Insurance Summit
Florida League of Cities

Understanding Enterprise Risk Management

VRSA
Virginia Risk Sharing Association

Understanding Enterprise Risk Management: A Primer for Local Government

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Level of Enterprise Risk Management experience:

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Is This your Organization?

Why ERM?

Enterprise Risk Management ("ERM") is crucial for local governments to navigate the complex and ever-changing landscape of challenges they face.

Together, we will explore some innovative strategies and some key tools to help drive excellence in managing these risks effectively, keeping employees safe, and serving the public as efficiently as possible.


Does it ever feel like this during your day?

Traditional vs. Enterprise Risk Management

Traditional Risk Management	Enterprise Risk Management
Focused on evaluating risks by office or department	Focused on evaluating risks throughout the organization and across departmental lines.
Solutions are more focused on operational procedures	Solutions are more focused on strategic outcomes that move the organization to a better state of risk management and create value
Solutions are perceived to be the sole responsibility of upper management or leadership	Solutions are the results of collaboration efforts between internal and external risk owners
Largely focused on internal operations	A data driven risk management framework that is adaptable and focused on being proactive
Decision making is driven by trailing indicators and are therefore reactive in nature	Communication openly and timely flows bi-directionally at all levels to inform decision making
Communication works in a downward funnel from leadership to the front line	All risk owners are accountable because they are empowered to act as valuable contributors in the process

Why ERM?

- Traditional "Risk Manager" job description:
  - Report WC claims
  - Report Auto/Property claims
  - Review Safety Programs
  - Lead Safety Committee
  - Conduct Facility Inspections
  - Manage OSAH
  - Manage DEQ Inspections
  - Conduct Fit Tests
  - Identify hazards in the workplace
  - Write Job Safety Analyses

Can one person EFFECTIVELY manage all this alone?

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How would you rate the current risk culture at your organization?

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What is ERM?

- What is Enterprise Risk Management (ERM)?
- Provides a framework to include methods and processes used by an organization to manage risks and seize opportunities.
- ERM has no official “design”. It is dependent and variable for each individual organization.
- ERM provides essential data to key decision makers.

Why ERM?

- Local governments are at an immediate disadvantage:
  - FOIA allows hackers to know key information
  - Work consists of dangerous activities (roadway, policing, trenching, confined space, etc.)
  - No competition
  - Not for profit

Why ERM?

- In the past, Risk Management has focused on workplace safety and health; but what about:
  - Ransomware Attack
  - Organizational Reputation
  - Employee Retention
  - Financial Risks
  - Water Boil Advisories
  - Playground Injury
  - Electric Vehicle Updating
  - Embezzlement
  - Workplace Violence

Why ERM?

- Enterprise Risk Management success stories:

Why ERM?

- So, why ERM?
- ERM is a proven concept that provides your organization with known threats, and action plans to neutralize them.
- Allows decision-makers to rank and categorize risks, assigning them to Risk Owners, rather than one Risk Manager (essentially making Everyone a Risk Manager)
- In this model, a Risk Manager can run the program, as opposed to being overwhelmed by the program.

Some Challenges in Enterprise Risk Management

Some Challenges in Enterprise Risk Management

Changing Regulatory Environments

Local governments must navigate a web of federal, state, and local regulations, requiring more compliance efforts and adaptation to changing requirements.

Limited Resources

Limited budgets and staffing constraints challenge local governments in deploying robust risk management strategies and technologies.

Ever-Evolving Threats

Emerging cybersecurity risks, natural disasters, and other threats continuously evolve, requiring local governments to stay vigilant and adapt their risk management approaches.

Effective Enterprise Risk Management in local governments requires innovative strategies to overcome these unique challenges and build resilient communities.

Benefits of Enterprise Risk Management

Some Benefits of Enterprise Risk Management

Greater Awareness

By having deeper insights across departments and the organization, proactive steps can be taken which can lead to better decisions and collaboration.

Resilient & Confident

By knowing your existing risks, you can manage them effectively, and emerging risks can then be also addressed with confidence and provide continuity of operations.

Strength & Value

When ERM is integrated into daily business activities, it allows you to continually detect, evaluate, and monitor risks across the organization and all risk quadrants.

