ERM SPECIAL ISSUE

» LINKING DISASTER RESILIENCE AND ENTERPRISE RISK MANAGEMENT
NOTES FROM THE FIELD

MAKING ERM RELEVANT:
A Conversation Between Public Risk Management Leaders

GROWING INTO ENTERPRISE RISK MANAGEMENT
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CONSIDER A COLLABORATIVE APPROACH

Spring has sprung, as they say, and most of the country is preparing for warm weather, vacation season and increased outdoor activities. Our parks department (and more than likely, yours too) is readying its facilities for the summer rush, which always brings an onslaught of children bursting with energy, teenagers seeking summer employment and families desperate for an escape from the heat. Staff members and citizens regularly introduce ideas for new and creative recreational programming that can make a risk manager’s head spin.

While it’s tempting to discourage (or even bash) those ideas that seemingly come from out of the blue, it’s important to ensure that the associated benefits have been considered. This analysis requires collaboration among various members of our organizations as we share our respective concerns and brainstorm how they can be addressed as part of the overall implementation of programming.

This type of collaborative dialogue—clear, open communication—is foundational to enterprise risk management (ERM). For some of us (and I will include myself in this group), ERM is still a somewhat fuzzy concept. However, a growing number of public risk management professionals, including perhaps many of you reading this, have embraced the ERM approach.

This issue of Public Risk is dedicated to the practice of enterprise risk management, and the articles within it highlight the terminology, the goals and the implementation of ERM in public entities. Throughout this issue, you’ll be introduced to some of your public sector colleagues who are successfully utilizing this approach within their organizations. I recently had a fascinating conversation with Deborah Luthi, a fellow public sector risk manager and current RIMS president, about her ERM experiences; you’ll find her story here as well.

I believe you’ll find this issue to be informative and enlightening, and it may persuade you to experiment with the ERM framework in your risk management program. Watch PRIMA’s Web site for more information about ERM resources and upcoming events.

PRIMA is working to provide you, the public sector risk manager, with resources and programming that supports your efforts and helps you succeed. If you are new to public sector risk management, be sure to check out PRIMA Institute 2012, a 3-day comprehensive training program that will jump-start your program and ensure that your toolkit is well-equipped. PI kicks off November 5 in Charlotte, N.C.

Everyone, regardless of experience level or entity type, is invited to Nashville, Tenn., for PRIMA’s Annual Conference, which will be held June 3–6. This year’s conference truly has something for everyone—a variety of informative educational sessions, vital networking opportunities and a little entertainment too. Come and join us!

Sincerely,

Cindy B. Mallett, AIC, CWCP, ARM-P
2011–2012 PRIMA President
Risk Manager
City of Gainesville, Ga.
HOSPITALS WITH RADIOACTIVE MATERIALS EXPOSE WEAKNESS IN ANTITERROR RULES

Ten years into a campaign to make radioactive materials harder for terrorists to steal, Congressional auditors have found one hospital where cesium was kept in a padlocked room but the combination to the lock was written on the door frame and another where radioactive material was in a room with unsecured windows that looked out on a loading dock.

The New York Times reports that in testimony prepared for delivery to a Senate Homeland Security subcommittee, an official from the Government Accountability Office plans to say that people with responsibility for security told the auditors that they were trained as physicists or radiation health technicians and were being told to enforce regulations “that they did not believe they were fully qualified to interpret.”

The materials in question cannot be used to make a nuclear bomb, but if incorporated into a device with conventional explosives they would make a “dirty bomb” that could contaminate significant areas of a city with measurable amounts of radiation, some of it worrisome.

Gene Aloise, the director of natural resources and environment at the Government Accountability Office, said in prepared testimony that the Nuclear Regulatory Commission, which is in charge of regulating radioactive materials used for medical diagnoses and cancer treatment, had written very flexible rules in order to avoid adding to hospitals’ costs, but that the result was “a mix of security controls and procedures that could leave some facilities’ radiological sources more vulnerable than others to possible tampering, sabotage or outright theft.”

After the terrorist attacks of Sept. 11, 2011, security experts said that poor controls over radioactive materials could allow terrorists to enter the country unarmed and obtain the ingredients for attacks locally. Metal fabrication, food processing and other industries use radioactive materials. The Nuclear Regulatory Commission set out to tighten its rules, and the National Nuclear Security Agency, which is part of the Energy Department, offered grants to buy security equipment.

There are about 1,500 hospitals and medical buildings that use radioactive materials, according to the Energy Department, which has spent about $96 million to secure them.
ARE LOCAL GOVERNMENT CUTS NEARING AN END?

Labor Department data released in March shows local government payroll cuts coming to a halt, with employment levels virtually unchanged since November.

That’s a stark contrast from the past few years, as localities made historic cuts to account for budget shortfalls. The new figures, along with gains in private sector employment, give reason for optimism that public employee reductions are finally nearing an end.

Public sector academics and researchers told Governing that local government cuts are close to bottoming out. However, they don’t expect municipalities to begin hiring anytime soon.

“We’re in a trough now at the local government level,” said Elizabeth Kellar, president of the Center for State and Local Government Excellence. “In the next year or two, we may begin to see things pick up very gradually in the places that have been hardest hit.”

Employment for schools and local agencies was nearly unchanged since November, declining by only 2,000 workers nationwide. During the same period a year ago, local governments slashed 50,000 jobs, according to Labor Department estimates.

The few job openings at the local level frequently remained frozen for months. But some governments struggled to find qualified candidates for engineers and other highly skilled positions, Kellar said.

To compensate for increased workloads, Kellar said many local managers opted to train existing employees to assist with added duties. “If you’re asking the people to step up and take on more responsibility, you need to do everything you can to develop your skillsets,” she said.

Kellar expects a slow recovery for most areas. Municipalities in Florida, California and other states taking a significant hit in property values will be last to rehire, she said.

As economic indicators show, some areas of the country have gradually begun to recover.

TOPEKA, KAN., APPROVES HEALTH INSURANCE MEASURE

The Topeka City Council unanimously approved a proposal sponsored by Councilwoman Denise Everhart targeted at helping the city better monitor the solvency of its health insurance plan and making city employees a part of that process, reports the Topeka Capital-Journal.

The vote brought applause in council chambers from members of the union health care coalition, a group composed of leaders of unions representing city employees in collective bargaining.

