



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

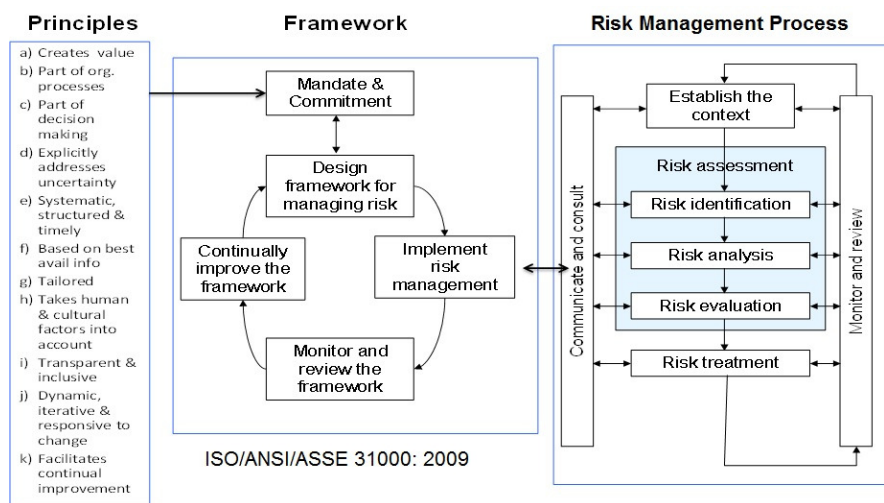


ISO Definition of Risk

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



ERM Basics and ISO 31000



Comparing Approaches

Traditional Risk Management	Enterprise Risk Management
Manages downside risks	Risk has the potential to affect both upside and downside
Oriented to cause of loss, tied to Minimizing risk impact	Tied to strategic objectives or key business objectives
A functional, siloed treatment of risk within an organizational area.	A coordinated cross functional treatment of risk across all areas of the organization.
Places risk identification and ownership with the risk manager or individual department manager	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.
Most often reactive	Proactive and opportunistic



Risk Treatment Comparison

Risk Treatments		
ARM Techniques as found in the 2014 RMPE text (pages 11-13)		ISO 31000 Treatment – As found in Clause 5.5.1
Exposure Avoidance	↔	a) Avoiding the risk
Loss Prevention	↔	b) Increasing the risk to pursue and opportunity*
Loss Reduction	↔	c) Removing the risk source
Segregation	↔	d) Changing the likelihood
Transfer for risk control	↔	e) Changing the consequences
Retention	↔	f) Sharing the risk with another party
Transfer for risk financing (Insurance Indemnity/Hold Harmless)	↔	g) Retaining the risk by informed decision
*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

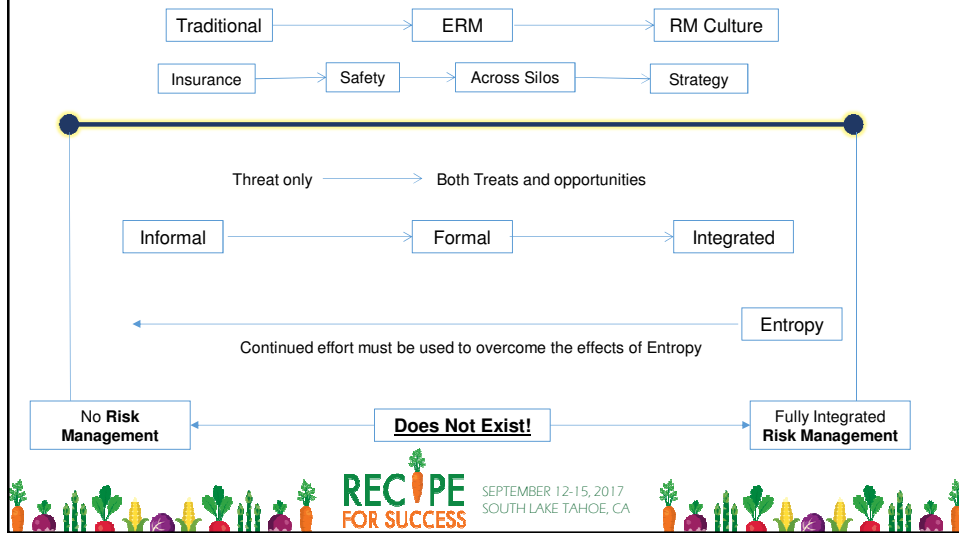
ERM Definitions:

