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Risk Management: What I Wish I'd Known When I Started

CHADD HODKINSON & VINCE MORRIS
HIGHER EDUCATION PRACTICE

What do these have in common?

- Derivatives/options trader
- Pest control specialist
- Neighborhood kid with snow shovel
- Personal trainer/nutritionist
- Parking ticket “fixer”
- Botox injector
- Hazardous waste hauler
- **Insurance broker/agent**



Ripped from the Headlines

Higher Ed Risk Management issues these days

- **International Students Stream Into U.S. Colleges** – *The Wall Street Journal*, March 24, 2015
- **Hospital Agrees to Pay \$190 Million Over Recording of Pelvic Exams** – *New York Times*, July 21, 2014
- **Data Spotlight: Higher education, *higher* cyber risk** – Advisen, April 2, 2015
- **For Activists, What Does Victory Mean?...In Missouri, 2 Leaders Step Down. Calls for Change Persist** – *The Chronicle of Higher Education*, November 30, 2015
- **These Are All the College Campus Shootings in 2015...23 shootings on college campuses in 2015** - *TIME Magazine*, October 9, 2015
- **The Rise of Alternative Capital** – Insurance Information Institute, March 26, 2015
- **Historic Breakthroughs in Research and Clinical Care** – *UAB Magazine*, Fall 2015