Topeka Police Detective Heather Stults-Lindsay, the coalition’s president, described the vote as “a good first step toward a working relationship between employees and the city in regards to insurance.”

Interim City Manager Dan Stanley said the ordinance’s approval would provide “comfort to employees that their input is listened to and valued.”

The meeting was preceded by a work session in which the council heard a report from Scot Buxton, senior vice president of Overland Park-based Willis of Greater Kansas Inc., which has been helping the city work to improve its health insurance situation.

The council learned in August that the city’s health insurance fund for employees—which had a balance of $7.5 million as recently as 2008—was projected to run out as early as March 2012. The city subsequently took steps that included raising health insurance premiums and deductibles and making a one-time, emergency infusion for this year of $1 million into its health care plan.

Buxton provided the council figures showing that despite the increased rates, the number of people enrolled in the city’s health insurance plan dropped only by 79—from 1,357 in 2011 to 1,278 in 2012—despite the city’s losing 51 employees at the end of 2011 as a result of a parks and recreation department merger.

The city this year saw a rise in the number of its employees carrying single coverage and a decrease in the number with policies covering their families, according to Buxton’s figures.

Buxton suggested that though city employees weren’t happy with the increased rates, most decided to stay with the city’s plan after looking at their alternatives.

Buxton also said he didn’t think the city formerly had been charging dependents appropriate amounts for the coverage they received.

“No that you are charging the appropriate amount, the plan can begin to heal itself, if you will,” he said.
2011 was a banner year for natural disasters.

Large-scale natural disasters—from tornadoes and flooding in the Midwest to destructive earthquakes in New Zealand and Japan—resulted in tragic loss of life and human suffering. The 2011 Japan earthquake and tsunami were a global wake-up call. Community leaders and public officials saw the need to plan for the statistically improbable worst-case event.

Together with the cascading impacts on local and regional buildings and infrastructure, economic damages from disasters and extreme events grow with every decade. Last year in the United States, 14 federally declared disasters struck killing at least 675 people; each event exceeded $1 billion in disaster response and damage costs. These emergencies included drought, heat waves and wildfires, along with floods, tornado outbreaks, hurricanes and winter storms. FEMA and local communities across the nation handled 99 major disasters. In the preceding 30 years, typically three such significant crises hit annually. Last year was a benchmark year for extreme events and the expenses are still being tallied.1

When local government and communities are challenged by immediate problems like widespread economic shocks and unpredictable political conditions, natural disasters seem far afield. But those in disaster-prone regions can’t ignore the tragic losses from tornadoes, fires, floods, hurricanes and earthquakes. Cities and all municipal organizations are susceptible to these unanticipated crises and cascading fiscal and social impacts. Some jurisdictions, agencies and educational institutions, though, are not waiting for the next disaster to hit before they reduce risk and strengthen community resilience. The evening news graphically shows the impacts of natural disasters and why we must act now for a safer future.

And the immediate impacts of disasters reach beyond affected regions with national and international consequences. Local supply chain disruptions propagate globally. In the 2010 Eyjafjöll volcano eruption, air traffic was widely affected in northern and western Europe; 20 nations closed their airspace as a result of a fairly minor magnitude event. The Icelandic ash cloud reached deeply into global food and flower distribution conduits from Africa to Western Europe and the United States.
After the March 2011 Tohoku region earthquake and tsunami in Japan, General Motors closed its factory in Shreveport, La., due to short supplies of a part made in the disaster area. Toyota temporarily shut down its North American factories due to parts shortages and delayed the launch of two new models. Sony suspended work at five plants for three weeks. Nearly a third of businesses significantly affected by a major natural disaster never open their doors again. The global village suffers from wide-reaching disaster impacts. Though a single community or institution cannot plan for all eventualities, innovative and event-tested approaches can help leaders improve the capacity to make better response and recovery decisions.

BREAKING THE CYCLE—DISASTER MANAGEMENT’S NEW TOOLS

Addressing society’s broad portfolio of risk is a huge responsibility that has to include all sectors in our communities—not only government agencies. In the last 10 years, emergency management and disaster experts have shown a new way to community safety that extends beyond simply responding to the damages of disasters. The new convention is to plan ways to intervene in the disaster cycle, which is typically defined as:

- **Preparation**: Planning and training to respond to disruptive events
- **Mitigation**: Reducing risk from natural or human-generated hazards
- **Response**: Acting to lessen disaster impacts
- **Recovery**: Restoring the community to normal activities

The disaster planning and policy world has added a fifth element, “resilience,” to the cycle, as way to focus on survival and ways to promote a thriving, post-disaster recovery that gets to an improved and strengthened future.

Public policy objectives need to fit state-of-the-art thinking that incorporates preparedness, mitigation, response and recovery. The resilience approach to the uncertainty of disasters and their outcomes provides for an integrated framework and more effective management of risk and continuity planning for moving beyond the disaster impact phase. The new aspiration is to increase the ability to survive and thrive—for government, businesses, infrastructure and citizens—after a crisis hits. The message is clear: reducing risks associated with natural disasters and other disruptive events is by far a more humane and sensible approach to sustaining community resilience.

MITIGATION MAKES GOOD BUSINESS SENSE

Reducing disaster damages by investing in strengthening communities is effective, as seen in many disaster-prone regions. A FEMA-sponsored study developed by the Multihazard Mitigation Council in 2006 yielded findings that demonstrated this fact. For every dollar spent to increase community safety in retrofits or other protective efforts before disasters hit, almost four dollars in post-disaster and recovery costs are saved.

Resilience planning does not change horrific catastrophes, but it does change our abilities to respond more successfully. Living with uncertainty and ensuring responsible ways to address community’s well-being is a main responsibility of government. A resilience approach provides an integrated framework to link the management of risk, preparation for a disruptive event and continuity planning for moving beyond the disaster.

With more careful integration among disaster preparation efforts, continuity planning and enterprise risk management (ERM), it’s now common practice to incorporate safety efforts as well into the daily workflow of a city or agency. Because crisis management and resilience planning are crucial to local government, building readiness processes into
Linking Disaster Resilience and Enterprise Risk Management

City of Cedar Rapids Historic Flood of 2008

the work program of departments/agencies is a way to mainstream resilience. Some local governments, utility groups and higher education institutions are using ERM systems as a way to mainstream resilience. This broad approach to risk management is a dynamic way to engage stakeholders who then consider both downside risks and opportunities as well as the effect of uncertainty upon key institutional objectives.

