Spreading the Word About Risk Management

by John F. Roskopf and Ginny M. Aiello

According to Rosabeth Moss Kanter, a management consultant and editor of the Harvard Business Review, organizations in the future will resemble a large matrix rather than traditional pyramid or hierarchical structures. The most successful people within these organizations, she says, will be adept at anticipating the need for change.

The key to success will lie in their ability to cut across all functions within the organization to gain the attention and support needed for their operations. They will, in effect, become integrated with the whole rather than identify with a particular technical function. While specialization will still be important, Ms. Kanter emphasizes building coalitions and soliciting support from other departments.

Risk management manuals, bulletins and annual reports are effective coalition-building tools. They emphasize the objectives—and the image—of the risk management department and therefore boost its value within the organization. For these tools to work, however, they must penetrate every level of the organization. Only when the right people receive the right information can they begin to take responsibility for controlling risks and costs.

The hardest part of writing is communicating the right message to the right audience. This means taking time to get to know them. Visualize risk management from their perspective. Anticipate what is important to them and how their needs can be addressed. Before writing a company's risk management manual, for example, interview key personnel and make note of their comments and observations. Brokers, consultants and other service providers can also help evaluate the effectiveness of the manual. In addition, make every effort to write in plain English; avoid jargon and technical terms. If you must use technical terms in a manual, they should be contained in a glossary.

Risk Management Manuals

There is little doubt that risk management manuals, filled with technical information and policy summaries, are intimidating, especially to those with little or no familiarity with the field. Furthermore, they rarely convey the true meaning of the term risk management, the function of the department or its overall objectives, which

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include protecting corporate assets and reducing the cost of risk. Consequently, many manuals actually alienate the audience they are intended to help.

The central objectives of a risk management manual are to reaffirm corporate policy and the department charter, as well as to define responsibility and authority throughout the organization. Not until these broader issues are considered within the context of the operations can the proper procedures and technical issues be addressed. Naturally, selling risk management cannot be accomplished solely with a manual, but it is a powerful tool that can convey a strong image, positive or negative, and leave its readers with a lasting impression of the department.

If a good manual conveys the objectives of risk management and sells the audience on its importance to the corporation, why do so many manuals fail to fulfill their purpose? The main reason is that they become bogged down with insurance jargon because the writers get caught up in their own technical functions and lose sight of management's perspective. This explains why policy summaries often masquerade as risk management manuals. As such, they become more of a reference for the risk manager than a practical guide for corporate management. Unfortunately, a highly technical, esoteric document reinforces the perception that risk management is a purely technical function and not an integral part of management.

Yet overcoming these problems is not difficult. A good place to start is by reassessing how risk management fits in the organization and the goals that need to be accomplished. Then the objectives and image of the risk management department should be incorporated into the manual. This will help shape a manual that accurately reflects the integration of risk management into the whole of the company.

Every manual should begin with a statement of corporate policy that emphasizes a commitment to risk management. Regardless of who issues it, whether it be the chief financial officer, chief operating officer, president or chairman of the board, the policy statement should accurately reflect corporate philosophy. It should also distinguish between policy, which is the attitude or approach the corporation has adopted, and procedures, which are the rules of the policy.

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The risk management charter should define responsibility, authority and lines of communication. Like the policy statement, the department charter should be both broad, emphasizing the integration of the function within the corporation, and specific, including names and titles of staff members and reporting relationships within the department and with the rest of the organization. The charter should also highlight the department's commitment to, and compatibility with, the organization's long-term objectives, shed light on risk management as an important resource and encourage communications with other departments.

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How to Write Procedures

A standard format for writing company procedures should be developed to ensure consistency and to make them easier for readers to follow. It also simplifies the writing process by forcing the writer to work in an organized and logical manner, decreasing the chance that something will be omitted and making subsequent updates easier.

However, a standard format lends little if not properly designed. Indeed, in most cases a company procedure contains essential components, including the date of issue, title, a statement of purpose, the scope, definitions, an historical overview, key contacts, sample forms and cost allocation. The date of issue should be followed by, if applicable, the date the procedure was revised and the date of the procedure that is superseded.

The title should be short and descriptive, and the statement of purpose should indicate why the procedure was issued, whether it be to ensure that claims are reported accurately or property values calculated properly. The scope states to whom this procedure applies, whether it be all operations or only headquarters. Definitions of key technical terms should be included as should a brief historical overview of why this procedure is important and an explanation of this procedure in terms of cost or results. The actual procedures should be clear, concise and easy to comprehend by someone with limited knowledge of the issues at hand.

The risk management charter should define responsibility, authority and lines of communication

Be specific as to who is responsible for implementing the procedure, when it will be implemented and how it will be done.

The format should also include a list of key contacts, including those in the risk management department who can field specific questions on how to implement the procedures as well as more general queries. Outside service providers such as brokers or loss adjusters may also be listed as contacts. In addition, include clean copies of all required forms and, if appropriate, completed sample forms. Finally, if costs are associated with the procedures, the factors determining costs and the billing or allocation procedures should be explained.

There is no hard and fast rule that states that every manual requires an insurance policy summary. Technical details on certain insurance coverages detract from the overall purpose of the manual, which is to integrate risk management into the entire organization. Concentrate on protecting company assets and reinforcing the commitment to risk management. When coverage information is provided, it should be brief and serve more of a purpose beyond merely listing grants of coverage and exclusions. Some procedures, such as separate insurance on a small operation or a unique liability exposure, apply to a limited audience. Rather than divert the focus of the manual with these operations-specific procedures, issue them separately.