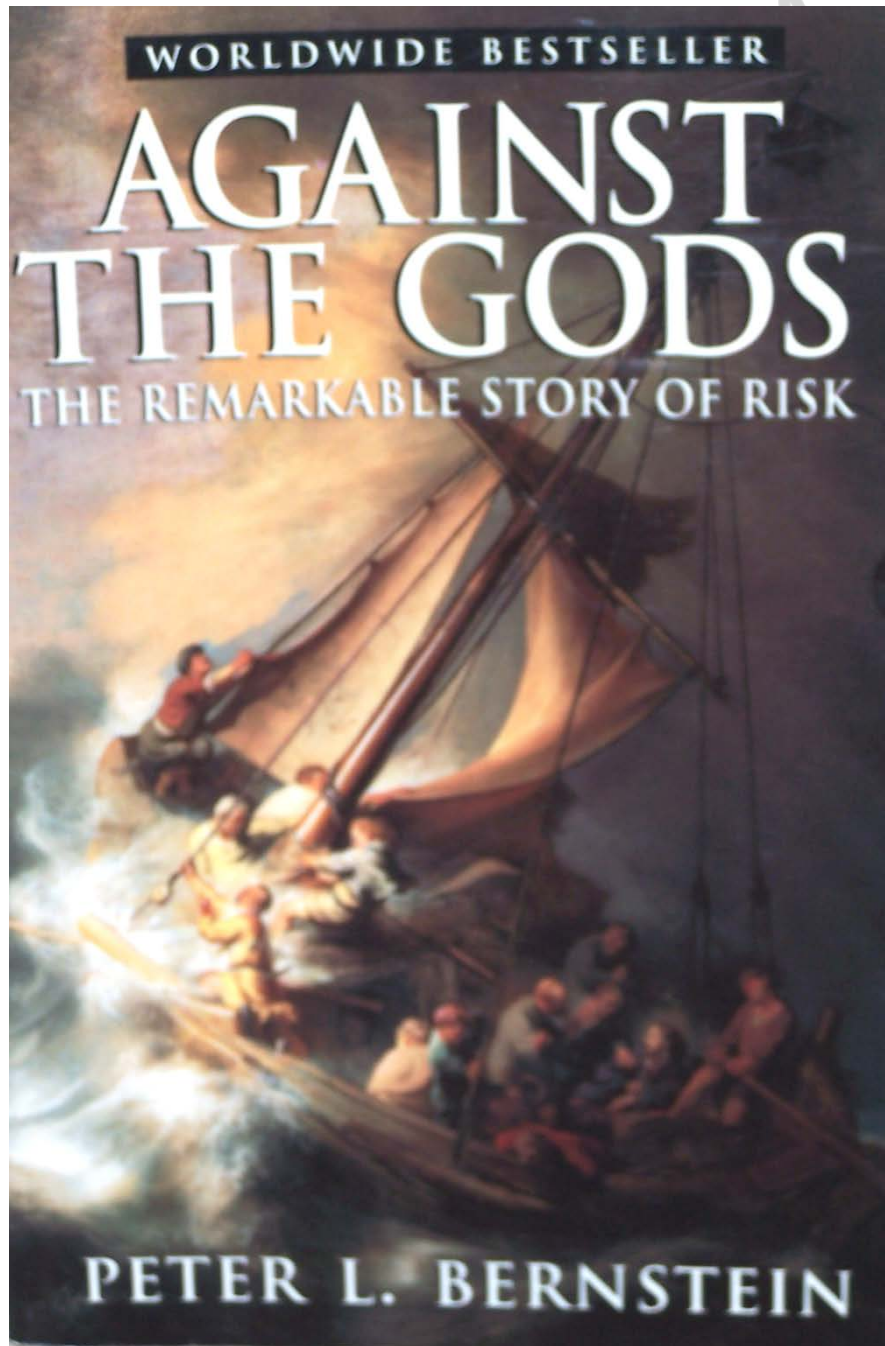


Paid to be Paranoid

WORLDWIDE BESTSELLER

AGAINST THE GODS

THE REMARKABLE STORY OF RISK



PETER L. BERNSTEIN



Trias



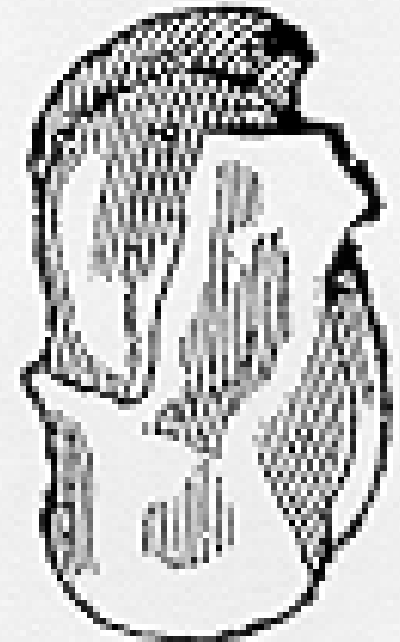
Tetras



Monas



Hexas



Supinut

Pronut

Planut

Tortuosum

Simple Scoring Rules for Tali

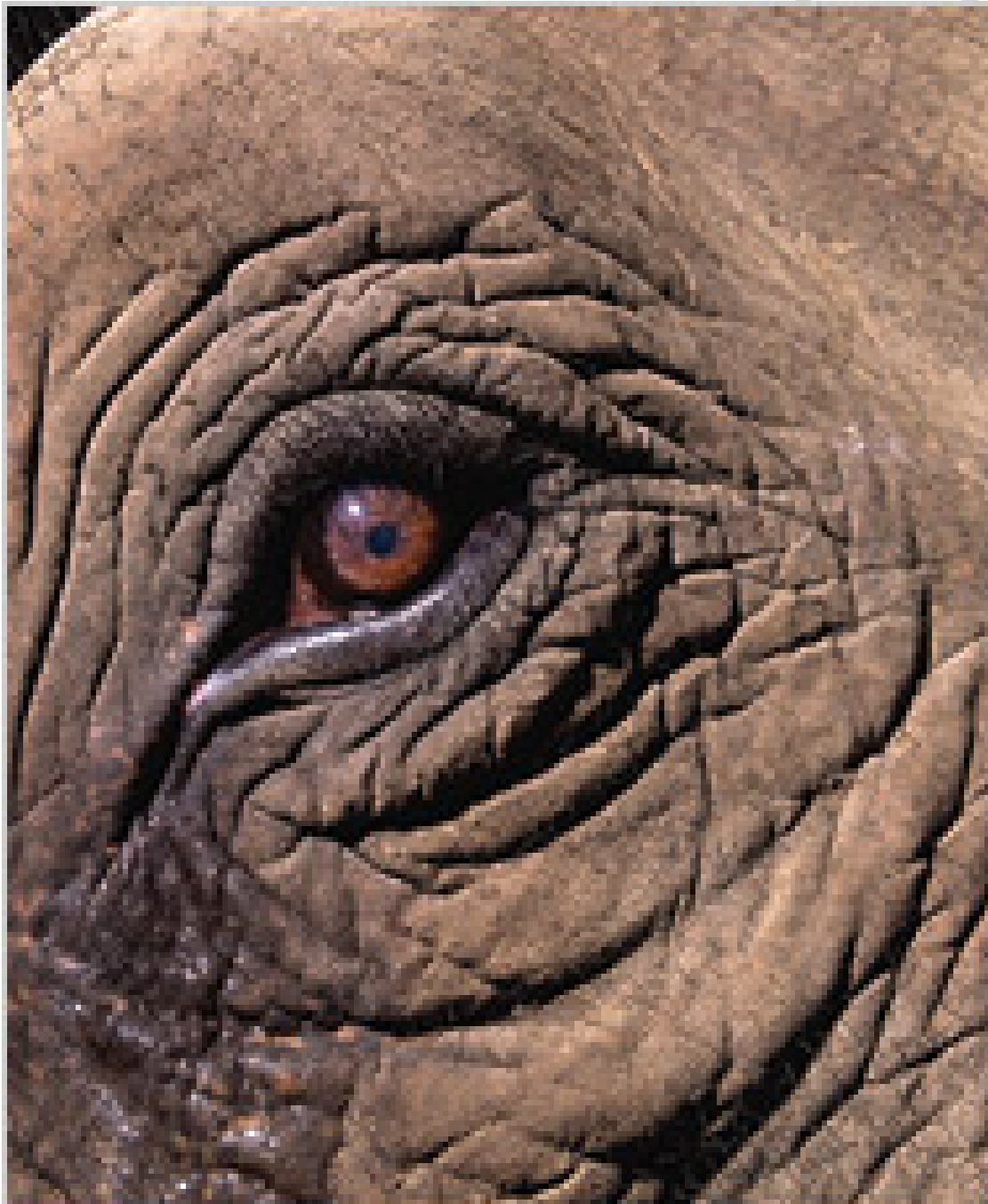
- **(6,4,3,1): *Venus***—All four tali show different sides
- **(6,x,x,x): *Senio***—A single six and anything
- **(6,6,6,6): *Vultures***—All four tali the same
- **(4,4,4,4): *Vultures***—All four tali the same
- **(3,3,3,3): *Vultures***—All four tali the same
- **(1,1,1,1): *Dogs***—Lowest of the *Vultures*







