

When Luck Alone is Not Enough: Working with Your Risk Manager

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What is Risk Management?



The goal of risk management is to assess and control financial, legal, and operational risk, and to reduce uncertainty for decision makers.

All
Management
is Risk
Management



“All management is risk management.”
- Douglas Barlow (The first Risk Manager)

Traditional Risk Management

Risk averse

Considers only downside risk (risk of loss)

Insurable risks

Risk management often viewed as a cost center in this model.

Workers' compensation can be a huge cost center for an organization

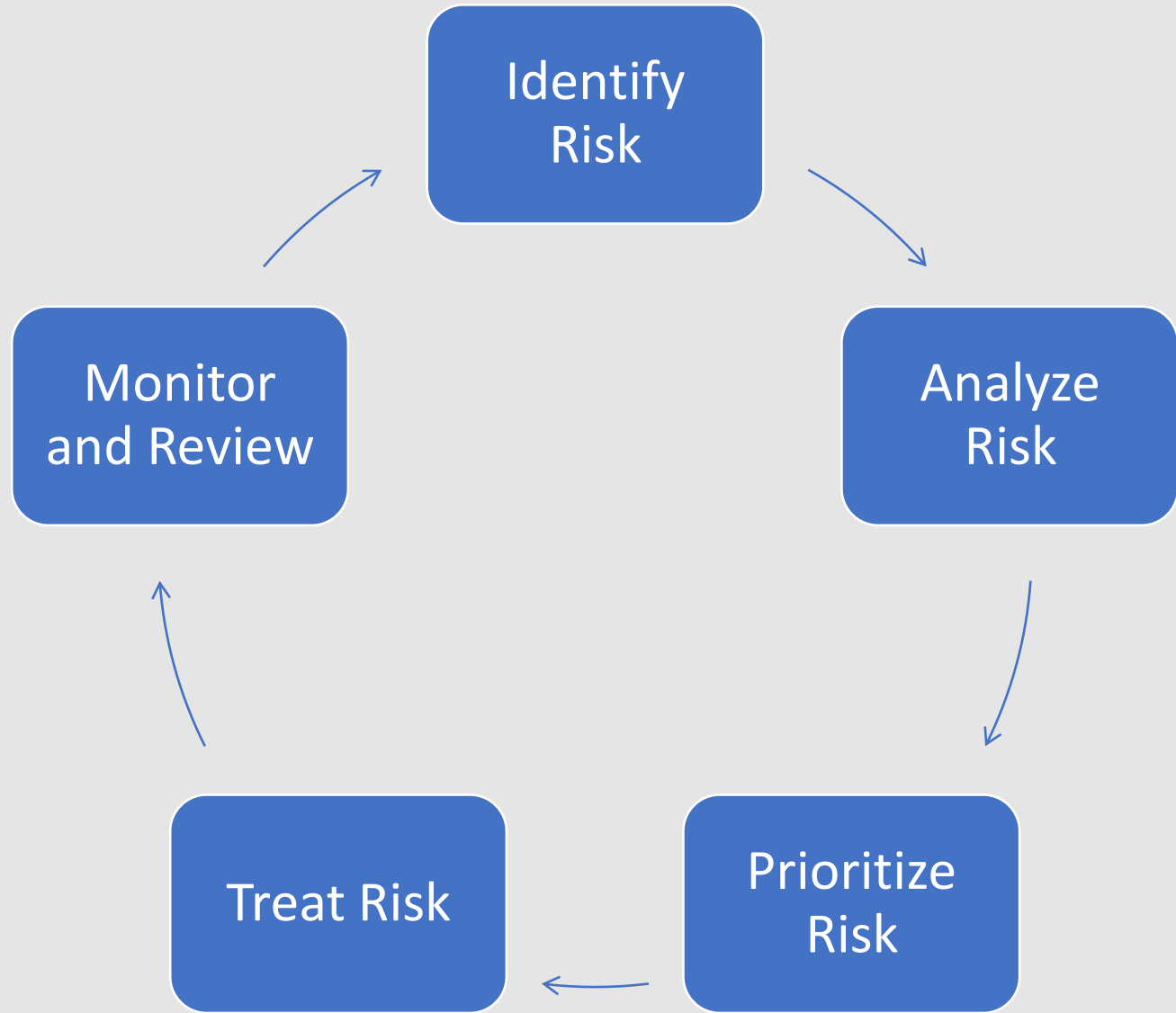
Enterprise Risk Management



- Take reasonable, informed risks
- Considers upside and downside risks
- Not always insurable
- Optimized risk