COMMUNITY RESILIENCE IS THE NEW NATIONAL NORM

FEMA's new “Whole Community” concept links private and public sector partners to improve the nation’s safety. According to FEMA, federal officials see “that a government-centric approach to emergency management is not enough to meet the challenges posed by a catastrophic incident.” After a lengthy engagement/input process, agency officials presented the findings as a new policy advance. Three sustaining principles of the initiative include understanding and meeting the needs of the whole community; engaging all parts of the community; and, strengthening what works well on a daily basis. The FEMA team works with communities to develop action plans that integrate disaster safety planning and community participation.

The Community and Regional Resilience Initiative (CARRI) project started in Tennessee as an effort to study improvements to how American cities address crises. The recent launch of its Community Resilience System is a milestone achievement after years of recovery research and national advisory team meetings. CARRI designated seven pilot cities across the country to further regional efforts to build disaster resilience using its “…web-based system that helps communities assess their capacity to withstand significant disturbances…” The effort is led by a partnership between the Meridian Institute and CARRI’s Global Security Directorate at the Oak Ridge National Laboratory.

The Harvard Kennedy School’s (HKS) Acting in Time Initiative is an ambitious initiative that applies technical (planning, engineering, fiscal) and academic resources to improve social resilience. The HKS disaster recovery project lead, Professor Herman “Dutch” Leonard, and faculty colleague, Doug Ahlers, work with cities on disaster public policy. Their team and local government partners “…identify core issues that cities face recovering from disaster; research best practices in disaster recovery and reconstruction; and make policy recommendations to prepare for local recovery.”

INNOVATIONS IN RESILIENCE

Often, cities see the benefit of cultivating resilience after having experienced a major disaster. Examples from the Midwest, Atlantic region and the West Coast demonstrate that disasters hit all regions with many common outcomes, no matter what type of event occurred.

CEDAR RAPIDS, IOWA

In June, 2008, floodwaters surged through Cedar Rapids’ City Hall, the Linn County courthouse and jail. On the banks of the Cedar River, the federal court building, the city’s fire department headquarters and the police department flooded. The river ripped through the city’s central business district, main government buildings and 5,400 homes. Water and electricity pipelines were severed; municipal roadways and bridges engulfed. The Cedar River crested at 31 feet, 11 feet higher than the record-setting floods of 1993.
The river overwhelmed 10 square miles of Cedar Rapids. No one died in the flood, thanks to extensive preparation for emergencies and a mobilized community, but Cedar Rapids paid a high toll for the disaster and applied valuable recovery and resilience lessons as the rebuilding went forward.

The Cedar Rapids local government had convened local business leaders in 2007 and 2008 to plan the city’s downtown economic development strategy BEFORE the June ’08 flood. Because a well-discussed plan was in place, the community got a jumpstart on recovery because the plan and community partnerships were in place. After three-and-a-half years, most of the city’s major public construction projects are at, or near, completion.

CITY AND COUNTY OF SAN FRANCISCO
San Francisco has been preparing for disasters since the 1906 earthquake. There are many strong influences that keep community safety on the board of supervisors’ front burner: well-organized and -informed neighborhood associations, alert elected leaders, and an effective first-response system. But, beyond emergency response proficiency, San Franciscans are committed to strengthening community resilience.

When the 1989 Loma Prieta earthquake struck during the World Series between the San Francisco Giants and the Oakland A’s, the media covered the disaster first-hand as it unfolded. The earthquake aftermath included a flurry of local bond measures (all passed with a super-majority approval rate) to fund the disaster reconstruction—in the last 23 years, over 190 major city facility retrofits were completed (totaling about $380 million), the municipal water system is just finishing a $4.6 billion system upgrade and a residential building safety program is in the works. Local voters saw that investing their tax dollars in community safety was a must.

City staff guided advance recovery and resilience planning through interdepartmental coordination and developed strong alliances with planning and engineering professionals. A local think tank, SPUR, convened city and neighborhood leaders and crafted “The Resilient City,” a policy guide that outlines the expected performance standards for San Francisco’s utility services and building restorations. The City and County of San Francisco’s inclusive approach builds sustainable policy with a theme of seismic reliability in its general plan, community safety element and local hazard mitigation plan.

San Francisco is considered a national best-practice city with its sophisticated response systems, community organizing/preparedness programs and ongoing risk reduction initiatives. Defining measures to quantify actual readiness are always a challenge, and local officials are using inventive approaches to define resilience metrics. Some promising results are emerging through ERM pilot projects in select departments. The International Standards Organization 31000 process on ERM and the city’s risk tracking system (JCAD, a British-originated web application) provide viable and accessible ways to implement a risk resilience program that includes hazard identification, assessment and mitigation. Adopting these practical techniques provides a consistent process for the city staff to operationalize disaster safety activities within the risk management work and across department boundaries.
STATE OF FLORIDA

The State of Florida requires coastal communities to produce a Post-Disaster Redevelopment Plan (PDRP) typically as part of a local general plan. State law mandates such planning so communities in a region with so many repetitive disasters can implement sustainable development and recover quickly. Floridians have done substantial safety work through the adoption of prudent building codes and construction standards, along with improvements to site and development location and use.

Further, the state has partnered with FEMA and NOAA and refreshed local government efforts for the PRDP process in pilot communities in high-impact hurricane corridors. A 2010 analysis of the redevelopment planning (Review of Florida Post-Disaster Redevelopment Plans, State of Florida) shows that accomplishing the recovery plans before disasters hit helped build consensus on post-disaster economic planning and priorities.

ACTING NOW FOR A SAFER FUTURE

Here are a few initial, low-cost actions possible to take to start a resilient community effort:

➊ Call together a core group of risk-savvy colleagues and community leaders to start discussions about linking disaster safety programs with your jurisdiction’s risk management efforts. Convene partners from both the public and private sectors to address post-disaster issues on governance, fiscal recovery and lifeline resilience. Crafting locally appropriate solutions is the key to a successful start.