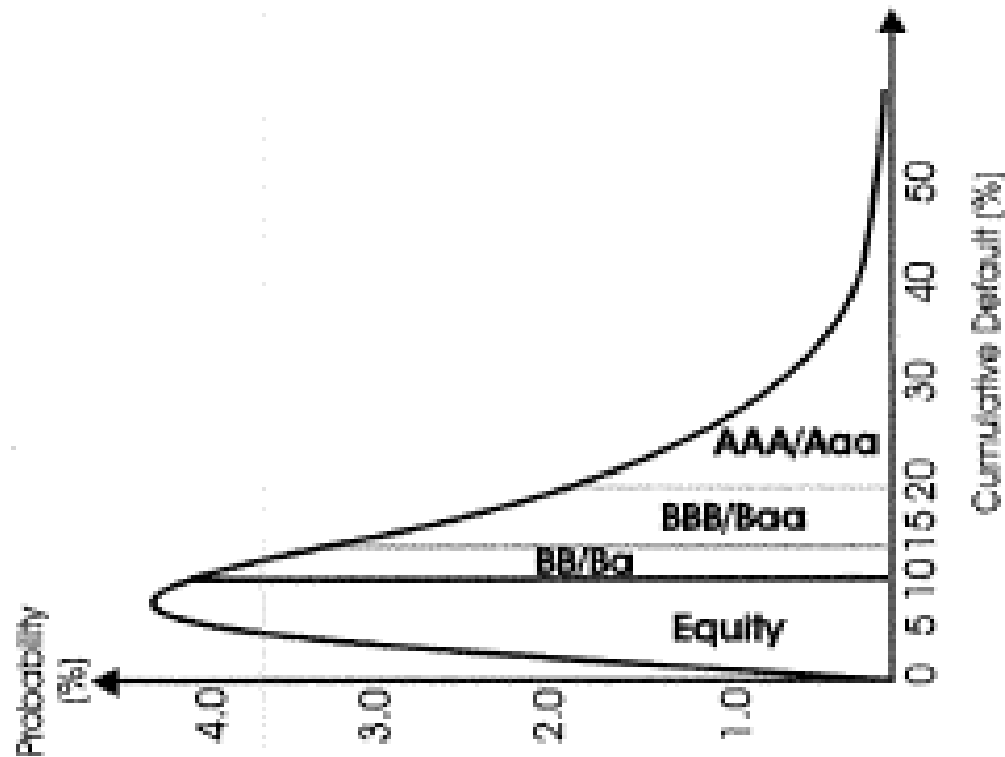




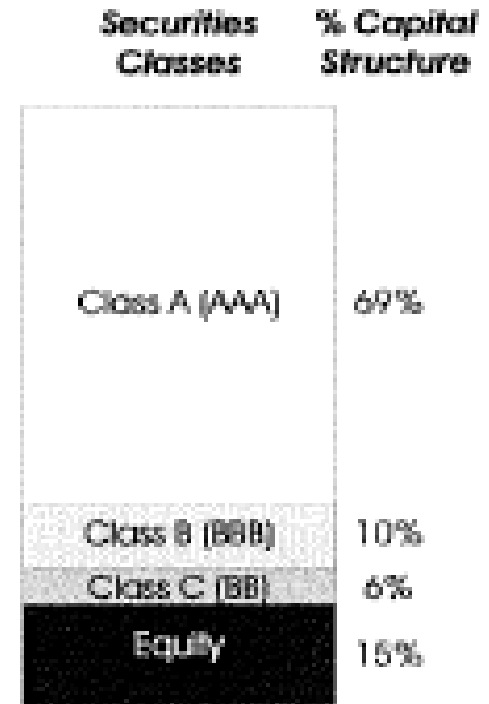


Loss Likelihood by Tranche

(a) Loss Distribution

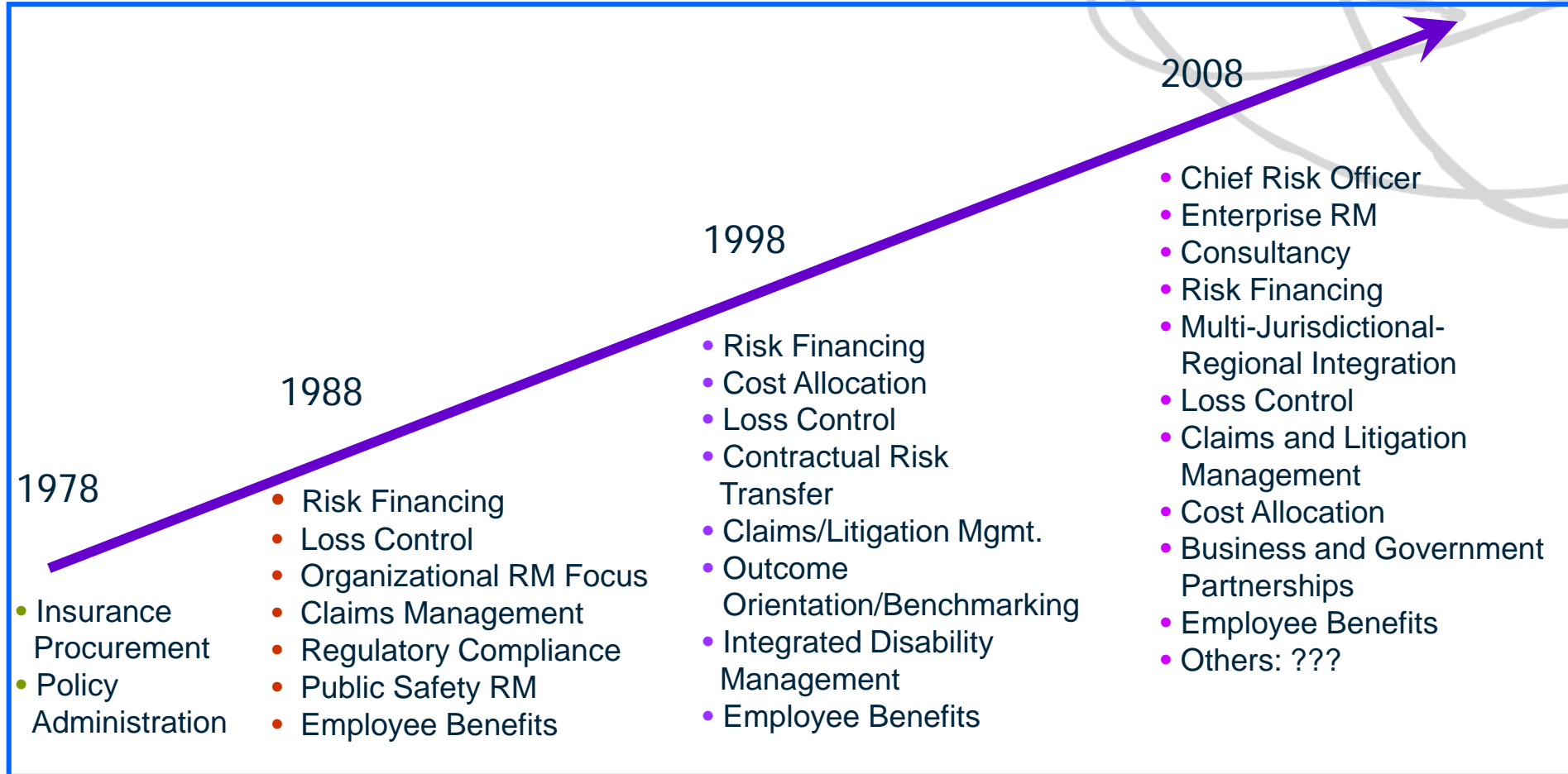


(b) Capital Structure



The Evolution of Risk Management

Information provided by Public Risk Management Association (PRIMA)



Risk Management is Evolving

In Higher Ed As Elsewhere

Strategic

Transactional

Integrated

Transactional Approach

- Purchase insurance to cover risks
- Hazard-based risk identification and controls
- Compliance issues addressed separately
- Safety & emergency mgmt handled separately
- “Silo” approach – risk mgmt is not integrated across the organization
- Risk Manager is the insurance buyer

Risk is *bad* – focus is on transferring risk

A Broader Risk Mgmt Approach

- Greater use of alternative risk financing techniques
- More proactive about preventing and reducing risks
- Integrates claims mgmt, contracts review, special event RM, insurance and risk transfer techniques
- Cost allocation used for education and accountability
- More collaboration – as depts are willing
- Risk Manager may be the risk owner

Risk is an *expense* – focus is on reducing cost-of-risk

Enterprise Risk Management

- A wide range of risks are discussed and reviewed, including reputational, human capital, strategic and operational
- Aligns RM process with strategy and mission
- May include “upside risks” (opportunities)
- Helps manage growth, allocate capital & resources
- Risks are owned by all & mitigated at the department level
- Many risk mitigation & analytical tools available
- Risk Manager is the risk facilitator and leader

Risk is *uncertainty* – focus is on optimizing risk to achieve goals

Next-Level Risk Management

Impact of risk

ISO 31000 definition:

***Risk* is the “effect of uncertainty on objectives”**

Instead of asking, “How can we avoid losses?”...