- 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*



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

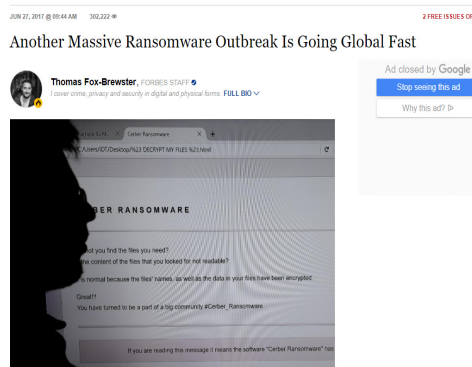


Risk Pool Exposure: Cyber Attack

Pool Risks

- Large number of member losses (Petya) can affect
 - Severity of claims
 - Aggregate layer
 - Coverage renewal

Forbes / Security / #CyberSecurity



Risk Pool Exposure Universe

Emerging Risks for Members & Pools



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



Risk Pool Exposure Universe

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

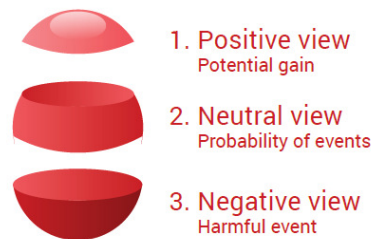
Developing Sustainable Strategies to Manage Risks



Pools Can Apply ERM In

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

RISK – Effect of uncertainty on objectives



Informal Poll

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



CASE STUDY: EVERGREEN WATER DISTRICT

**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.

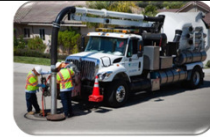


Evergreen Water District: Internal Environment

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



Evergreen Water District



- **Decision:** Should EWD purchase a new Vacor 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

Communication & Consultation	Establishing the Context	Risk Assessment	Risk Treatment	Monitoring & Review
Session Group Exercise				



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

	Status Quo		Purchase Truck	
Risk	Likelihood	Impact	Likelihood	Impact
Session Group Exercise				



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

Communication & Consultation	Establishing the Context	Risk Assessment	Risk Treatment	Monitoring & Review
Session Group Exercise				