Cost Savings

ERM prioritizes risk across the organization which in turn leads to stakeholders informed and able to be more efficient and effective.

Clear Oversight

ERM provides leadership with a clear understanding of who the risk owners are, what your risk profile entails, and what your risk tolerance is, enabling informed and timely decision-making.

Empowered Workforce

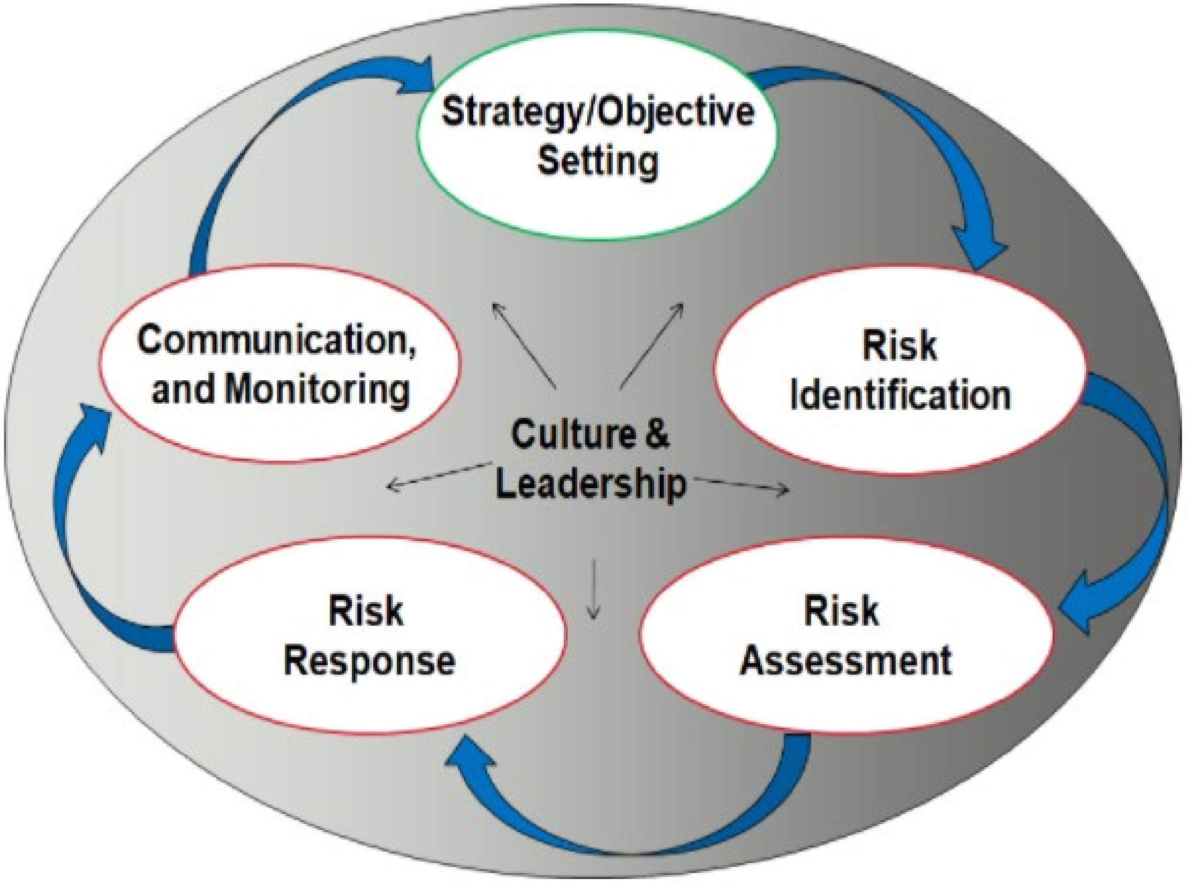
ERM requires collaboration and communication at all levels, with all employees as contributors who together identify risks and execute the ERM plan.

"A strategic business discipline that supports the achievement of an organization's objectives by addressing the full spectrum of its risks and managing the combined impact of those risks as an interrelated risk portfolio." (Risk Management Society -RIMS)

What Does ERM Look Like?

