ERM For Risk Pools: Overview

• Basics
  • ERM, ISO 31000 & Traditional Risk Management
  • ERM 101
• Pooling
  • Known and Emerging Risks
• Practical Applications of ISO 31000
  • Public Entities and Pools Using ERM
• ERM Solutions to Manage Pooling Risks
  • Case Study Exercise
• Wrap-Up
ISO Definition of Risk

- **Risk** is the effect of uncertainty on objectives

ERM Basics and ISO 31000

### Principles

- a) Creates, value
- b) Part of any processes
- c) Part of decision making
- d) Explicitly addresses uncertainty
- e) Systematic, structured & timely
- f) Based on best available info
- g) Tailored
- h) Takes human & cultural factors into account
- i) Transparent & inclusive
- j) Dynamic, iterative & responsive to change
- k) Facilitates continual improvement

### Framework

- Design framework for managing risk
- Continuously improve the framework
- Implement risk management
- Monitor and review the framework

ISO/ANSI/ASSE 31000: 2009

### Risk Management Process

- Establish the context
- Risk assessment
- Risk identification
- Risk analysis
- Risk evaluation
- Risk treatment
- Communicate and consult

Mandate & Commitment
## Comparing Approaches

<table>
<thead>
<tr>
<th>Traditional Risk Management</th>
<th>Enterprise Risk Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manages downside risks</td>
<td>Risk has the potential to affect both upside and downside</td>
</tr>
<tr>
<td>Oriented to cause of loss, tied to minimizing risk impact</td>
<td>Tied to strategic objectives or key business objectives</td>
</tr>
<tr>
<td>A functional, siloed treatment of risk within an organizational area.</td>
<td>A coordinated cross functional treatment of risk across all areas of the organization.</td>
</tr>
<tr>
<td>Places risk identification and ownership with the risk manager or individual department manager</td>
<td>Uses subject matter experts and risk committees to identify organizational risk. Spreads accountability to risk owners and trains all stakeholders to be responsible for managing risk.</td>
</tr>
<tr>
<td>Most often reactive</td>
<td>Proactive and opportunistic</td>
</tr>
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</table>

### Risk Treatment Comparison

<table>
<thead>
<tr>
<th><strong>Risk Treatments</strong></th>
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<tbody>
<tr>
<td><strong>ARM Techniques as found in the 2014 RMPE text (pages 11-13)</strong></td>
</tr>
<tr>
<td>Exposure Avoidance</td>
</tr>
<tr>
<td>Loss Prevention</td>
</tr>
<tr>
<td>Loss Reduction</td>
</tr>
<tr>
<td>Segregation</td>
</tr>
<tr>
<td>Transfer for risk control</td>
</tr>
<tr>
<td>Retention</td>
</tr>
<tr>
<td>Transfer for risk financing (Insurance Indemnity/Hold Harmless)</td>
</tr>
<tr>
<td>g) Retaining the risk by informed decision</td>
</tr>
</tbody>
</table>

*Note only increasing the risk to pursue an opportunity is unique to ISO 31000*
How ISO 31000 Changed the Focus

- Without risk, there is no reward or progress.
- Unless risk is managed effectively, organizations cannot maximize opportunities and minimize threats.
- Risk is all about uncertainty, or more importantly, the effect of uncertainty on the achievement of objectives.
- This is where ISO 31000 is clearly different from existing guidelines in that the emphasis is shifted from something happening - the event - to the effect on objectives.

Kevin W. Knight, AM Chair of the ISO 31000 Working Group “ISO Focus” - June, 2009

Basics

ERM 101
Informal Poll

Q: Do you know your public agency’s or risk sharing pool’s Mission Statement?