...risk managers are asking, “How can we manage risk to make a profit?” (risk as competitive advantage)

Lessons To Be Learned

“What, me worry?”

1. Risk is present all the time.
2. We are usually afraid of the *wrong* things.
3. Reduction in *risk* is reduction in *uncertainty*—and reduction in *worry*.
4. Risk also represents *opportunity*.



Risk Management should:

- Help stakeholders spend limited resources on identifying and treating actual, *high*-priority risks
- Incorporate benchmarks to measure success in managing risk (TCOR, etc.)
- Educate others on how-to rather than managing all risks centrally: collaborate, collaborate, collaborate
- Assist with leveraging risk management as a competitive advantage (positive side of risk)
- Monitor, communicate (esp. re. emerging trends), repeat cycle...



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Case Study: Health Insurance



History of Health Insurance

1800's – accident insurance

Early 1900's – hospitalization plans and medical expense plans

WWII era - Employer-sponsored health plans

1960's – Medicare and Medicaid creation

1970's – Health Maintenance Organizations (HMOs)

1990's – Preferred Provider Organizations (PPOs)/Private Exchanges

2000's – Consumer Driven Health Plans (CDHPs)

2010 – Affordable Care Act/Federal Exchange (Marketplace)

What's next?

Some of the Most Expensive Words...

“Our employees will never consider alternatives to their current health insurance plan.”

“If we try to teach our employees about health insurance, they will never listen.”

“Why should I care what insurance plan our employees choose, our costs are capped.”

“The 80% cost share model is less expensive for us.”

“We’ll evaluate options if our current program rates experience excessive increases.”