Bulletins

Risk management bulletins are brief memorandums, typically two pages, issued periodically by the risk management department to highlight managerial or insurance-specific information of interest to all levels of management. Bulletins help risk managers gain the support of a wide range of departments and corporate functions by reinforcing risk management concepts and increasing the visibility of the department within the corporate matrix. In effect, they provide a forum to educate individuals within the organization. As a result, employees begin to view risk management as an essential resource for the corporation.

When choosing topics, keep in mind who the audience is and what is trying to be accomplished

Issued every four to six weeks, bulletins cover a range of topics that demonstrate technical expertise and at the same time elevate the image of risk management. They also address a broader audience than manuals or other reports. It is therefore important to address topics that appeal to a wide range of individuals but that apply to the specific needs of the organization. The language should be concise and easily understood; insurance and risk management jargon should be used sparingly. If technical terms must be used, they should be clearly defined.

When choosing topics, keep in mind who the audience is and what is trying to be accomplished. If there is a topic of heightened concern or interest, it may be wise to issue a series of bulletins that address that subject. For example, one series might discuss electronic data processing, which in risk management terms covers subjects such as protecting against computer viruses, disaster recovery plans and backup procedures. Other sample topics worth considering are characteristics of risk management, certificates of insurance, managing the automobile risk and contract control guidelines.

Writing a bulletin is not as difficult as it may appear. The key is knowing where to turn for information. A great place to start is with trade and research publications, including Best's Review, Risk Management and CPCU Journal, The Fire, Casualty & Surety Bulletins, John Liner Letter, Practical Risk Management and Captive Insurance Company Reports. In-house staffers should also be consulted for their expertise on a particular topic. In addition, brokers and consultants can often help with developing new bulletin topics, identifying sources and reviewing drafts before publication.

Annual Reports

The risk management annual report is a formal document that covers the state of the risk management discipline throughout the company. The report assesses the risk management department's performance, discusses trends and objectives for the future and provides an overview of the department's structure and function. Basically, it is a way for the department to outline issues and accomplishments as well as solicit feedback from corporate and operations management.

Although the report is, to a certain extent, a factual accounting, do not forget the overriding issues of image and objectives. When preparing the report, therefore, the risk manager should first decide what he or she wants the report to accomplish. Goals may include focusing attention on issues of critical importance to the risk management function and the entire organization, reinforcing risk management objectives, setting the stage for future objectives or issues and performing a self-analysis of the risk management department and its function throughout the company.

The report should not contain facts and figures available in other reports. Rather than being a policy digest or premium allocation summary, it should be a cohesive report bound together by one or two themes. The key to a successful report is to keep it clean and simple by using crisp analysis and avoiding unnecessary details. No one likes to wade through a heavy tome, and no one will.

Organize the report to grab the reader's attention right from the start and hold it throughout the report. Include an introduction telling the reader why risk management is important and what to expect from the rest of the report. It should also provide some background on the organization's risk management philosophy. In addition, introduce the reader to the risk management department by supplying a department organization chart, identifying key personnel and explaining the department's charter. The report should outline key issues facing the firm. Mention corporate issues, such as company growth and new products, as well as topics that are on everyone's mind such as the market cycle and federal regulations. However, each item should be specifically tied to risk management and its impact on the organization.

Also, provide a variety of financial tables, including cost vs. budget, cost vs. prior periods, explanations of variances, fixed vs. variable costs, explanations of key variables and components of the total cost of risk. Placement of the financial information section within the report is important. Decide how much emphasis should be put on financial results, as opposed to other areas that are not easily quantifiable, such as the implementation of a new safety program.

Information on losses is also necessary, but should be confined to a general overview. Emphasize trends and use objective analysis such as claims per man-hours rather than simply restating raw data. Charts illustrating the number of worker's compensation claims by division have much more impact than tedious columns of figures. A brief discussion of general claim trends and the highlights of any major losses then sufficiently round out the picture.

Each item should be specifically tied to risk management and its impact on the organization

State the major accomplishments of risk management over the past year. Be brief and factual, avoid exaggerations and provide the benefits and the costs. Tell the reader how the accomplishments impact the organization and who was involved. If another department took the lead in a project, give them credit. If a project was unsuccessful, state the reasons in an unequivocal manner. Do not try to find fault or lay blame. In addition, describe ongoing projects, stating the genesis of the project, the intended benefits and the estimated costs.

Every department annual report should also include a statement of both long- and short-term objectives. Due to the nature of risk management, some objectives will appear more concrete than others; for example "reduce the cost of claims administration by 15 percent over the next two years" is preferable to "keep abreast of legal trends in product liability and revise the litigation defense posture accordingly." Too many soft, fuzzy objectives are inappropriate. Nonetheless, a few of them can actually help the reader identify with the major long-term risk management issues.

The report should explain ... the principles of uninsured and underinsured exposures

In addition, the report should explain to all levels of management the principles of uninsured and underinsured exposures. Managers must understand why insurance is unavailable or too expensive, and why the company has elected to assume the exposures. State the potential impact of an uninsured loss and describe risk reduction measures that can be taken pre- or post-occurrence to mitigate the effect. As this section covers a secondary issue, it should go at the end of the report.

An effective communications plan enhances the risk management function and promotes both the objectives and image of the risk management department throughout the entire organization. Experience has shown that the lack of a cohesive plan can hinder a risk manager's performance. All too often the primary vehicle for presenting long-range objectives is the annual budget process. Risk managers should be able to articulate long-term objectives, the impact of key issues and their agenda in terms of both financial and operational impact.

Written communications can be an effective tool to sell risk management within the organization. In this context, selling means demonstrating the competence and value of the risk management function. To be successful, a relationship built on written communication must be managed over time to build productivity, loyalty and cooperation. Manuals, bulletins and annual reports are the communication tools that enhance this mutually beneficial relationship. The result is a more effective—and respected—risk management program. **RM**