Because there is no official design, ERM can be molded to be best-effective for you.

Culture & Leadership is VITAL



What Does ERM Look Like?

Step 1: Strategy and Objective Setting

- Identify:
  - What do I want this to specifically address?
  - What is the desired outcome?
  - What resources am I willing to commit?
  - What kind of information do I need to facilitate change?

What Does ERM Look Like?

Step 2: Identify Your Risk(s)

- IT Dept
  - Risk 1
  - Risk 2
  - Risk 3
- Finance & Treasury
  - Risk 1
  - Risk 2
  - Risk 3
- Human Resources
  - Risk 1
  - Risk 2
  - Risk 3
- Public Works
  - Risk 1
  - Risk 2
  - Risk 3

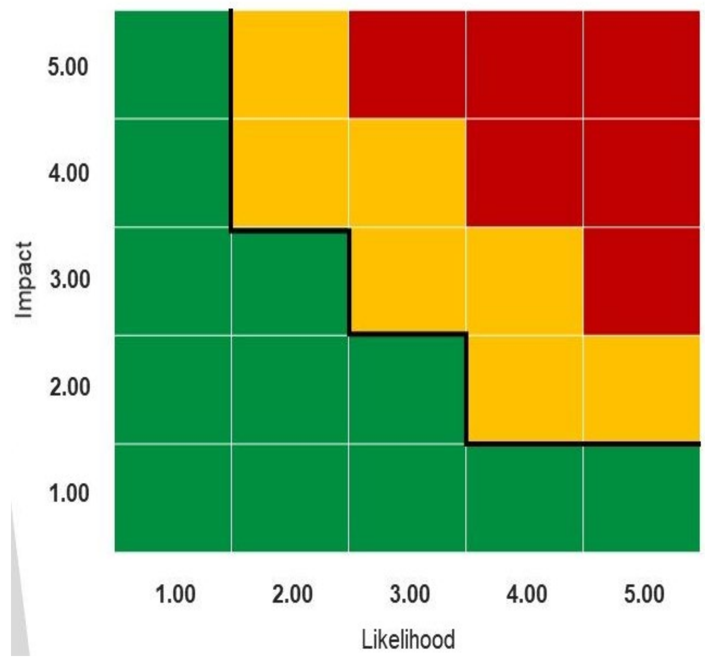
What Does ERM Look Like?

Step 3: Assess Risk(s)

- **IT Dept**
  - Risk 1

How likely is it that this risk occurs?

If this does occur, how severe is the impact on our (employees, property, reputation, operations, etc.)



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When making a major strategic decision, how often is a formal risk assessment considered?

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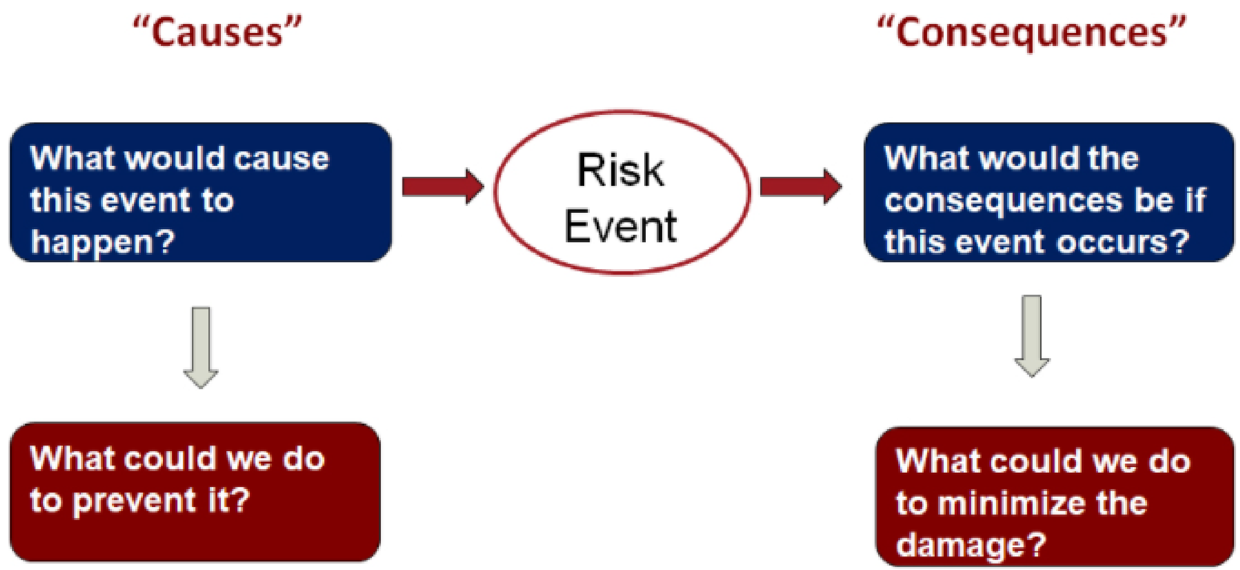
What Does ERM Look Like?

