Standing guard: Management's perspectives on risk
Grapperhaus, Roberta
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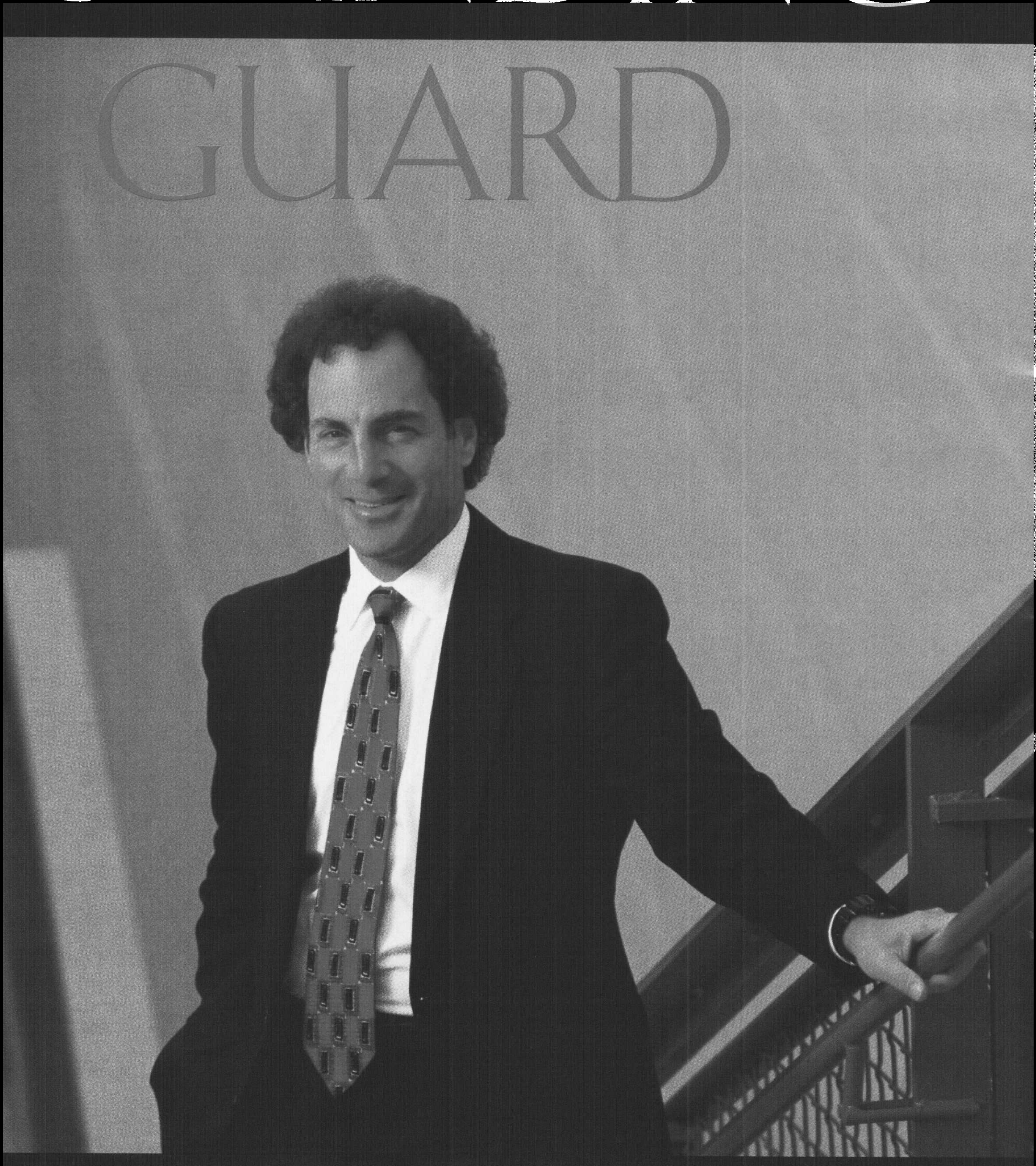
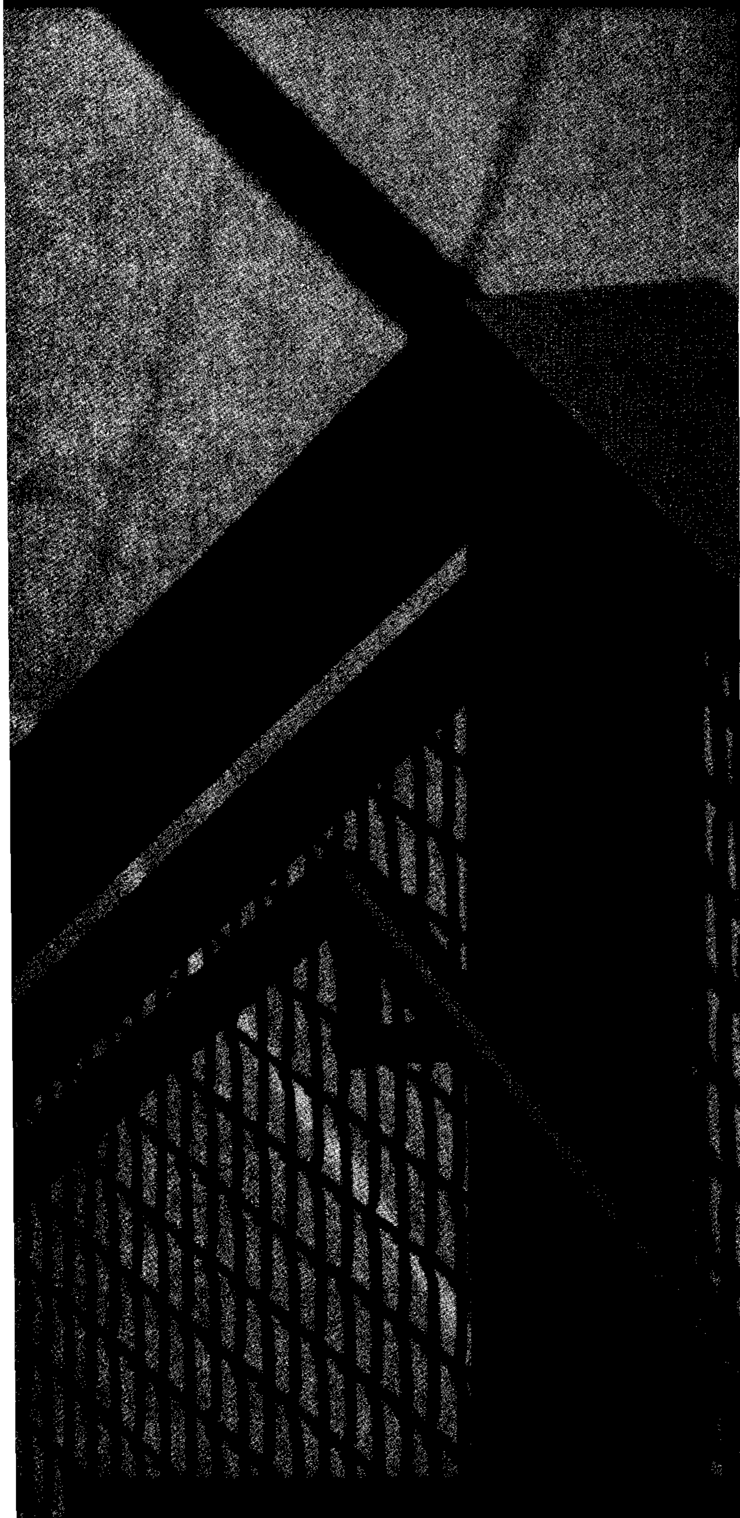
STANDING GUARD