➋ Tap local and regional resources to fill out your community risk profile with no- and low-cost resource materials from state and federal agencies. Investigate what risk studies and plans are in place with your neighboring communities for better coordination and partnership in crises.

➌ Learn from best practices such as the State of Florida’s post-disaster development planning law and consider adoption of a comprehensive recovery plan. Establish how all stakeholders will share in the community’s revitalization after a disruption for an equitable recovery.

➍ Leverage local and regional talent to support the resilience initiative. Call upon regional universities, community associations and neighborhood groups to be part of the assessment and mitigation planning. This builds support and awareness for community safety programs and funding campaigns.

➎ Define a post-disaster governance plan with a legislative, executive and administrative contingency framework. Specify procedures for convening the governing body in alternate circumstances and designate a team of officials to keep operations functioning in the recovery period.

Many communities have learned these lessons in the aftermath of major disasters when prudent planning was all but impossible. Taking time now, before a large-scale crisis hits, is a practical action to ease the recovery and map the way to a more resilient future.

Arrietta Chakos is a public policy advisor on urban disaster resilience. She currently works on crisis management and community/multi-sectoral engagement in California cities.

ENDNOTES

1 National Oceanic and Atmospheric Administration; National Climatic Data Center website: (www.ncdc.noaa.gov)
2 September 2011 CARRI digital newsletter
3 Harvard Kennedy School website: Program on Crisis Leadership www.hks.harvard.edu/programs/crisisleadership
4 State of Florida’s StormSmart website: http://fl.stormsmart.org

From IIUC UBC
Number of years of ERM implementation in your entity:
I have been working on ERM in the federal government for seven years total, including five-and-a-half years at the National Institutes of Health and one-and-a-half years at the U.S. Department of Commerce.

In my experience, ERM practice is growing in the federal arena, and several agencies have begun ERM initiatives. Other resources being used to inform government risk professionals include the FederalERM.com Web site and the newly formed Association for Federal Enterprise Risk Management (AFERM).

What’s a major accomplishment of your ERM program?
One major accomplishment was the completion of a pilot test of an ERM framework and associated tools to help answer initial research questions. The pilot test can serve as a vehicle for building trust and a good foundation with stakeholders.

Have you hit any major stumbling blocks and how did you respond to them?
Any type of change is a stumbling block. I responded by working one-on-one with organizations through ERM mentoring engagements to help explain concepts and expectations.

How is the management of risk linked to key objectives or strategy?
The identification and management of risks associated with programs and projects that link directly to the strategic plan are a top priority. This is an ongoing and recurring key activity.

What advice do you have for someone just beginning?
For organizations starting out, an assessment of the current risk environment is essential. It will provide the opportunity to determine the type of risk activities being carried out within the organization. It can also provide a glimpse of the cultural behaviors and views about risk-taking and managing risk. An often overlooked strategy is capturing any internal best practices already in play. ERM champions should design an operational risk structure and helpful tools (i.e. templates, databases, guidebooks) that can help deliver quick wins. This leads to the sharing of examples of how risk is applied in an organizational setting—also an effective way to get buy-in. Finally, getting key stakeholders involved quickly is imperative. They should be engaged early on in action-learning activities (i.e. a basic risk assessment workshop) where they can easily associate and see the relevance and value of risk management to what they do day-to-day.
“Sometimes I have to go above and beyond—literally.
“Traveling the Alaskan bush to over 150 cities, boroughs and school districts is daunting, but I love what I do. Helping our members is hugely rewarding. They aren’t just risk partners, they’ve become personal friends.
“To protect them from risk and losses, we rely on Genesis for reinsurance. When we encounter a little turbulence—or worse—it’s comforting to know we can trust their specialized expertise and top notch security.
“With Genesis, we can always count on safe landings no matter what risks cross our path.”

— Kevin Smith, Executive Director
Alaska Municipal League
Joint Insurance Association
MAKING ERM RELEVANT:
A CONVERSATION BETWEEN PUBLIC RISK MANAGEMENT LEADERS

By Matt Hansen, MPA

On February 14, 2012, Matt Hansen, director, risk management division, for the
City and County of San Francisco, moderated a conversation between Deborah
Luthi, RIMS president and risk manager for the San Francisco Public Utilities
Commission, and Cindy Mallet, PRIMA president and risk manager for the City of
Gainesville, Ga. The conversation between these two risk management leaders
focused on the topic of advancing enterprise risk management (ERM) in the public
sector. As PRIMA president, Mallett represents the experience of more than 1,500
part-time and full-duty public sector risk managers. The unique perspective that
Luthi brings is her involvement with ERM initiatives in two very different public
entities—a public institution of higher education and the San Francisco Public
Utilities Commission. Plus, as current president of RIMS, she has been exposed to
ERM practices from a variety of organizations—public, private, large corporations
and multi-nationals. This conversation also represents a goal of both organizations
to foster open dialogue between PRIMA and RIMS on important issues that affect
our memberships and our industry.

Cindy Mallett: Deborah, thank you for taking the time
to share your ERM experience with PRIMA’s membership.
Can you describe your background in ERM?

Deborah Luthi: I was the risk manager for University
or California, Davis, for over 20 years. I started out as a
traditional risk manager, but over time I began to hear about
ERM through my association with RIMS. UC risk manage-
ment is structured with system-wide risk management in the
Office of the President and each campus having its own risk
management function. Believing that ERM was the next
maturation of risk management, I initiated talks at the Office
of the President about how a system-wide ERM initiative
would be beneficial to the whole of UC and could be rolled
out across the organization, campus-by-campus. As anyone
pitching a new concept has learned, an organization needs to
be ready and open to change. They weren’t quite there until
they hired Grace Crickett, now chief risk officer, who has
championed the UC-wide ERM program. I collaborated
with Grace and UC Davis was one of the first UC ERM
implementations. Following my tenure with UC Davis, I
returned to the private sector for a short time until I landed
at the San Francisco Public Utilities Commission (SFPUC)
in 2010.

CM: You’ve been involved in more than one public sector
ERM implementation. Did you use the same approach for
each one? What was similar or different about them?