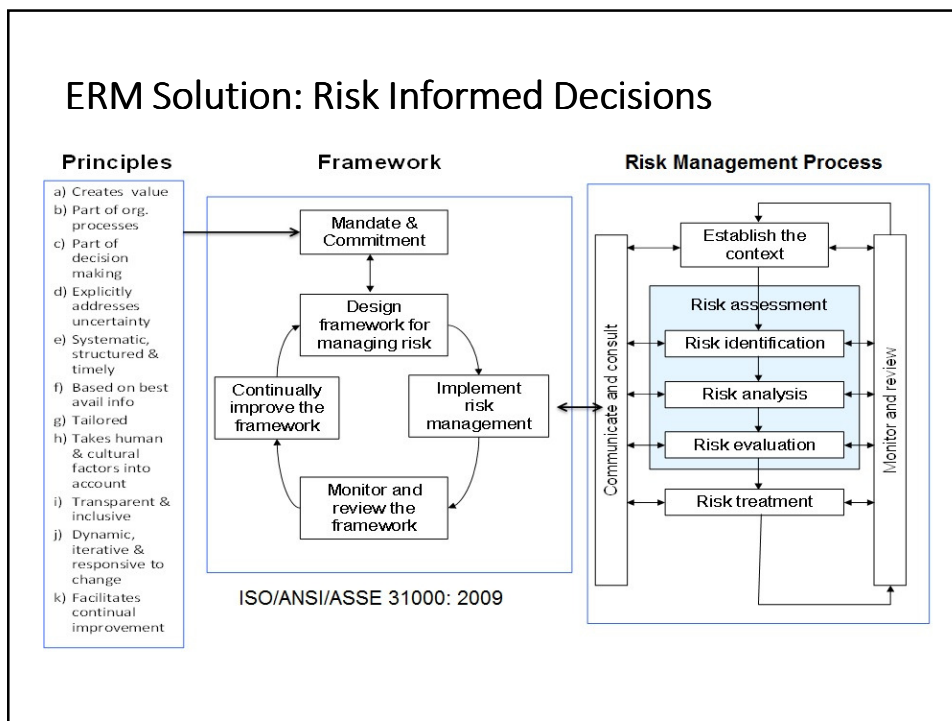


**Project: Adopt a Strategy for Aging Workforce/Succession Planning
Personnel Commission**

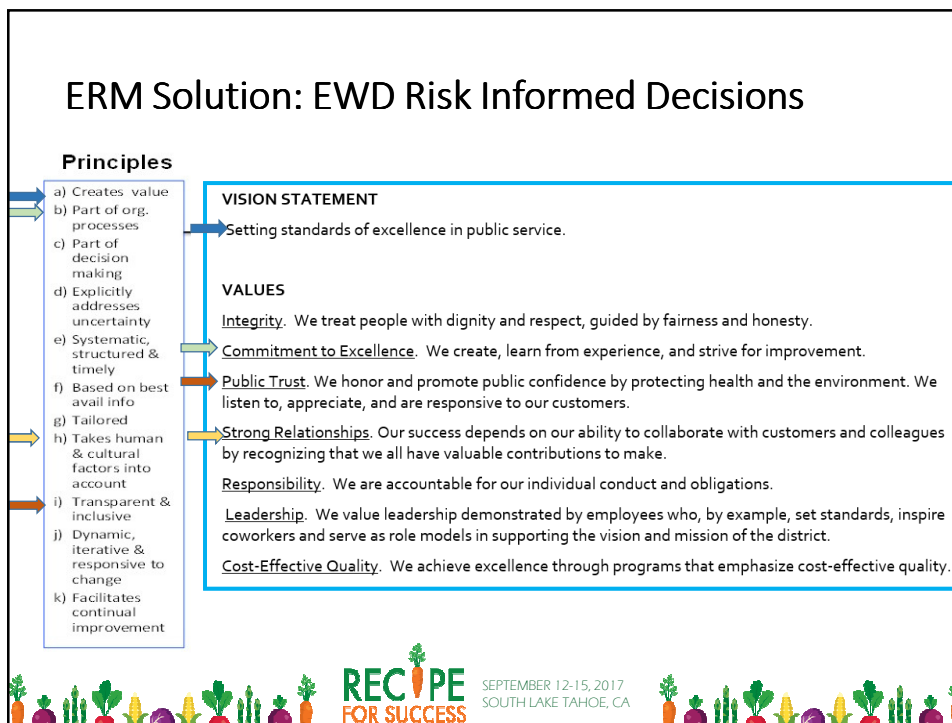
	Status Quo		Adopt Strategy	
Risk	Likelihood	Impact	Likelihood	Impact
Session Group Exercise				



ERM Solution: Risk Informed Decisions



ERM Solution: EWD Risk Informed Decisions

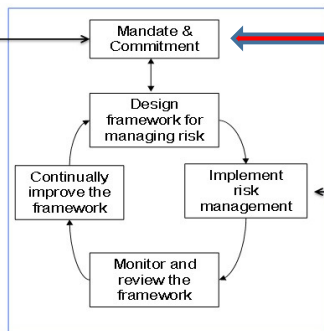


ERM Solution: Risk Informed Decisions

Principles

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

Framework



ISO/ANSI/ASSE 31000: 2009

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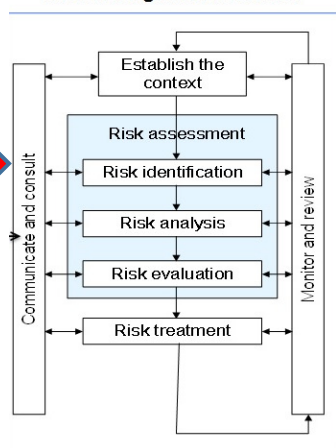