Step 4: Risk(s) Response(s)

- IT Dept
  - Risk 1



What Does ERM Look Like?

Step 5: Communicate & Monitor

- IT Dept
  - Risk 1

- **Inform** impacted parties on the action plan to address the known threats.
- **Follow-Up** on action plans, completion dates, and follow-up dates to ensure that the plan is being implemented.
- **Further Evaluate** to determine if more or ongoing action is needed.

What Does ERM Look Like?

Step 5: Communicate & Monitor (cont'd)

- **Risk Register: A Risk Register is a document, which provides oversight of the ERM program.**

- This provides decision makers with an overview of the threats being addressed, as well as the ability to rank and prioritize them.

- This allows directors, managers, and council members to better understand the need for funding, resources, and support; as well as provide necessary data to drive those decisions.

Risk Register Examples

Risk Register

Project name: Common project risks

ID	Date raised	Risk description	Likelihood of the risk occuring	Impact if the risk occurs	Severity *Rating based on impact & likelihood.*	Owner *Person who will manage the risk.*	Mitigating action *Actions to mitigate the risk e.g. reduce the likelihood.*
1	[enter date]	Project purpose and need is not well-defined.	Medium	High	High	Project Sponsor	Complete a business case if not already provided and ensure purpose is well defined on Project Charter and PID.
2	[enter date]	Project design and deliverable definition is incomplete.	Low	High	High	Project Sponsor	Define the scope in detail via design workshops with input from subject matter experts.
3	[enter date]	Project schedule is not clearly defined or understood	Low	Medium	Medium	Project Manager	Hold scheduling workshops with the project team so they understand the plan and likelihood fo missed tasks is reduced.

Risk Register Examples

RISK REGISTER

Date Raised	Risk Description	Likelihood Of the Risk Occurring	Impact if the Risk Occurs	Severity *Rating based on impact & likelihood.*	Owner *A person who will manage the risk*	Mitigating Action *Actions to mitigate the risk, e.g., reduce the likelihood.*
dd/mm/yy	*This is a sample text that you can edit. You can change font.*	Medium	High	High	Project sponsor	*This is a sample text that you can edit. You can change font.*
dd/mm/yy	*This is a sample text that you can edit. You can change font.*	Low	High	High	Project sponsor	*This is a sample text that you can edit. You can change font.*
dd/mm/yy	*This is a sample text that you can edit. You can change font.*	Low	Medium	Medium	Project manager	*This is a sample text that you can edit. You can change font.*
dd/mm/yy	*This is a sample text that you can edit. You can change font.*	Low	Medium	Medium	Project sponsor	*This is a sample text that you can edit. You can change font.*

Likelyhood	Consequences				
	Insignificant *Risk is easily mitigated by normal day to day process*	**Minor** *Delays up to 10% of Schedule Additional cost up to 10% of Budget*	**Moderate** *Delays up to 30% of Schedule Additional cost up to 30% of Budget*	**Major** *Delays up to 50% of Schedule Additional cost up to 50% of Budget*	**Catastrophic** *Project abandoned*
Certain *>90% chance*	High	High	Extreme	Extreme	Extreme
Likely *50% - 90% chance*	Moderate	High	High	Extreme	Extreme
Moderate *10% - 50% chance*	Low	Moderate	High	Extreme	Extreme
Unlikely *3% - 10% chance*	Low	Low	Moderate	High	Extreme
Rare *<3% chance*	Low	Low	Moderate	High	High