DL: Each approach was different—ERM is not a cookie
cutter-type of program and it has to be tailored to each
organization. At UC, since it was a system-wide initiative,
The conversation between these two risk management leaders focused on the topic of advancing enterprise risk management (ERM) in the public sector... This conversation also represents a goal of both organizations to foster open dialogue between PRIMA and RIMS on important issues that affect our memberships and our industry.

we took a very strategic approach based upon the COSO framework. All areas of the organization were at the table to identify and rank risks. Tied to improved financial accountability, it allowed the UC system and campus risk managers to tie risks to internal benchmarks.

With two multi-billion dollar infrastructure improvement projects, SFPUC’s hook was the bond rating focus, and the ERM program began as a pilot project within the business services unit, utilizing the city’s adopted framework. When I came into the position 15 months ago, initial work had been done identifying risks, ranking and assigning the risk owners. The SFPUC also had an automated tool (JCAD) provided through the city’s risk management division. That tool makes the workflow and tracking transparent for all risks. It also assists with furthering the management, tracking and documentation of the improvements to the risk mitigation efforts within each project, business unit or department utilizing ERM.

CM: So this automated JCAD/ERM workflow system is not isolated for just SFPUC use? Are there more users?

DL: Yes, this is a “sea change” in the view of risk management citywide and Matt Hansen, director of risk management, and his team have been the facilitators of the ERM process to utilize a consolidated framework and set of tools across the city. His team assists departments to identify obstacles and opportunities to achieving individual and combined objectives. It took a lot of work to address underlying cultural issues and the fear of acknowledging risks to get the program underway. Now, at SFPUC, we are evolving our process to describing what we are doing about each risk, developing key performance indicators (KPIs) and tying those to the SFPUC’s Strategic Sustainability Plan so that we can monitor and measure improvement. In this way, ERM is evolving into a more programmatic and strategic focus as the program matures. ERM also helps bring down organizational silos and open the discussion of risk across functions and parts of the organization.

CM: In the United States, higher education institutions seem to be further ahead of municipalities, K-12 schools and other public sector organizations in ERM implementation. Why do you think that is?

DL: When I think back to my experience at UC, I think it was the economy and in turn, the regents’ concerns regarding financial accountability that pushed UC to focus keenly on how to do business better and quantify its total cost of risk. ERM was an effective tool to show how dollars could be freed up to support the activities that are the most beneficial to the mission of the organization.

CM: As president of RIMS, you’ve been exposed to lots of ERM programs in big corporations and multi-national organizations. What can we learn from them to apply in the public sector?

DL: There is not one-size fits all, as we’ve already discussed, but the basic principles and framework are in common. But how ERM is rolled out or tied to organizational objectives is unique to each entity, whether public or private. Private sector businesses are bottom-line driven; finding those linkages within public agencies requires a bit more ingenuity and creativity. For example, at the SFPUC, if we can use ERM to have more predictable and stable rates and services for our constituents, then ERM creates that linkage to an important agency objective.
public agencies, it comes down to what is most important and then identifying what risks have the most potential to occur with the most significant impact. ERM helps agencies make better decisions and put resources where they are most important—whether it’s for stockholders or your residents and constituents. That’s the ultimate bottom line.

CM: Expanding on your previous comments, how would you describe the benefits of an ERM program to a public entity that wants to expand beyond traditional risk management practices?

DL: In the private sector, there tends to be more attention given to strategic planning and not so much on the public entity side, in my experience. ERM can help public entities to be more effective in their planning (strategic, financial or otherwise) since a robust ERM program helps focus on the goals of the organization and obstacles to achieving those goals, while not ignoring the opportunities available along the way. Also, ERM naturally improves decision making for the organization through increased communication across former silos. It can even improve the public perception about how decisions are made, being that there is a rigorous process around strategic decisions. ERM creates cultural shifts about how we talk about risk and how we link risks to strategic planning and decision making. This assures that we are looking at how we go about our mission sustainably.

CM: It seems like another great benefit of ERM is that other departments are more involved and that helps drive ownership of risk across the organization, right?

DL: Definitely. At the SFPUC, word is spreading beyond the pilot. SFPUC has three distinct revenue-generating enterprises; one of them, the power group, has said they now want to implement ERM. We provided an overview to the senior power team and one project manager said, “This is really good stuff but what am going to take off my plate to be able to do this?” We explained that ERM isn’t about creating a “new set of tasks” but helping you more strategically and effectively deal with what you already have on your plate. This theory was put into practice when a member of the project manager’s team contacted us to discuss safety concerns about a lighting project. Risk management offered to facilitate a risk assessment during which the team identified “business” risks well beyond just the safety issues. The risk assessment also provided the team the opportunity to vocalize and then really formalize the objective of the project. Often times it takes awhile for any team to clarify the objectives of a project and ERM is a management plus to the whole process by providing a framework for that discussion. By the end of the assessment session, the project manager concerned about the extra time ERM would take said, “This ERM thing is fantastic, and I have always wanted to be able to identify all the concerns with the project and be able to communicate those up to senior management for decision making. ERM has now provided me with the tools and framework to achieve that goal.”

CM: Earlier we spoke about program similarities and what we can learn from private entities—and that the motivation tended toward the bottom line. Do you want to talk about public agency motivations to implement ERM?

DL: There are many, but I think budgets and scarce resources are our “new normal” and a main driver. I see ERM being integrated into the way an organization does its work. It’s a strategic business discipline that helps us make smart resource decisions. Also, public agencies (and every organization really) are seeing an increased pace of change, and how are we going to bring some sanity to that madness? ERM is a great tool to do that.
CM: Now the $64,000 question is: for a public entity risk manager who says they want to tackle ERM—what’s your advice?

DL: Many of us have come up through the traditional risk management route and many of our organizations still see us as the “insurance buyer.” That’s a challenge. Another challenge is that ERM takes many of us out of our comfort zones. During my involvement with RIMS, I’ve found that continuing education and access to a network of other risk managers has been important. It’s where I go with questions and for suggestions on how to approach something new. My goal has always been to be seen by my organization as a person working to introduce best practices. And on a personal level, continual education is how I keep going.

If you have top support in your agency and awareness about ERM, that’s great. But that doesn’t seem to happen all that often. So it is incumbent on us to become catalysts and leaders within our agencies for continual growth. Maybe it starts with a program or project that is floundering where you (the risk manager) can help facilitate an ERM approach to discussing risks and solutions. Do it on a small pilot basis—where you can help to foster or enable success. Do this well and they will talk about it - the buzz gets out there.

