AN EMERGING RISK ISSUE FROM

AUSTIN & STANOVICH
RISK MANAGERS LLC

Fall 2004

Planning-an overlooked risk management technique

Risk management is a dynamic process yet it is often practiced on a reactive basis due to increased work loads, changing priorities, lack of staff (internal and external) and all the other realities of the present day Risk Manager's workplace. This EMERGING RISK ISSUE will examine *planning* as a critical risk management tool; one that is often overlooked and thereby underutilized.

Many organizations begin the annual budget process at this time of year. Risk managers are asked to anticipate the cost of insurance for the next fiscal year and to forecast departmental costs. Budget activities are an excellent time for the Risk Manager to assess their risk management program: *where it is and where should it be.* This assessment phase is critical in order to *plan* program changes and then to *manage* the process to final implementation.

We start our discussion of planning with a story and three adages.

*Alice in Wonderland **

Alice comes to a fork in the path and does not know which one to take. She sees the Cheshire Cat and asks "Oh Cat which path do I take?" The Cat responds, "Where do you want to go?" Alice replies, "I do not know." The Cat advises "Then either path will take you to your destination."

**we took the liberty to paraphrase a small portion of this story.*

Why use this story? Unless your risk management program is on a clearly defined path you may be like Alice at the fork. Either turn will take you to an undefined destination which may not meet the risk management needs of your organization. Planned objectives, coupled with managed implementation, will assist the Risk Manager and the organization to accomplish their risk management goals.

Words of Wisdom

"If you do what you have always done, you'll get what you've always gotten."
-Anonymous

"There are people who want to be everywhere at once, and they get nowhere."
-Carl Sandburg

"To change and improve are different things."
-German Proverb

The theme common to the adages is process and activity is not the same as results. Results are the conclusions of a planned and managed activity. As managers we need to continually evaluate what we do to ensure we are not long on process and short on results.

Manage the process

The risk management process has 5 steps: 1-identify exposures, 2-determine risk management techniques, 3-select appropriate techniques, 4-implement techniques, and 5-monitor and improve the risk management program. To manage risk management one must manage the process through three steps: 1-manage people, 2-manage activities, and 3-manage risk.

What does this mean?

- *Manage people*: You can not do the job alone. Share your expectations (timetable, goals, objectives, work product, etc.) with staff, co-workers, internal customers and external service providers. This step should include involvement by senior management: seek their input for risk management objectives for a given timeframe, i.e. next year.
- *Manage activities:* Every job or task is ultimately a step of a finished work product-identify and understand all aspects related to a given activity. All activities need to be planned, scheduled and completed on time. A project not completed on time will impede overall risk management plans to move forward.
- *Manage risk:* only by managing people and activities can risk be effectively and efficiently managed.

People and Activity Planning-a strategic process

Without a master plan we concentrate on the immediate issues presented to us. We do not take the time to determine where we have to be individually and as a departmental team at the end of the day, week, month, quarter or even year. Risk management is not a static process. A risk manager needs to think in terms of what may happen tomorrow and what has to be done today to support risk management endeavors for the future.

Relying on an insurance renewal schedule is not a sufficient planning tool to manage a risk management program. Why? Insurance should be one but not the sole focus of the Risk Manager's attention. A broad view of risk management and critical dates needs to be maintained in order to ensure that the overall risk model used by the Risk Manager is appropriate and timely for the organization.

Reaching out to senior management is appropriate to ensure the risk management model used by the Risk Manager is consistent with the current needs and risk

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bearing capability of the organization.

Macro planning
This is the longer view of where the risk management program should be and is the first step of the planning process. It may include strategic plans to reduce workers compensation losses, strengthen safety initiatives or to create a captive. These activities are comprised of many interim steps that need to be identified, managed and executed to reach a final point of implementation. Macro planning lends itself to a business plan approach as overall risk management needs are identified, evaluated and plans enacted. Sample business plans are shown on pages 14-18 http://www.austinstanovich.com/marims.pdf (**).

As risk managers we need to think in terms of:

- objectives-*pertaining* to a goal,
- strategy-the *plan* to achieve an objective, and
- tactics-the *means* to achieve an objective.

Put differently, we need to think in terms of where we are going (i.e. objective), the path/course we need to follow (i.e. strategy) and what resources need to be used along the way (i.e. tactics).

An ongoing macro planning focus should be to continually test your knowledge of the organization's activities as activities generate risk. This is the risk identification step of the five step risk management process. A Risk Manager can not manage risk that is not identified. All other steps of the risk management process are driven by step 1-risk identification.

The following example is used to demonstrate *objectives*, *strategy* and *tactics* for risk identification.

- Objective: Create an updated risk profile of all third party services conducted by ABC Corporation during fiscal 2004 through 9/30/04.
- Strategy: Use an electronic survey form and process that can be emailed throughout ABC Corporation.
- Tactics: 1-work with internal audit to determine types of third party business conducted by ABC, 2-test draft survey form with select business lines to ensure information requested is available and useful, 3-work with senior business lines personnel to obtain email contact information of appropriate personnel to complete survey, 4-email survey to line of business personnel with specific response deadline to risk management.

Micro planning:
This is the short term/present view and can start with a weekly meeting with internal staff to assess what needs to be done for the week, i.e. projects or other work due to others for the week and status checks of work due to the Risk Manager by subordinates-internal and external. This type of planning becomes an inventory process to identify all open items and to ensure that all the components of the macro plan are moving ahead on schedule. Obtaining status reports of open items can limit surprises such as missed deadlines and point out issues in advance of problems. A master open items list/database is invaluable and becomes an excellent time saving tool in its own right.

Planning should occur during meetings with outside service providers such as brokers, TPAs and other critical vendors. Regular meetings, weekly, monthly or quarterly, should be held with critical service providers to ensure work product is consistent with proposals, contracts and overall needs, and that all deadlines and other service issues are being completed on a timely basis and continue to support the macro plan. Service providers need to be managed as a Risk Manager can delegate an activity but does not delegate responsibility or accountability for the activity.

Conclusion
Planning macro/long and micro/short term activities and following open items will allow a risk manager to become more proactive, deliver additional value to the organization and create better visibility to internal customers and senior management of the organization.

(**) William Austin, Principal of Austin & Stanovich Risk Managers LLC discussed planning issues at a 3/11/04 Massachusetts Risk and Insurance Management Society conference (http://www.austinstanovich.com/marims.html) and was interviewed on planning strategy by Liberty Mutual for its Winter 1998 *Liberty Directions* magazine (http://www.austinstanovich.com/libdirarticle.pdf).

Please send comments and suggestions for future *Emerging Risk Issue* newsletters to:
info@austinstanovich.com

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AUSTIN & STANOVICH
RISK MANAGERS LLC

Risk Management Consultants and Insurance Advisors
Not Insurance Sales

15 West Street, Suite 204, Douglas, MA 01516
One Custom House Street, Suite 500, Providence, RI 02903
Voice: 508-476-3347/401-751-2644
Fax: 508-476-3047

www.austinstanovich.com