ID	Category	Description	Consequence	Probability	Impact	Risk Level	Risk Modification Plan	Risk Owner	Residual Risk Level
1	Employee	It takes too long to contact a lead, and this time may not decrease with the new sales program	We will not increase sales revenue	High	High	High	Map out current processes to find inefficiencies so wasted steps are not included in new program	Brady	Medium
2	Customers	Customers are leaving, and we do not know why	We will not know how to reduce the number of customers who leave	Medium	High	High	Create a survey, and partner with firm to deliver survey to customers	Sami	Low
3	Employee	The new employee learning program may not be approved by the board	We will not be able to provide professional development to all employees	Low	Medium	Medium	Prepare and present ideas at board meeting next week	Jesse	Low
4	Employee	There is no documentation of different roles within the company	Cross-training employees will be inefficient	Medium	Medium	Medium	Begin creating tutorials specific to different roles	Jesse	Low

Risk Register Examples

YOUR LOGO HERE

RISK ASSESSMENT

The hazards and associated risks with this activity have been identified and given a scored rating using a semi-quantitative risk assessment methodology. The risk assessment ratings are based on a subjective estimate from the knowledge of the assessor and aim to identify both the level of risk without controls and the level of residual risk once control measures have been implemented.

Very Low Risk (1-4)	This level of risk is minimal. The activity may proceed with standard caution, but no additional measures are needed.
Low Risk (5-10)	This level of risk is acceptable to the company. Proceed with caution, and stop if anything changes.
Moderate Risk (11-15)	This level of risk is acceptable if it cannot be reduced further after a review by an authorised person.
High Risk (16-20)	The level of risk is significant. Additional control measures are required to reduce the overall risk to an acceptable level before proceeding.
Very High Risk (21-25)	This level of risk is critical. The activity should not proceed until the risk has been reduced.
	The level of risk is

To calculate the risk rating and residual risk rating, multiply the Likelihood (1-6) by the Impact (1-6). This results in a risk score that can range from 1 to 36, where higher scores indicate more severe risks.

		IMPACT					
		1 Minimal	2 Minor	3 Moderate	4 Major	5 Critical	6 Severe
LIKELYHOOD	1 Very Low	1	2	3	4	5	6
	2 Low	2	4	6	8	10	12
	3 Moderate	3	6	9	12	15	18
	4 Likely	4	8	12	16	20	24
	5 High	5	10	15	20	25	30

What Does ERM Look Like?

- Why is this model effective?
- How many Risk Managers are experts in IT, Human Resources, Finance, Safety, Public Relations, etc.?
- This model allows threats and solutions to be owned by an expert.
- Guidance can be provided by department employees, Risk Manager, Employee Committee, input from citizens, etc.

How Can I Implement ERM?

- So, How can ERM be implemented?
  - Understand the situation
  - ERM, requires culture
  - How much, how fast?
  - Big change vs. incremental change

Be the Spark

ERM to build our Risk Intelligence & Innovation

"Risk comes from not knowing what you are doing."

Warren Buffett

"Risk is like fire: If controlled it will help you; if uncontrolled it will rise up and destroy you."

Theodore Roosevelt

"The problems we have today, cannot be solved by thinking the way we thought when we created them."

Albert Einstein

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How would you rate the flow of risk-related information between senior leadership and frontline employees?

How Can I Implement ERM?

- Options for implementation (No limitation)
  - Option 1- Utilize Safety Committee to begin identifying threats
    - Requires committee with expertise in varied fields.
  - Option 2- Start in a “sound” department/division.
    - Survey employees & management concerning threats/concerns
  - Option 3- Top to bottom approach.
    - Start with Director-level to begin with across-the-board change.

How Can I Implement ERM?

- Options for implementation (No limitation)
  - Start small: Ask each department (multiple employees):
    - What are the top 3 threats that you see?
    - What is currently in place to reduce the risk?
    - What could reasonably be done to reduce the risk further?
    - In a perfect world, what would be a solution?

