees – depending on job functions and specialties (CEO, HR, etc.), or outside providers, such as an insurance agent or a consultant

Practical Application

Based on your interactions with risk managers, what do you think risk managers do?

What does a Risk Manager Do?

Learning Objective 2:

With knowledge of what a risk manager does, participants will be able to list the requirements for long-term success.

Periodically review

- Risk management policies and procedures
- Changes in operations/acquisitions/divestiture
- New products and services
- New laws and regulations
- Annual quality control

Report on results, opportunities, threats, successes, and recommendations

Reviews and Adjustments – feedback, process experience, changes in needs and management, document reviews

Makes decisions or recommendations about the risk management program which includes the risk identification and analysis, safety programs and other control measures, internal risk financing and insurance programs, and program implementation and monitoring

Requirements for Long-Term Success

In order to have long-term success, the risk manager must:

- Have objectives that align with the needs of the organization
- Be an active participant on the organization's leadership team
- Find advocates or influencers who reinforce commitment and encourage resource allocation
- Create adaptable processes and approaches – evolving over time to fit new needs, best practices and emerging risks
- Never change for the sake of change – utilize existing processes that have effective risk management elements and continue utilizing those processes instead of creating duplicate/alternate work
- Select appropriate technology that supports the risk management process – doesn't let software dictate the process
- Seek continued professional development through education and training – job specific, trends, best practices

Risk Management Involvement

The risk management team's interactions within the organization are heavily dependent on the organization, industry, culture, and size.

Risk management must have a strong foundation of legal compliance to stay in business. To ensure long-term stability, a more functional (operational) approach is necessary. For an organization to experience sustainable growth, the risk management function must also be involved at a strategic level.

Effective risk management is never a one-person job. Resources outside the risk management department are required to be effective. A successful risk manager builds a network of support and expertise.

The Risk Management Network

Risk managers need a network of connections and people because they need access to information and expertise they don't have.

Learning Objective 3:
With an understanding of when additional resources are needed, participants will be able to list the members of the risk management network and be able to identify how to determine the best fit for network members.

A risk manager should use services of others, both internal and external, to achieve the risk management objectives. Selecting outside service providers requires knowledge of who, what, when, and how to work with them.

Additional resources may be required when**:**

- An outside or objective viewpoint is required
- Time is of the essence
- An outside expert is more cost effective
- Upper management requests it
- A limited term activity or special project arises

Members of the network

- Formal groups vs. informal connections (internal, external, etc.)

- Expertise including, but not limited to:
  - Risk management
  - Health, safety, and environmental
  - Human resources
  - Functional areas of the organization
  - Legal
  - Agents, brokers, carriers, captive managers
  - RMIS providers
  - Actuaries

How to identify the best fit for network members

- Background

- Roles and responsibilities

- Soft skills, including working effectively with others

- Time availability

Knowledge Check

List at least five areas of expertise that should be represented in the risk management network.

Summary

Risk management is an ongoing process. With constantly changing risks, monitoring the program for effectiveness is crucial. While the risk manager plays an important role in the process, a risk management network is needed to properly implement and monitor the risk management program.

Review of Learning Objectives

1. Understanding the risk administration step, participants will be able to describe the implementation and monitoring of a risk management program.

2. With knowledge of what a risk manager does, participants will be able to list the requirements for long-term success.

3. With an understanding of when additional resources are needed, participants will be able to list the members of the risk management network and be able to identify how to determine the best fit for network members.

Important Key Terms

Risk Administration – ongoing implementation and monitoring of the Risk Management Process

Implementation – the part of administration where the desired actions and plans of the risk management department are initiated

Monitoring – the part of administration where risk management examines and evaluates the results of the actions and plans and then uses that feedback to modify the process

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Knowledge Check: SAMPLE ANSWERS

List at least five areas of expertise that should be represented in the risk management network.

Risk Management

Health, Safety, and Environmental

Human Resources

Functional Areas of the Organization

Legal

Agents, Brokers, Carriers, Captive Managers

RMIS Providers

Actuaries


Thank
You!