RICHARD MORGENSTEIN

Management's Perspectives on Risk



BY ROBERTA GRAPPERHAUS

When vice president Ken Levinson took over the supervision of risk management for Northwest Airlines in 1992, the airline industry was in the throes of an economic downslide. His mandate: to improve protection and decrease costs.

"In the early 1990s, we were looking at economic survivability. We negotiated a comprehensive plan with our lenders, suppliers and employees and we revised key insurance limits, because the enterprise as a whole was at risk," he says. "Now the airline industry is entering a new era of labor/management relations, and employment practices, directors' and officers' coverage and workers' compensation issues are much more at the forefront of senior management's concerns."

The types of risks have changed since the beginning of the decade, and Northwest's approach has changed as well. "One of the lessons we learned is that management must constantly look at each specific risk to see if and how it can be reduced. For example, just because workers' compensation 'has always been done this way' doesn't mean we couldn't manage it more effectively," he says.

Northwest took several steps to reduce its workers' compensation costs. The company started an aggressive loss prevention program by having employees identify and monitor safe practices in their work areas. Stretch-and-flex programs for employees have begun, and equipment and facilities are being redesigned to decrease the chance of injury to workers handling baggage. If an injury does occur, more aggressive case management, therapy protocols and return-to-work programs minimize the time an employee is off the job.