Answer:
A. Yes
B. No
C. Somewhat
D. What’s a Mission Statement

ERM 101

ERM Definitions:
• COSO
• RIMS
• CAS (Casualty Actuarial Society)
• Others
• ISO 31000

BSA – ERM Motto “We are the people who say “know” not “no.””
ERM 101 - Risk Management Maturity Continuum

- Traditional
- ERM
- RM Culture

- Insurance
- Safety
- Across Silos
- Strategy

- Threat only
- Both Treats and opportunities

- Informal
- Formal
- Integrated

- Continued effort must be used to overcome the effects of Entropy

- No Risk Management
- Does Not Exist!
- Fully Integrated Risk Management

Pooling
Known and Emerging Risks
Risk Pool Exposure: Cyber Attack

**Member Risks**
- Loss of data
- Crisis management
- Operational disruption
- Regulatory compliance
- Reputation
- Cyber security improvements

**Pool Risks**
- Infrequent member(s) loss may not have a significant impact on the pool
- Pool itself faces the same losses as members

**Pool Risks**
- Large number of member losses (Petya) can affect
  - Severity of claims
  - Aggregate layer
  - Coverage renewal
Risk Pool Exposure Universe

Emerging Risks for Members & Pools

- Succession planning
- Employment practices liability
- Cyber attack
- Recreational marijuana
- Aging infrastructure
- Healthcare administration

Using ERM and ISO 31000 these risks would be considered together and not individually giving a better overall pooling risk profile.
Practical Applications of ISO 31000
Public Entities and Pools Using ERM

Public Entities and Pools Using ERM

• CalPERS
• City/County of San Francisco
• City of Windsor, CA
• City of San Jose, CA
• University of California (System-wide)
• Dallas/Fort Worth International Airport
• Association of Federal Enterprise Risk Management
• Oregon Public Entity Excess Pool
Public Entities and Pools Using ERM

- Florida College System Risk Management Consortium
- Higher Education Universities (Nationally)
- OMAG (Oklahoma Municipal Assurance Group)
- LGIT (Local Government Insurance Trust)
- Central Arizona Project (CAP)
- Washington State (state agencies, commissions and boards)

ERM Solutions For Risk Pools
Developing Sustainable Strategies to Manage Risks
Pools Can Apply ERM In

- Decision making
- Resource allocation
- Process change
- Strategy setting & execution

Q: Does your public agency or risk pool have an up to date Strategic/Business Plan?

Answer:
1. Yes
2. No
3. Somewhat
4. It’s on a post-it note somewhere
MISSION STATEMENT
Evergreen Water District is a progressive industry leader, providing high quality water, through an efficient and reliable system. Our innovative and dedicated employees and board members maximize human and technological resources, while providing superior service to our customers and supporting the environment for a sustainable future.

Evergreen Water District: Internal Environment

- Description
- Strategic Goals
- Issues
- Items to analyze using ERM before reporting to Water Board
Evergreen Water District

**Decision:** Should EWD purchase a new Vactor and take over the cleaning of sewer lines?

**Scenario:** For over 10 years the district hired ABC Sewer Service to clean sanitary sewer lines.

**Facts:**
- ABC spends 150 days on district lines
  - Annual total costs for ABC = $350
  - Number of damage claims = 10
  - Annual total costs to clean lines “in-house” = $360
  - Revenue neutral decision
  - Evidence that claims can be cut by 50% and cleaning quality increased
  - Available contract for 60 days/year for member city ($100)

ERM Solution: Risk Informed Decisions

**Decision:** Purchase the Vac-Con Truck

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<th>Risk Treatment</th>
<th>Monitoring &amp; Review</th>
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<td>Session Group Exercise</td>
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Decision: Purchase the Vac-Con Truck
Operations/Purchasing Committee

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<tr>
<th>Risk</th>
<th>Status Quo</th>
<th>Purchase Truck</th>
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<tr>
<td></td>
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<td>Impact</td>
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Session Group Exercise