Cost Savings

Obtain enrollment and claim data specific to your program

Investigate your options

- Carriers
- Networks
- Plan designs
- Funding options

Engage a health insurance committee

Cost Savings

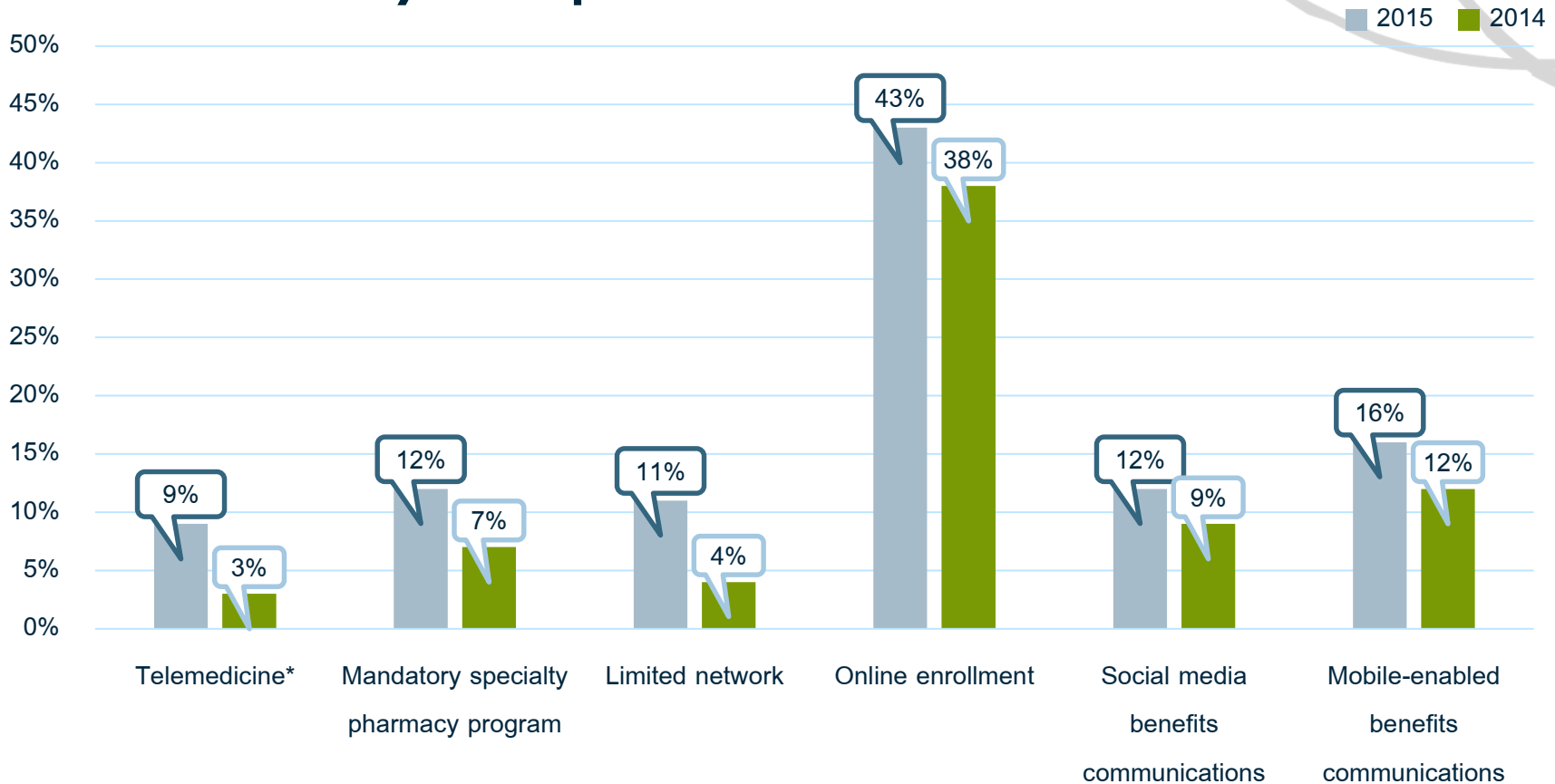
Understand your workforce and maximize benefit spend ROI including talent attraction/retention

Establish a strategic worksite benefit program (consider both employee and employer paid models)

- Life, disability, accident, critical illness, etc.
- Legal services
- Identify theft protection

Emerging Trends

Survey Participants Who Offer These Solutions



*'Online Visits' in 2014

Emerging Benefit Program Risks

Competition for talent is increasing

Shifting focus from budget cuts to human capital investment

Correlation between student recruitment and faculty/staff

Potential international benefits needs

Compliance gaps – when was the last comprehensive compliance audit performed?