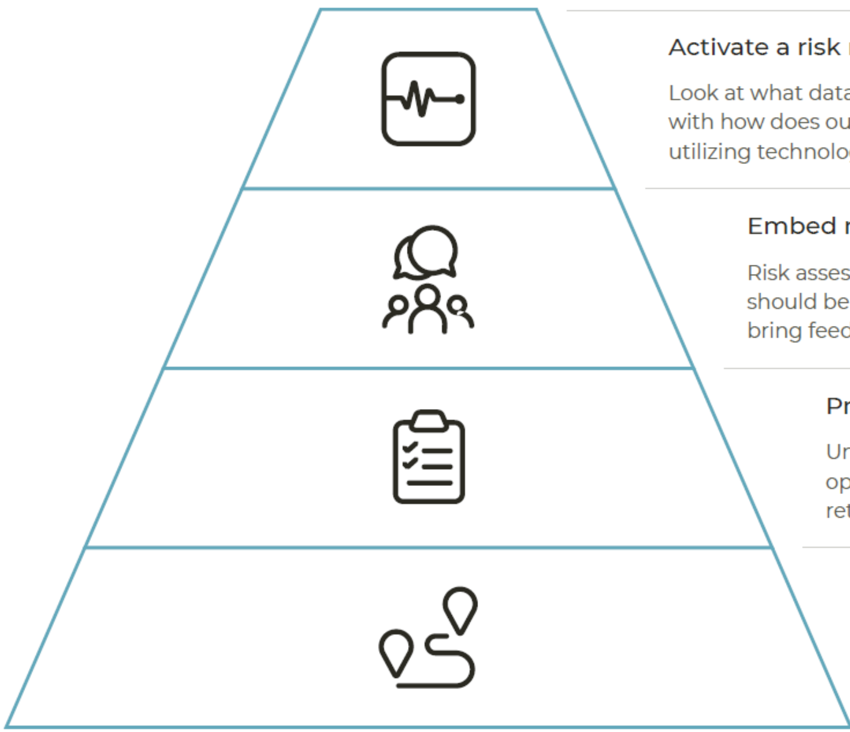
    The answers will give the risk owner a direction to start the ERM program

How Can I Implement ERM?

- As the ERM culture grows, you can:
  - Apply the ERM process to key decisions such as:
    - New IT Applications
    - Contract Awards
    - New Vehicle Purchases
    - New Processes & Procedures
    - New Equipment Purchases
    - Land/Community Development
    - Playground Construction/Updating
    - Effective Training Needs
    - Cash/Money Handling
    - Hiring and Staffing Needs

How Can I Implement ERM?

How do we meet our communities' needs?



Activate a risk monitoring program

Look at what data you have today, where it is kept and where it comes from. Couple that with how does our feedback loop work or not and make adjustments if possible by utilizing technology to help.

Embed risk discussions in your culture

Risk assessments are only a starting point in time. A regular cadence around risk should be put in place by risk owners and should involve key stakeholders who bring feedback, ideas, and take back updates.

Prioritization and risk tolerances

Understand where your organization's greatest or most critical areas of opportunity are and at what level is the organization comfortable with retaining all, some, or none of the risk.

Baseline of where you are today

Each department/office may have a slight variation in their inventory. Gather and interpret patterns, themes, and overlap to construct an enterprise-wide risk register.

Resources

1 [Driving change through innovation risk management]

by Goldhammer, Holden, Almerini, & Fratta

Opposites attract. Risk management and innovation, two seemingly disparate topics, can be strategically connected in mutually beneficial ways.

2 The Public Sector Needs to Fully Embrace Strategic Risk

by Mitra, Parker, Blickle, Roselund, & Schlueter

As today's economic and security risks become more complex, interconnected, and disruptive, governments need to learn from the private sector and turn risk-management into a competitive advantage.

3 Insurance Thought Leadership (ITL)

Website

ITL shares thought leadership on a wide variety of topics, including insurance innovation and emerging technology.

4 Beyond Silos: Strengthening Operational Resilience with Integrated Risk Management

Origami Risk

Questions?