CM: Is there anything else you think PRIMA members and those risk professionals in public agencies need to know about ERM?

DL: Public risk professionals should utilize the PRIMA conference as a place that brings public risk managers and risk practitioners together to provide education and lessons learned. Also, the networking is invaluable to know you are not alone. Reaching out to others for advice and guidance cultivates idea sharing.

I appreciate the opportunity to discuss ERM with the PRIMA audience—and as I talk about it, I gain insights myself. It’s good to know the concept and the theory, but what does it look like in reality? That’s what we all want to know. I hope that describing my experiences just might encourage the growth of ERM in the public sector.
Plan now to attend the 2012 PRIMA Institute, November 5–7, in Charlotte, NC. This comprehensive risk management program is perfect for those just starting out in risk management or who have less than five years of risk management experience.

This three-day session will help you define the total cost of risk in your organization, the types of insurance programs available to public risk managers, how to empower your risk management team and get a seat at the decision-makers’ table. Each day concludes with case study presentations from experienced risk managers!

A full schedule of sessions, as well as registration information, will be available soon.

MARK YOUR CALENDARS AND DON’T MISS THIS EVENT!
We have had an interesting evolution of risk management practices in the United States, focused around risk control and financing. In the public sector, there was a surge of innovative risk transfer practices developed during the 80s, following the fallout in the insurance market. Ask someone who’s been in the field since then and they’ll describe the cover of the *Time* magazine that read, “America, your insurance has been canceled,” and the scramble that followed as cities, counties and schools rebounded from cancellations and triple-digit premium increases. Prior to the hard market of the mid-1980s, most public entities were insured in “first-dollar” insurance programs (where we assumed that an insurance company would take care of any risk that might arise).

Following the catastrophic cancellation notices, we responded with American ingenuity and grit as we created a plethora of public entity pools, self-insurance programs, captives and ever-progressive ways to transfer the risk of financial loss away from our entities. We also got busy creating training and prevention programs (as way of focusing on root causes to reduce claims) and managing post-loss costs (litigation and claims management and return-to-work programs are good examples). The driver of these changes, for experienced risk managers, was to reduce the overall cost of risk (COR) for their entity. Even if public entity risk managers weren’t using the cost-of-risk formula, they were looking for ways to protect the organization from the harm of unexpected adverse events and balance (and explain) the costs and benefits of that protection.

The illustration below summarizes how our thinking has evolved over the past few decades regarding the management of risk. Today, most public sector insurance buyers in the U.S. participate in a pool or utilize a more sophisticated risk transfer program than “first-dollar” insurance coverage. And our profession has evolved to include more sophisticated risk control techniques, risk prediction models and risk communication tools, as well. Some examples of those techniques include behavior-based safety programs, cost-allocation models that hold departments accountable for losses, contractual risk transfer requirements, stewardship reports, safety incentives and cost-benefit analyses.
Our risk transfer practices have evolved to be more comprehensive and integrated. And yet, we are still not very good at thinking forward about risk or linking the management of risk to key strategies. Our risk identification methods are rooted in insurable risks and claims history. We look back in order to predict the future, and as we learned on 9/11, that doesn’t necessarily help us prepare for what is on the horizon. We’re also not good at talking about risks that are global, difficult to measure or out of the bounds of insurance. I have heard insurance companies estimate that only 20–30 percent of all risks are insurable, yet we continue to focus on those risks in our public sector risk management programs. We have built competencies that are segregated (HR, law enforcement, information technology, workers’ compensation, facilities management, compliance, emergency management) and that lack of integration and lack of communication creates risk. And we struggle to keep risk management important to decision makers and on the radar of managers and leaders. So even if you have kept up with the advancements in public sector risk management over the past three decades and developed an integrated risk management program, how do you address these issues that are more strategic in nature? And how could you take the next steps and evolve your program to the next level, into an enterprise risk management program?

A great place to start is with the ISO 31000 standard, published in 2009, and its Implementation Guide, due to be released in 2014 or 2015. After comparing that standard to traditional risk management practices and successful ERM programs in the public sector, some key differentiators emerge. Focus on these as starting points to develop a broader approach to managing risk:

➊ Link the management of risk to what is most important to the organization

The definition of risk from ISO 31000 is the effect of uncertainty upon our objectives. Risk management can support the achievement of goals and objectives by addressing uncertainties. All kinds of internal and external factors and influences cause uncertainty. Uncertainties can be both positive and negative (sometimes simultaneously) and outcomes are never guaranteed. Therefore, the more clearly we can identify uncertainties—and risks—and figure out how to respond to them, the better the chance we will achieve our goals.

As risk managers, we really know the risk assessment process of defining the context, identifying, analyzing, evaluating and treating risk. That process, applied to decision making and key objectives (e.g., what is most important to the organization), is a powerful way to evolve your risk management program and bring real value to the organization.

In a recent risk assessment workshop at a community college, I witnessed a group put this into action as they discussed the possibility of adding new curriculum to their college offerings. The curriculum might bring new students (and revenue), faculty and business partnerships to the college. It would support local businesses and their desire to hire trained personnel. It would align with one of the key missions of the school, which is to drive innovation and innovative programs. The curriculum would also pose safety concerns (the coursework would involve sharp knives, chainsaws and food safety controls) that would need to be addressed. It could require additional building facilities and capital outlay. A thorough risk assessment of this opportunity would bring key stakeholders together to work through the uncertainties and make plans to treat risks to support the success of the program. The risk manager could facilitate the discussion and help risk owners think through treatment options (which may include additional insurance, but that is not the central focus of the risk review or the starting point for the risk manager’s participation).

➋ Make everyone responsible for risk

Thinking about risk should be everyone’s job. The mantra of several successful public entity ERM programs is that “ERM = Everyone is a Risk Manager.” That means that employees understand their responsibilities and roles. That means that stakeholders are identified and taken into account in the process. That means that there is a lot of education and information about risk available. In a county in the United Kingdom with an award-winning ERM program, when you enter any public building, you are greeted with a poster describing their definition of risk and why the management of risk matters to the county. You see them everywhere. One poster even encourages the taking of risk in an informed and positive-thinking manner. Some examples from U.S. entities include engaging employees by describing the ERM process on the back of employee identification badges and giving prizes and incentives for participating in online ERM training. Engagement builds awareness and participation and ultimately, support for meeting goals and objectives through a broader approach to risk.