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Higher Ed Risk Management: What To Know Now



Lessons Learned

...by veteran Risk Managers

- *Help other people understand **they own the risks** and the rewards of their activities. Help them make the decisions.*
- You must have extensions of yourself on campus, as Risk Management can't manage everything.
- *Get to know people by listening to their stories. When they trust that you **understand** them, they will trust you to **advise** them.*
- *Get an early success; find low-hanging fruit and pick it, then educate people about what else success means.*

Thoughts on Risk Management

Practitioners weigh in

- “Getting to yes” is the critical way to frame risk management work.
- *Make sure you prepare and continually enhance your institutional story.* Develop and refine your institution’s risk management story—lessons learned and changes to risk management practices show a strong commitment to being a good risk partner.
- Make a concerted effort to understand your institution’s true total cost of risk, and think long-term about the ROI on your risk management initiatives.

Thoughts, Part 2

- “Our *policy on workplace violence* included a list of prohibited acts. ‘Commit suicide’ on campus was on the list. When presented to the faculty council, they bridled and claimed they had the ‘academic freedom’ to commit suicide wherever they wanted!”
- *A Central Service Model may indeed be coming.* It seems to be a good fit with Enterprise Risk Management. A unified look at risks yields central ways to manage them.
- Risk Management *is* moving toward more of a Treasury function while retaining those core operational risk management objectives. Operational risk and spending on insurance (compared with true risk tolerance, all the way up to the endowment level) may provide some savings via self-insurance. Treasury and Financial Services are together with Risk Management, and Compliance and Internal Audit are the third leg.

Thoughts, Part 3

- This quote helps me with HR issues: “I am 100% responsible for myself; this includes loving them, caring for them, coaching, etc. But I am 0% responsible for someone else: their reactions, their choices, their outcomes, etc.”
- “It’s never been a waste of my time to do thorough reference checks, including claimed educational achievements. I’ve been surprised on several occasions that candidates lied about relatively mundane items.”

Thoughts, Part 4

- In well over 90% of discrimination complaints we receive, simple failure of communications plays a part. By delving for the root cause, we often find opportunities for early resolution. Even **expressing regret that something happened goes a long way to closing the matter.** Amending miscommunications or the lack of communication, along with a sincere apology, has also been the resolution technique for many tort claims.

High-Impact Areas

Where Risk Management gets real bang for the buck

- *Workers' Compensation*: Careful analysis of loss runs, reserves, and attention to workplace safety and training
- *Off-campus travel and programs*: vetting, staff training, approval protocols, orientation, servicing and follow-up
- *Communication with Board* on risk issues: balanced scorecard, or reports (with graphs), ERM implementation, etc. Audit subcommittee becomes “Risk and Audit”?

High-Impact Areas, Part 2

Where Risk Management gets real bang for the buck

- *Claims management*: manage lawsuits in a way that applies human-ness and compassion. Proactively engage claimants early with a supportive person alongside. Hire a PR firm if necessary for big claims. (Note: big claims take *lots* of time.)
- *Emergency Management and Business Continuity Planning*: use NIMS system; train many! Collaborative team, regular drills.
- *Transportation management*: vehicle selection, maintenance, driver criteria, training; tracking?

High-Impact Areas, Part 3

Where Risk Management gets real bang for the buck

- *When minors are involved:* must be managed well; policy for minors on campus? Camps policies/insurance?
- *Transportation management:* vehicle selection, maintenance, driver criteria, training; tracking?

Hot Issues in Higher Ed Risk Management

Some things coming down the pike

- *TBI*: tackle football on the brink?
- *Cyber*: steady attacks, increasing stakes, uptake in cyber coverage, more and more online offerings
- *Vehicle revolution*: electric vehicles, UAVs, driverless cars, “hoverboards”...
- *Campus unrest*: protesting students, dissatisfied adjuncts, besieged administrators...
- Student mental health
- Demographic/economic shifts



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Questions?



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Thank you!