Risk Management – What is it and why do we need it?

Prevailing economic conditions dictate that taxpayer-funded organizations rigorously evaluate the effectiveness of their products and personnel. Educational institutions are being challenged to justify expenditures, and guarantee results in terms of academic achievement. Given this climate of high accountability, the value of risk management to an organization is difficult to overstate.

Risk management has a broad range of definitions. The clearest way to define it would be to examine three basic questions that guide the decision-making process involved in risk management:

1. What potentially can go wrong?
2. How likely it is to happen?
3. If it does happen, what will be the consequences?

Failure to implement good risk management policies and procedures may, in fact seriously compromise an institutions ability to achieve its ultimate mission – educating students. Every dollar spent on worker injuries, liability claims, property damage, and insurance premiums is a dollar differed from education.

What can an organization do to protect itself? Granted accidents and injuries will happen regardless of the most extraordinary safety systems available; however, there are some accidents and injuries that are waiting to happen. Here is where the risk manager focuses attention.

A risk manager is concerned with the protection and preservation of assets, be they human or physical. These assets are often put at risk because hazards or sources of danger that exist. The risk involved in placing an asset in proximity to a hazard is a loss or injury. The probability that a loss or injury will occur can be evaluated and minimized/eliminated by following risk management techniques such as:

- **Risk Identification** – involves identification and measurement of all risks of accidental loss through inspections, review of contracts, and review of losses.
- **Risk Assumption** – involves pooling resources with other educational institutions to pay losses that result from claims.
- **Risk Reduction** – involves reducing the frequency and severity of losses through loss control (safety) techniques.
- **Risk Retention** – is "self-insurance" which involves establishing pools of money from which claims will be paid. (An example would be if a department doesn't properly secure a class room and equipment is stolen. The department is responsible for paying the first $5,000 (our deductible) to replace the equipment, assuming the loss was more than that.)

- **Risk Transfer** – involves hold harmless agreements, obtaining certificate of insurance from groups that use district/college facilities, and the purchase of insurance.

So, is a risk manager only out there looking for trouble? In a sense, yes! But far better to uncover and mitigate. In today's highly volatile world being unprepared to cope with the unexpected can be virtually catastrophic in both human and fiscal terms. How commonplace has it become to see headlines announcing huge judgments awarded in cases involving injury or loss?

Government regulation will escalate to keep pace with even more aggressive citizen demand for protection. What concerns are gathering force and already breaking out in new regulations: Blood-borne pathogens, waste management, car-pool and vehicle ridership, rising medical costs and its impact on workers' compensation and the student accident insurance – the list is endless.