➌ Increase accountability

Who owns the risk? How many times have you heard someone say, “I don’t worry about that (risk). That’s why we have insurance!” If your program to manage risk is based upon insurance, then you may think of the insurance company as the risk owner. That’s never completely true and it is the least effective approach to managing risk! Imagine instead that there is broad-based understanding of risk and responsibility in your organization. The top-ranked risks (potentially damaging scenarios or highly valued opportunities) are identified and owned by the people who have the authority to treat those risks (to avoid harm and support success). They communicate across the organization about their treatment plans, engaging others as appropriate, and report on changes in conditions and the ranking of risk to assure that risks are within tolerance limits. In this scenario, risk managers are leaders, facilitators and...
teachers more than insurance buyers and risks are managed by those who have the most direct control over them.

**Get serious about measurement and communication**
How do we quantify the value of risk management? We know that $1 spent on mitigation can save an average of $4 in post-loss costs. There are similar estimates available from other safety and prevention sources. If decision makers in your entity think that cutting risk management or training efforts is a valid way to balance a budget, then they don’t understand the value of the investment in risk management. They need to be reminded often and in terms of reference that make sense to them. If you haven’t communicated that message lately, you may be putting your risk management program in jeopardy.

Surprisingly few public sector risk managers utilize “cost of risk” (COR) measurements to track their insurance and risk management costs year after year. It is an effective tool to track costs over time and to benchmark costs against your own experience. Although insurable risks are still at the heart of COR calculations, true COR also includes all other expenditures related to managing risk. That could make it a first step toward a broader approach to risk (more effective than just reporting insurance costs year after year).

The ISO 31000 framework utilizes risk criteria during the risk assessment process to determine the level of risk that is tolerable for your organization (or that you are capable of retaining). Traditional risk managers could learn a lot from that model about how to measure and analyze risk—and communicate to appropriate stakeholders about the process. Traditional risk managers need to increase their use of measurement and communication tools in order to elevate the importance and relevance of risk management to their organizations.

At the same time that ISO 31000 was published, ISO 31010 was created to provide detail about a wide range of risk assessment methodologies. If you haven’t seen the ISO publications yet, they are worth a view. ISO 31010 identifies the most effective risk assessment (and measurement) tools available—and gives advice about how and when to apply them.

**Look for interrelated and emerging risks**

Here’s one example. In a risk identification session where a cross-section of employees were discussing the risks that concern them the most, someone identified a concern that was, on its own, not a huge risk to the organization. It involved transporting small amounts of cash and payments to a neighborhood bank. It turned out, however, that the same concern was expressed in other risk identification sessions, by other departments, in other neighborhoods across the city. And the cash was being carried on foot through dicey neighborhoods. Every day. Multiple times each day. Cumulatively, this is no longer a small risk to the organization.

In another example, a port authority was reviewing its processes and procedures in anticipation of the spread of the H1N1 virus. The response to that possible risk included processes and procedures in anticipation of the spread of the virus. The response to that possible risk included the anticipation of sick employees, thinking about how to protect the public from the spreading virus and preparation to increase the number of visits from cruise ships that were being diverted from Mexico. Thinking through the port authority as an entity think that cutting risk management or training efforts is a valid way to balance a budget, then they don’t understand the value of the investment in risk management. They need to be reminded often and in terms of reference that make sense to them. If you haven’t communicated that message lately, you may be putting your risk management program in jeopardy.

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does opportunity accompany adversity? And is your entity ready to respond to both?

If we are focused on our individual department’s risks, we might be missing interrelated risks. If we believe that the future will continue to look like the past, we may miss opportunities and fail to thrive. This is true for our organizations and it’s true for us as individuals, as well. Some of the emerging risks for public sector risk managers include the failure to "stretch”—beyond the way things have always been done, failure to lead and failure to innovate.

Keep your eye on the whole field and continue to learn
One of the brilliant aspects of the ISO 31000 model is that the framework keeps us honest about what’s working, what needs improvement and how to measure our success. It’s essentially a process of continual improvement that we can apply to how risk is managed across our organization. The standard utilizes a framework that emphasizes the importance of connecting all the dots of risk management—across all practices—and assures that everyone in the organization is “speaking the same language” (of risk) and working to support the same goals.

Especially these days, this may seem like a tough aspiration to hold. Lots of risk managers are “hunkered down,” trying to get through the day without bringing too much attention to themselves or their departments during the waves of political change, budget cuts and employee layoffs. That may seem like a time to reduce risk taking and creativity in your job. And yet—without continual improvement, we are doomed to repeating past mistakes. And we are doomed to stagnation rather than growth.

Another way to look at this is that our current circumstances give us the opportunity to “lead up.” I know one forward-thinking risk manager who was trying to implement ERM in her public entity. She had one particularly outspoken critic; someone who never missed an opportunity to criticize risk management and their attempts to “control his department.” When the risk manager created her ERM Advisory Committee, she made a point to invite her critic to participate. She spent extra time meeting with the department head to understand his concerns and explain the new approach to risk management. She found out what he cared most about and sought ways for risk management to support his success. Within a half year, the critic began to turn into a strong ally and supporter of ERM and not much later, became a program champion for the whole organization.

We are still in the beginning stages of implementing ERM in the public sector in the U.S. We have a lot to learn about what works—and doesn’t work—as we move down this path. The framework of ERM supports that learning…

Here’s to growth!

Dorothy Gjerdrum, CIRM, ARM-P is the executive director of the Public Entity & Scholastic Division of Arthur J. Gallagher Risk Management Services.

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Here’s to growth!
MATT HANSEN, MPA
DIRECTOR, RISK MANAGEMENT DIVISION
CITY & COUNTY OF SAN FRANCISCO

Number of years of ERM implementation in your entity:
4 years.

What’s a major accomplishment of your ERM program?
We have adopted ISO 31000 as the city-wide framework and piloted ERM within three departments/business units. Implementations are in phase two of maturity. We are also developing an “ERM lite” risk assessment process for use at a project or task level.

Have you hit any major stumbling blocks and how did you respond to them?
Keeping ERM fresh and at the forefront requires constant attention. In a couple of cases, letting too much time pass before reconvening the department’s risk working group has affected collective memory of why ERM is important. It becomes a delicate balance of maintaining the right schedule and providing motivation until the culture shifts and ERM is more embedded in the organizational fabric.