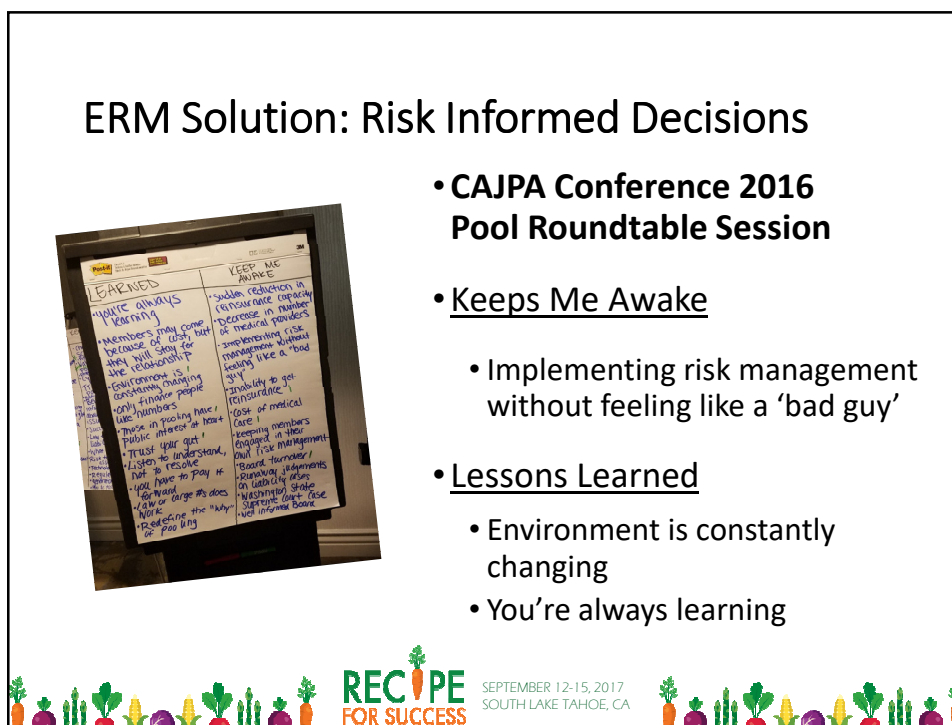
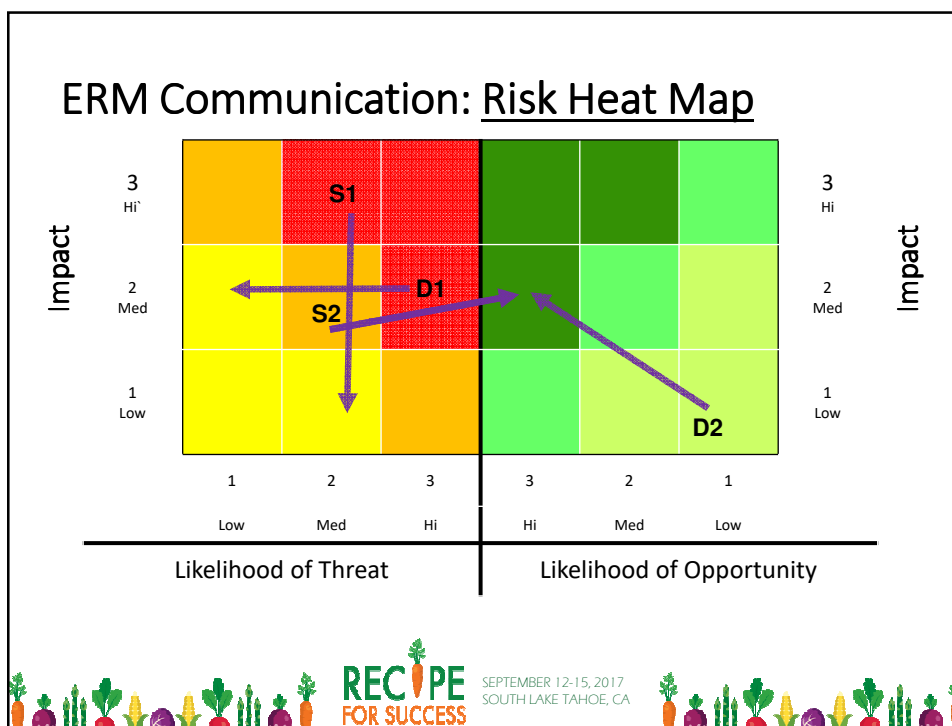
ERM Solution: Risk Informed Decisions

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

Communication & Consultation	Establishing the Context	Risk Assessment	Risk Treatment	Monitoring & Review
Bill/Flyers	Objectives	Brainstorm	Status Quo-doing	Metrics tracked
District logo on truck	Stakeholders	Finance study	Hiring	Annual audit
Status Quo		Purchase Truck		
Risk	Likelihood	Impact	Likelihood	Impact
D1: Reputation Damage	3	2	1	2
D2: Increase Revenue	1	1	3	2

Risk Management Process





ERM Solution: Risk Informed Decisions

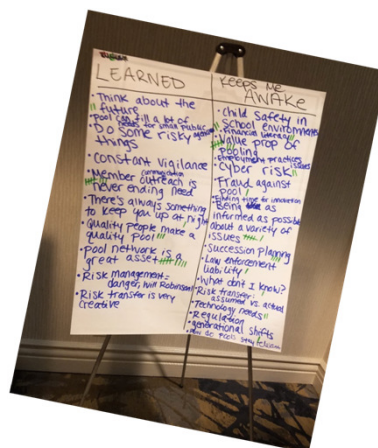
• CAJPA Conference 2016 Pool Roundtable Session

• Keeps Me Awake

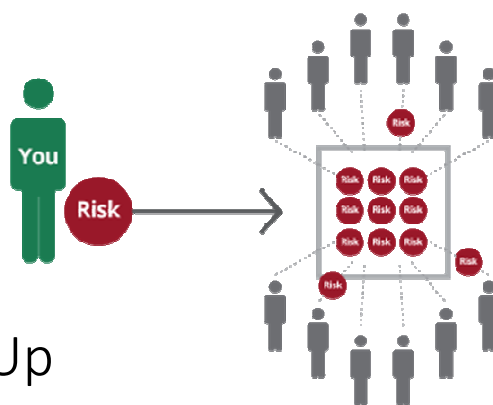
- Succession planning

• 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



