WHAT IS RISK MANAGEMENT?

Risk management is a process of identifying, managing, organizing, and controlling resources and activities to minimize the adverse effects of loss.

There are five basic types of risk that state managers, supervisors, and employees should be aware of. These risks are not mutually exclusive and may be interrelated. Many incidents, accidents, and claims involve losses in several risk areas.

1. **Damage to Property**. Accidental loss or damage to state property such as buildings, boilers, vehicles, and heavy machinery.

2. **Liability to Others**. The risk of legal liability to others resulting from a negligent act or omission and resulting in injuries to persons and/or damage to their property or person.

3. **Loss of Income or Increased Costs**. This is a risk that is often overlooked. Many state participants operate revenue-producing facilities. Athletic venues, bookstores, cafeterias, prison industry operations, and state parks are examples. If these facilities are destroyed or damaged there may be a significant loss of income. Increased costs might include the cost of cleaning up or repair, training replacements, overtime, supervision, etc.

4. **Employee Injuries**. Injuries to state and university employees that arise from work-related activities.

5. **Enterprise Risks.** Enterprise Risk Management (ERM) is a new and emerging discipline in risk management that is gradually being assimilated and adopted in the culture of some public and private entities. An enterprise risk is an activity or event that prevents an organization from achieving its objectives. An organization may fail to reach its objectives through failure to manage its finances through economic boom or recession, failure to take advantage of strategic opportunities, damage to its reputation, and unexpected political events either at home or abroad, to name a few. For additional information about ERM, please click here.

Risks typically stem from a variety of causes. (A cause of loss is a situation or condition, which may create a loss.) Examples: **Natural Causes of Loss** - Lightning, flood, windstorm, or weather can create property losses. **Human Causes of Loss** - Theft, arson, negligent acts of omission or commission may result in property losses or legal liability.

Failure to establish appropriate **Enterprise Risk Controls** may result in damage to an organizations reputation, loss of business, missed opportunities to achieve strategic objectives, or unauthorized disclosure of private information from a cyber breach.

Losses may be caused by unsafe acts, unsafe conditions, or poor risk controls. Examples: Unsafe Acts - 1) The improper operation of a snowplow which damages a private vehicle. 2) State workers on a building scaffold have no warning signs and drop an object on an innocent pedestrian.

Unsafe Conditions - 1) Slippery road conditions which result in a car collision. 2) Poor lighting of a stairwell and no handrails causes an injury to a member of the public attending a university play. **LOSSES DO NOT JUST HAPPEN. THEY ARE CAUSED. SINCE, IN MOST CASES THE CAUSES ARE KNOWN, MANY LOSSES CAN BE PREVENTED.**

The risk management process involves five basic steps:

1. Risk Identification and Analysis: Identifying the services and assets that could cause a loss.

2. Risk Treatment: Examining alternatives to handle the risks by eliminating loss exposures and minimizing effects on your participant before or after a loss occurs, as well as exploring ways to cover a loss financially.

A. **LOSS PREVENTION**

i. Avoidance. Risk may be avoided by refusing to assume it. Obviously, it is not always possible to completely avoid risks, but the possibility should not be overlooked.

ii. Loss Control and Reduction. When risk cannot be avoided, it often can be reduced and the severity of loss minimized. For example, fire-resistant construction reduces the chances of a fire. Loss Prevention and loss reduction are primary responsibilities of management. These responsibilities cannot be delegated. If loss prevention is to have any priority, state managers must create it. Managers and employees should be accountable for losses, which could have been prevented or controlled, but were not.

B. INSURANCE

i. Risk Transfer. If a risk cannot be avoided, it can often be transferred to others. One common way to transfer risk is to buy insurance. In purchasing insurance, the risk of unpredictable loss is relieved by making scheduled premium payments. Another way to transfer risk to third parties is through contractual arrangements.

ii. Retention. It may be decided to pay for losses out of current operations by self-insuring or retaining them even though other methods of handling the risk are available. For example, the State of Montana currently retains losses on its state-owned vehicles for collisions rather than purchase commercial insurance. This is done because in some cases retention is more efficient and economical.

C. **CLAIMS MANAGEMENT**

i. Claims Administration. Once a claim occurs it must be reported immediately to assure that it is thoroughly evaluated within statutory deadlines and to minimize the possibility that it may result in costly and protracted litigation.

ii. Litigation Management. Lawsuits must be investigated, evaluated, and resolved as soon as possible consistent with legal and ethical obligations. Lawsuits that have merit are settled expeditiously and the remaining cases are prepared for summary judgment or resolution at trial.

3. Selection: Determining which risk treatment technique or combination of techniques is most appropriate.

4. Implementation: Putting the selected risk management programs in place.

5 Program Evaluation: Monitoring results of risk management programs to make sure they are effective.

WHY MANAGE RISKS?

The benefits of risk management are many! First and foremost, an effective program of risk management will assure that damages resultant from tort liability, property, business income, and enterprise risks are minimized and that your vital assets, resources, and continuity are protected.

In addition, participants may reduce their liability premiums by lowering their losses. Each participant's premiums are dependent on the number and amount of losses, which are paid out of the self-insurance fund.

Each participant may reduce its risks and lower its insurance premiums through participation in the Risk Management & Tort Defense Division’s insurance premium discount programs (please visit the division’s website at https://rmtd.mt.gov/insurance/noticeelectionforms).