How is the management of risk linked to key objectives or strategy?
Within our automated work flow tool, risks are linked to either a set of Key Performance Indicators or some other strategic performance plan. This ensures that the risk owners keep the lineage in mind while reviewing and moving their mitigations toward their ultimate goal. Also, having this linkage makes for more comprehensive reporting (and reporting up), which ultimately can help inform decision making and prioritization of resources.

What advice do you have for someone just beginning?
Practice on yourself first. We found it helpful to begin with our own division and include our external partners (brokers and consultants) in addition to internal stakeholders (risk management staff and our boss). We learned a great deal from the external partners in that process. When working toward broader implementation, reading the organizational culture will help determine the path. For us, we had to follow the money and use the motivation of ERM’s effect on improving bond ratings. In other instances, we were able to help a “project in need” to find direction and review risks and opportunities.

In the end, ERM is about having a consistent framework to apply, no matter how divergent the operation or project. Using a consistent language and process is important—it increases communication across silos. Lastly, ERM is an iterative process that is never “done.” Risks and their mitigations will change and evolve and the framework is designed to accommodate that reality. In the beginning, it may feel like you are “stuck in the mud,” but that will change. When I look back, after the first year of implementing ERM within my own division, I was amazed at the progress that occurred.

Keeping ERM fresh and at the forefront requires constant attention... It becomes a delicate balance of maintaining the right schedule and providing motivation until the culture shifts and ERM is more embedded in the organizational fabric.
Number of years of ERM implementation in your entity:
4 years.

What’s a major accomplishment of your ERM program?
We have used a four-phase approach to implementing ERM at ECU. Over the past four years, we have build the case for ERM, laid the foundation for its implementation, completed most of the major steps in implementing ERM and we are now focused on extending the tenets of ERM deeper into individual departments and business units. We must ensure that our progress is sustained in the institutional culture for the future. We are emphasizing the formal establishment of oversight and ownership of the major risks and their corresponding controls. An important part of sustaining our effort involved both formalizing our processes for tracking successes and targeting major risk drivers.

Have you hit any major stumbling blocks and how did you respond to them?
One of the major challenges is retraining individual and institutional behavior to include the consideration of risk. Defensive attitudes and wariness on the part of some leaders can be an obstacle to risk communication and independent analysis. These situations are almost always resolved with additional communication as to the purpose of our ERM efforts and by establishing trust as to how information about risks and areas of control weakness will be used. Regular and clear communications from the president- or chancellor-level is critical to sustaining progress. We also hosted an ERM symposium on our campus to reinforce the message of the value of ERM to our university.

How is the management of risk linked to key objectives or strategy?
We include ERM in our processes for quality improvement initiatives, accreditation renewal and executive decision making. The assistant vice chancellor for ERM regularly addresses the connection between ERM and objectives during key strategic meetings of the executive council, academic deans and directors meetings. ECU views ERM as a strategic enabler which helps reduce the obstacles and threats to attaining our objectives. We emphasize that ERM is just as important to help select which risks to accept and opportunities to take as it is to determine what to try and avoid.

What advice do you have for someone just beginning?
Make sure you develop an implementation strategy that matches the institutional culture and disposition of senior leaders and the governing board. Don’t get overwhelmed by all of the references available on the Internet: tailor, tailor, tailor. One size doesn’t fit all. Manage expectations and work on the common risk lexicon up front so that you develop a unified ERM construct and vision. Be cautious of the first impression you make if you’re the main ERM front person or maven. Don’t become a risk cop or someone that people fear if they raise the hood of their area of responsibility for outsiders to evaluate. You need to cultivate openness and trust. Lastly, find a rhythm for ERM key and essential actions. Enterprise-wide risk surveys and executive dialogue can only occur so often. You need to set realistic expectations and not grow a monster with a new untenable workload associated with it.

Leverage the activities of risk response already in place, but don’t fall into the trap of just relabeling conventional risk management—or environmental health and safety activities—as enterprise risk management. ERM is different, at a higher level of focus, and must maintain its definite distinction as a strategic-level activity or you won’t achieve the cultural changes sought.
Number of years of ERM implementation in your entity:
8 years.

What’s a major accomplishment of your ERM program?
We have an ERM implementation plan, the Maricopa Integrated Risk Assessment Committee (MIRA), descriptions of our risk environment, culture and appetite, a risk register/best practices spreadsheet and numerous tools to help people identify, understand and manage risk. We won an award from URMIA for the project: the “Innovative Risk Management Solutions Award.” In 2012, we will be focusing on a district-wide risk assessment and an electronic risk assessment tool.

Have you hit any major stumbling blocks and how did you respond to them?
Initially, the “new” risk management language was confusing to employees and there was a lack of understanding about ERM. We solved that by developing a common language, publishing a glossary of terms and developing training courses.

RUTH UNKS, ARM, DRM
DIRECTOR OF ENTERPRISE RISK MANAGEMENT
MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT (MCCCD)

How is the management of risk linked to key objectives or strategy?
From a personal and professional viewpoint, as chair of the MIRA project, I have gained significant insight into the many risks and opportunities present in daily operations. I am involved with our strategic planning process, report quarterly to the audit/finance committee, meet annually with the chancellor’s executive council and faculty executive committee. I am no longer perceived as “the insurance person,” but as the “risk advisor.” Risk management is not viewed as a negative process.

What advice do you have for someone just beginning?
MIRA’s success depends on the coordinated and cooperative response from employees on every level—both individually and collectively. One of the biggest lessons we have learned is that we need to have top-level support, commitment and participation. We were fortunate because our chancellor is our “champion” and he has given the MIRA committee and me his full support. However, the support of certain key employee constituencies has been challenging due to a lack of understanding regarding risk management. By continuing to follow our implementation plan and the MIRA strategic plan, step-by-step, little-by-little, we will continue to be a resource to our employees so that they will deliver high-quality education to our students in an efficient and cost-effective manner.

Initially, the “new” risk management language was confusing to employees and there was a lack of understanding about ERM. We solved that by developing a common language, publishing a glossary of terms and developing training courses.
Because you can’t always predict where an accident will end up. Or where it’ll begin.

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