Creative policy packaging is another cost-reduction technique. "Traditional risks that had previously been handled separately, such as D&O, fiduciary and crime, and newer risks such as employment practices can be packaged to provide increased protection at less cost," notes Mr. Levinson. "Catastrophic and business interruption exposures are more difficult to calculate, but large exposures that have a low frequency of occurrence can be combined with smaller, higher-risk exposures to reduce incremental costs. We are also looking at ways to minimize risks in certain areas not traditionally considered part of risk management's responsibility.

"We take a logical approach to the whole area of risk management," he says. "Education, aggressive cost management, creativity and periodic review of each specific risk all add up to a sound risk management program." ➢

Roberta Grapperhaus is a freelance writer.

VP, Finance and Planning
Northwest Airlines

ck Millar

Treasurer
Canada Post

"The companies that excel in the future will be those that master the management of risk," states Dereck Millar, treasurer of Canada Post Corporation, the country's national postal service. Until it was converted to a crown corporation in 1981, Canada Post was a government department losing $500 million a year. Senior managers hired from the private sector have turned Canada Post around, declaring a profit in five of the last eight fiscal years.

"When I came on board in 1983, there was no one handling risk management functions," says Mr. Millar. "Leslie Linhart Foss, who managed the risk management department from 1983 to 1990, built the group from nothing into one of the most sophisticated risk management teams in Canada."

Another reason for Canada Post's success was senior management taking responsibility for setting the organization's risk policy and gaining a thorough understanding of how risks are interrelated at the strategic, operating and financial levels.

"There are four ways to approach risks," says Mr. Millar. "They can be tolerated, eliminated, accumulated or mitigated. Once a risk is identified, it should be analyzed and a decision made as to how it should be managed. Built-in flexibility to respond to changing conditions is essential. The decision we make to tolerate or increase a particular risk position is as important as the decision to reduce or eliminate a risk."

Here is Mr. Millar's risk management philosophy:

Human Resources—Hire strong, self-confident people; emphasize career development and succession planning; and outsource jobs requiring specific expertise if you can get better service and value for your money externally.

Operating Principles—Promote speed and simplicity as keys to adding value to a corporation; be flexible and agile; do not create paralysis through over-analysis; and place responsibility and accountability close to the action.

Strategic Principles—Develop long-term relationships with your insurance broker, insurance companies and claims adjusters; and contribute to the competitiveness of the organization by providing expertise in risk management.

"The ability to manage a business relative to total assumed risks and their potential rewards and volatilities is the essence of good management in today's environment," Mr. Millar says.

Shelley Boyce
Chief Executive Officer
MedRisk

A principal area of concern for risk managers is rising workers' compensation costs. MedRisk, a medical management company specializing in the treatment and management of injured workers, is attempting to minimize these costs through an innovative reimbursement program and an aggressive injury management system.

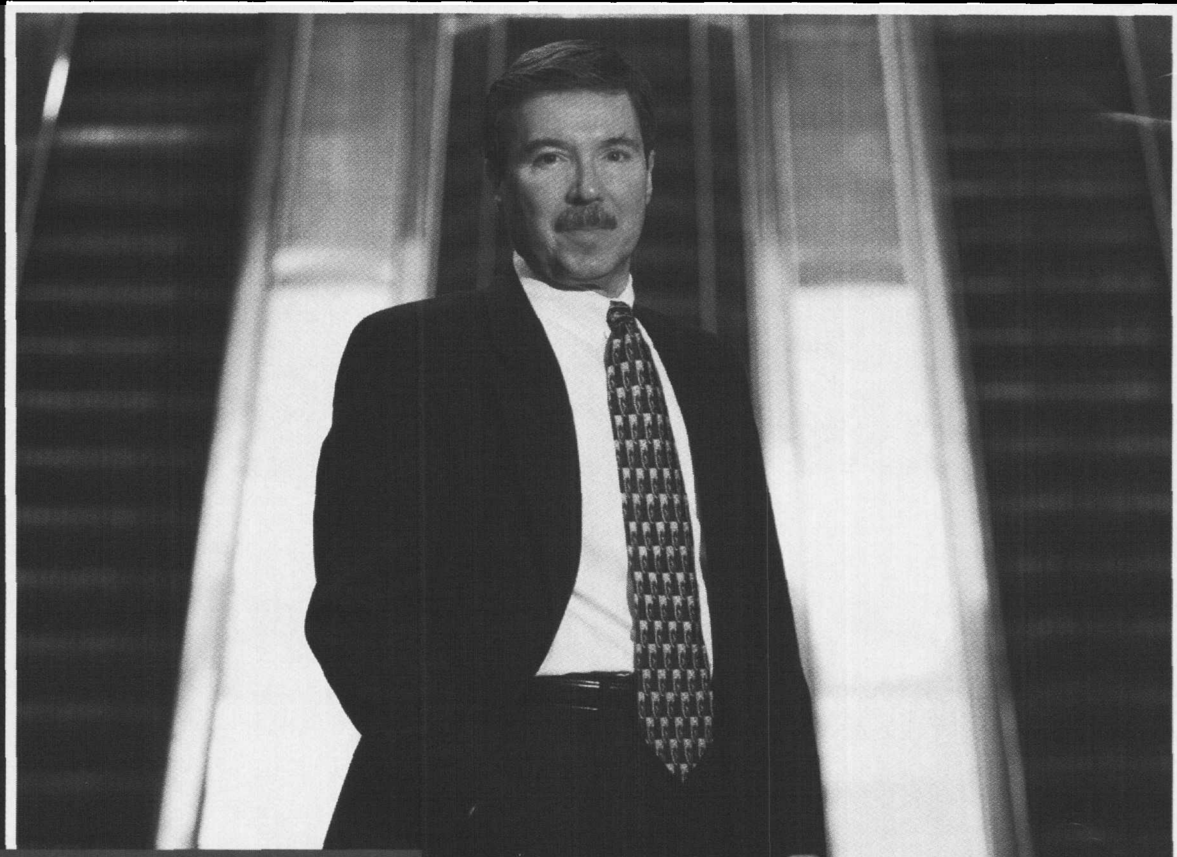
"The trend in the healthcare industry is shifting from fee-for-service to capitation and other risk-related products. In response to this trend we created our own system of fee-based reimbursement using managed care concepts from group health and workers' compensation programs," says MedRisk chief executive officer Shelley Boyce, who founded the company in 1994. "Models that discount fee-for-service medicine do not produce long-term results in reducing total claim costs because there is an obvious shift toward increased utilization, which ultimately affects both medical and indemnity costs."

