

of safety, fire protection, or industrial hygiene. The risk management department may provide outside regulatory authorities with certifications indicating compliance with government standards.

A particularly important risk management document, frequently including information supporting all six steps in the risk management process, is the risk management annual report. An increasing number of risk management departments are providing such reports, on request or on their own initiative, to their senior management. Most risk management professionals believe that some kind of annual report to management is needed to detail the current risk management program and to propose significant changes. A risk management annual report must be tailored to an organization's situation and to senior management's knowledge and attitudes. However, some information is routinely provided in most risk management annual reports. Exhibit 1-7 provides an outline for information typically contained in such a report.

EXHIBIT 1-7

Sample Risk Management Annual Report

Outline

- I. Insurance and Risk Funding
 - A. Property Insurance
 - B. Fidelity Coverages
 - C. Directors and Officers, Errors and Omissions, and Fiduciary Liability
 - D. Workers' Compensation
 - E. Special Coverage
 1. Precious Metals Excess
 2. Blanket Trust Properties
- II. Crisis Management
- III. Losses and Recoveries
- IV. Risk Control Activities
- V. Exhibits
 - A. Organization Chart
 - B. Workers' Compensation
 - C. Losses, Recoveries, and Premiums

With the often extensive flow of information both to and from the risk management function, it is important to have appropriate information management and risk management information systems to enable a risk management professional to assess the quality of the information provided.

Information Management and Risk Management Information Systems

A risk management program is only as sound as its underlying data. As such, a risk management professional needs a framework to assess informational quality. The quality of information can generally be described in one of the following ten ways:

1. *Accessible*. How easily and quickly can the information be accessed? Can data be quickly reviewed via a computer program or in spreadsheet format?
2. *Comprehensive*. Not how voluminous, but how comprehensive is the information in question? Does it convey meaning in its own right or only in relation to some other information?
3. *Accurate*. To what degree is the information free from error?
4. *Appropriate*. Is the information relevant to the user's request or need? Is the information presented in a way that the user can easily apply?
5. *Timely*. How current is the information? Is information readily available when needed for activities and decisions?
6. *Clarity*. How is the information presented? Can an inexperienced or occasional user obtain and understand needed information without aid?
7. *Flexible*. How adaptable is the information? Can it be used for more than one decision or by more than one decision maker?
8. *Verifiable*. Can the validity of information be easily determined?
9. *Free from bias*. Has the information been free from any attempt to alter it in support of a preconceived conclusion?
10. *Quantifiable*. If raw numerical data, to what extent is the information susceptible to mathematical manipulation?

Risk management information systems (RMIS) have become a fundamental part of most risk management programs. Whether simple or complex, an RMIS is a system for gathering, analyzing, and reporting data and information relevant to an organization's risk management program. An RMIS can (1) encompass the entire scope of an organization's risk management program, (2) focus on a particular type of loss exposure (such as products liability), or (3) concentrate on a particular risk management technique (such as prevention of employee injuries). RMIS may be of particular use in developing an organization's risk management policy statement and annual report, in periodically assessing the organization's loss exposures, in managing claims, and in monitoring the results of risk management techniques.

RESPONSIBILITIES AND REPORTING RELATIONSHIPS

The structure of the risk management department will influence the responsibilities and reporting relationships of the risk management professionals. Responsibilities will typically encompass all aspects covered by the risk management program—risk assessment, risk control, and risk financing.

Responsibilities

This section discusses the responsibilities of the person in the most senior risk management position. In large private organizations, these responsibilities may rest with an individual whose title includes “risk management” or “loss control.” Alternatively these responsibilities may rest with another manager or executive, such as a vice president, director, treasurer, or controller. In small private organizations, risk management responsibilities may be performed by the chief executive, a senior manager, the organization’s insurance producer, or an outside risk management consultant. Large public entities are likely to have a risk management professional on staff or available as a consultant, much like private organizations. In small public entities, particularly towns and school districts, responsibility for risk management is likely to rest with an administrative officer who has many other responsibilities.

Having primary responsibility for risk management requires a senior risk management professional to administer each of the six steps in the risk management process, and to undertake the managerial duties of planning, organizing, leading, and controlling resources and activities.

Except in some small organizations, no risk management professional can personally perform all the tasks these responsibilities entail. Some tasks are assigned to employees within the risk management department. However, many aspects of managing loss exposures must be part of the daily work of managers and other employees throughout the organization. Just as workplace safety is often promoted as being everyone’s responsibility, the same is true for risk management, which includes, and goes beyond, safety. Much of a risk management professional’s daily efforts must be focused on securing the voluntary cooperation of managers and others at every level of an organization.

The senior risk management professional must decide, or work with other senior managers in jointly deciding, how to handle loss exposures. The specific, nondelegable duties of a risk management professional, although varying somewhat by organization, are essentially similar. These generic duties can be grouped into those involving the following:

- Risk management program
- Risk assessment
- Risk control
- Risk financing

Risk Management Program

An organization’s senior risk management professional should know more about its risk management program than any other manager, employee, or outside consultant. Therefore, the senior risk management professional should be directly responsible for designing the program’s overall structure and for effectively implementing risk management goals. The senior risk management

professional—alone or as a key resource person serving senior management, department heads, or other employees throughout the organization—must do the following:

- Guide senior management in establishing the organization's risk management program
- Plan, organize, lead, and control the resources of the risk management department or function
- Assist senior management in establishing the responsibility for, and channels of communication on, risk management matters throughout the organization
- Work with other managers to define the responsibilities and motivate the actions of those who will implement the risk management program
- Apportion the costs of the risk management program equitably among the organization's departments to reflect differences in loss exposures and to provide incentives for optimum risk management efforts within each area or department
- Adapt the organization's risk management program and use of risk control and financing techniques as loss exposures change and as the cost of using those techniques changes

Risk Assessment

Risk assessment involves identifying and analyzing an organization's loss exposures as well as examining the feasibility of the risk management techniques (risk control and risk financing, discussed next) that might be used to treat them and selecting the appropriate risk management techniques. The balance of this text describes the approaches that risk management professionals use to assess hazard risk so that the most appropriate risk management technique can be implemented.

Risk Control

An organization may use several risk control techniques, including avoidance, loss prevention, loss reduction, separation, duplication, and diversification. The particular tasks a risk management professional performs vary by risk control technique. Overall, however, the senior risk management professional's risk control responsibilities include the following:

- Identifying the benefits as well as measuring and controlling the costs of alternative risk control techniques to develop the most cost-effective risk control program
- Coordinating the efforts of everyone employed by or providing goods or services to the organization in recognizing hazards (conditions that increase the frequency or severity of loss) and implementing appropriate risk control techniques
- Advising senior managers about how to emphasize safety as an integral element of the organization's risk management program, to encourage and reward safe employee performance, and to correct any shortcomings in risk control