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Evergreen Water District

- **Strategy:** Should EWD adopt a strategy to address aging workforce/succession planning?
- **Scenario:** 30% of EWDs workforce could retire in the next 5 years. Difficulties exists in recruiting qualified candidates, there is a concern that operations may be severely impacted if risks around these issues are not managed.
- **Facts:** - EWD salaries have been stagnant, reflecting fiscal tightening due to conservation efforts (less water being used/less revenue).
  - The employees eligible for retirement are mostly in senior management/operation positions
  - Classification and compensation descriptions have not been updated in 10 years
  - Housing costs in EWD’s metropolitan area is in top quartile for state
ERM Solution: Risk Informed Decisions

Project: Adopt a Strategy for Aging Workforce/Succession Planning

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Session Group Exercise

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Project: Adopt a Strategy for Aging Workforce/Succession Planning
Personnel Commission

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<th>Adopt Strategy</th>
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Session Group Exercise
ERM Solution: Risk Informed Decisions

**Principles**

- Creates value
- Part of org. processes
- Part of decision making
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- Based on best avail info
- Tailored
- Takes human & cultural factors into account
- Transparent & inclusive
- Dynamic, iterative & responsive to change
- Facilitates continual improvement

**Framework**

1. **Mandate & Commitment**
2. **Design framework for managing risk**
3. **Continually improve the framework**
4. **Implement risk management**
5. **Monitor and review the framework**

ISO/ANSI/ASSE 31000: 2009

**Risk Management Process**

- Establish the context
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ERM Solution: EWD Risk Informed Decisions

**Principles**

- Creates value
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**VISION STATEMENT**

Setting standards of excellence in public service.

**VALUES**

- **Integrity.** We treat people with dignity and respect, guided by fairness and honesty.
- **Commitment to Excellence.** We create, learn from experience, and strive for improvement.
- **Public Trust.** We honor and promote public confidence by protecting health and the environment. We listen to, appreciate, and are responsive to our customers.
- **Strong Relationships.** Our success depends on our ability to collaborate with customers and colleagues by recognizing that we all have valuable contributions to make.
- **Responsibility.** We are accountable for the individual conduct and obligations.
- **Leadership.** We value leadership demonstrated by employees who, by example, set standards, inspire coworkers and serve as role models in supporting the vision and mission of the district.
- **Cost-Effective Quality.** We achieve excellence through programs that emphasize cost-effective quality.

**RECIPE FOR SUCCESS**

SEPTEMBER 12-15, 2017
SOUTH LAKE TAHOE, CA
ERM Solution: Risk Informed Decisions

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ERM Solution: Risk Informed Decisions

Decision: Purchase the Vac-Con Truck
Operations/Purchasing Committee

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<td>Objectives</td>
<td>Revenue</td>
<td>Value</td>
<td>Value</td>
<td>Value</td>
</tr>
<tr>
<td>Direct Reports</td>
<td>Stakeholders</td>
<td>Finance Study</td>
<td>Hiring</td>
<td>Annual audit</td>
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<tbody>
<tr>
<td>D1: Reputation Damage</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>D2: Increase Revenue</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
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Risk Management Process

Establish the context

Risk assessment
Risk identification
Risk analysis
Risk evaluation
Risk treatment
ERM Communication: Risk Heat Map

- **Likelihood of Threat**
- **Likelihood of Opportunity**

ERM Solution: Risk Informed Decisions

- **CAJPA Conference 2016 Pool Roundtable Session**
- **Keeps Me Awake**
  - Implementing risk management without feeling like a ‘bad guy’
- **Lessons Learned**
  - Environment is constantly changing
  - You’re always learning
ERM Solution: Risk Informed Decisions

- CAJPA Conference 2016 Pool Roundtable Session

- Keeps Me Awake
  - Succession planning

- Lessons Learned
  - Quality people make a quality pool

Wrap-Up
In A Nutshell

- ERM can be scaled and used for any decision at organizations of any size
- ERM creates accurate risk information, considering how risks are affected by internal and external environments

In A Nutshell

- The ERM framework facilitates risk assessment and risk treatment processes that align decisions, projects and strategy/goal setting with the organization’s strategic goals and objectives
- ERM improves organizational outcomes by reducing the uncertainty that organizations face in achieving their goals and objectives
Thank you for attending our session!