Risk management can be viewed as a revenue center in this model.

Risk Management Process



Risk Management Techniques

- Avoidance (not usually possible for public agencies)
- Control
- Finance (retain or insure)
- Transfer (via contract or third-party insurance)





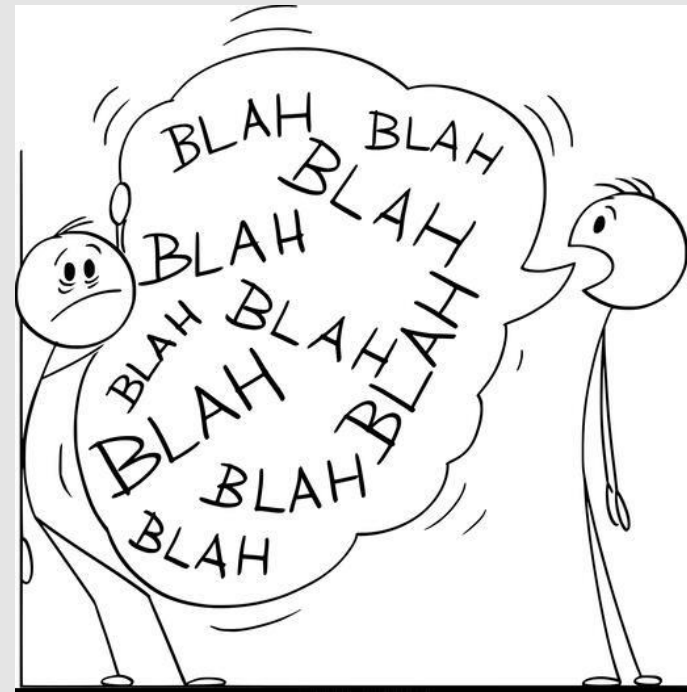
Luck is **not** a risk management technique!



Risk Transfer



If you really want to bond with your risk manager, ask them about the finer points of risk transfer.



Finance & Risk Management



Natural fit between finance function and risk management function

Both are concerned with the organization's assets and bottom line

Need for rules and controls that must be enforced

Both are viewed as overly bureaucratic

Finance & Risk Management



Purchasing

Premium

- Cost
- Budgeting
- Sharing information

Reserves

- How much
- Confidence level
- Opportunity cost
- Finance approach vs. risk management approach

Finance & Risk Management



- Budgeting
- Restitution
 - Tracking losses
 - Communication with police department
 - Communication with fleet department

Total Cost of Risk



- Provides a single metric for effectiveness of risk management program
- If your Risk Management does not have this, it is a conversation worth starting.

Total Cost of Risk



- Insurance premiums
- Retained losses
- Risk management costs
 - Third-party vendors
 - Loss control
- Administrative costs
 - Costs of RM staff
- Subtract any recoveries
 - Restitution/subrogation
 - Excess insurance

Total Cost of Risk



- Compare the total cost of risk (TCOR) to the operational budget.
- Aim for a TCOR of 2% or less.
 - Be more aggressive if you have the tolerance.
 - Be less aggressive if you find that your starting point is far higher than 2%, then work toward that.

Finance Challenges with Risk Management



- Insurance requirements for contracts
- Application in a blanket/unthinking way
 - Risk managers need to be more flexible
 - The goal is to manage the risk, not feasible to completely eliminate it.
- Spend time to get to know your Risk Manager and what they mean.
 - The Risk Manager should be doing the same with you!