Musculoskeletal injuries are the most frequent and costly workers' compensation injury, and MedRisk offers its clients a system that helps them target prevention tools and provides measurable outcome and performance data so they can understand what kind of losses are occurring and where the losses are taking place.

Eighty percent of workers' compensation losses are usually found within less than 20 percent of the employee population. "Risk management programs often lack useful data needed to focus programs to the risk population. This is where the real value of the system comes in, because it allows us to collect data and develop customized loss controls," says Ms. Boyce.

Ms. Boyce warns clients that they can't use a lack of standardization in the healthcare industry as an excuse for not understanding their total claims costs. "You need to realize what your risks are, what the drivers are in your own organization that cause that risk and what factors influence the per-unit cost," she notes.

"We have customers whose losses dropped by 40 percent, and they played a key role in the process. They asked the right questions, they focused their program to combat their risks and they tracked the right data," Ms. Boyce says. "A good risk management program should deliver accurate and measurable results that help a company develop initiatives and act upon them."



Vice President
Pettibone Corporation

Communication, education and a proactive approach are fundamental to Pettibone Corporation's risk management program. Pettibone is a $380 million company involved in manufacturing and construction; its products include heavy equipment, plastic knobs, draft control devices and sewer-cleaning equipment.

"For several years we have been in an acquisition mode," says Frank Possinger, vice president, risk & benefits management. "Our department's biggest challenge is to constantly look at new product lines and evaluate new companies as they come on board. We review many areas as part of our due diligence, from historical general and products liability losses to workers' compensation losses including OSHA reporting. Since I am also responsible for benefits, we review the new companies' current benefit and pension plans and determine how easily we can incorporate their casualty and benefits programs into our framework."

Communicating with employees from newly acquired companies is another ongoing process. Through on-site presentations, employees are informed upfront about how their new benefits package compares with the previous one. "This process not only eliminates any confusion," Mr. Possinger notes, "it also gives new employees a good feeling about our company."

Mr. Possinger attributes Pettibone's favorable workers' compensation loss history to such practices as keeping safety manuals up-to-date and conducting employee safety programs. Senior management also reinforces the importance of these issues throughout the corporation. "Whenever we send an expert to a facility to present programs such as proper lifting techniques, we impress upon plant management how much injuries from improper lifting could affect their bottom line. These programs are not taken lightly."

As an equipment manufacturer, the potential for product liability claims is another concern. "We are very aggressive when it comes to handling product liability issues," he says. "Heavy equipment has a long life, and it's difficult to ensure that maintenance is performed by owners. However, we are constantly communicating with our dealer network. Accident investigation is a top priority."

Mr. Possinger advocates taking active measures to reduce the company's risk profile. Rather than purchasing employee practices liability insurance, for example, he opts for increased education.

"Our company is in constant motion. But with our proactive approach to risk management, we are able to continually minimize losses and respond effectively to ever-changing issues and challenges," Mr. Possinger states.