International Risk Management
An Introduction to Risk Management Terms and Principles
By Rich Woldt CPP, CFE, Private Detective

Who Is Responsible For Risk Management (RM)?

I'm often asked, "Who is responsible for Risk Management (RM)?" The answer is, "We all are!" Whether we're a member of the Board of Directors, the CEO, a full time or part time employee or the one hired to clean the toilets, we're responsible for our actions and for managing the risks we recognize while performing our duties. While our employer might designate a company' "Risk Manager" or "Risk Management Department" to manage risks and monitor compliance with safety, security, and industry rules and regulations, it's our duty to be on guard. When risks cause losses, we all get hurt. We feel guilty, feeling "We should have done something to prevent the loss," fear; "It could have happened to us!" and, we experience a sense of being out of control.

Too often we go through life assuming Risk Management is the responsibility of the other guy. For example, we assume it's the internal auditor who's ultimately responsible for detecting and discouraging fraud, yet most embezzlers are caught by fellow employees. Too often, employees assume it's the security guard who's responsible for preventing burglaries and robberies, while it's usually the last person out of the building who forgot to lock the door. Too many believe it's the government's fault that Katrina destroyed New Orleans yet most residents knew the risks associated with living below sea level. We are all ultimately responsible for the risks we take and our own well being.

I've learned much during my 42 years teaching Risk Management. I've learned people are the same the world over, we all like a challenge, and most of us will set out to sea during a storm. We like to gamble so we'll bet on a losing team even though the odds of winning are not in our favor. I've learned for the most part we're confident and courageous in the face of danger, and we'll drop what were doing to rescue a neighbor in distress. I've also learned it's not the government, law enforcement, fire fighters, or EMTs who'll be first on the scene of an accident. It's usually a family member, a friend or neighbor, or passer-by who'll come to our rescue in a time of need. Taking everything I've learned into consideration, I'd like to tell you my best Risk Management advice is to teach your children CPR, your neighbor to rescue you from your pool, and your community to alert you of danger and assist you when seeking shelter during a storm. I'd like to think Risk Management was that simple. But, it's not!

The American Indians have a saying; "Hand someone a loaf of bread and you feed them for a day - Teach them to plant wheat and you feed them for a life time." The Risk Management recommendations offered in this paper, might serve you well today, but what will happen tomorrow when you awake to a changing world? I invite you to read this paper with an open ear and creative mind. Study RM principles, apply RM practices, but listen to and learn from your own experience. Use the RM terminology so it becomes your management language of choice. And finally, share your RM experience and wisdom with others. There are no silver bullets or guaranteed cures in life so start today to take risks. Create your own RM presentations based on your life' experience and share your perspective with others. The simple act of stepping forward might be all it will take to lead your community out of harms way.

We all face Risks

All communities and cultures face business risks such as burglaries, robberies, forgeries, embezzlements, fires, law suites, extortions, kidnappings, bomb threats, fires and natural disasters which include hurricanes, earthquakes, tornados, and tsunamis. We all face violence in the workplace, terrorist attacks, anthrax scares, and life threatening pandemics. The fact is we all face risks. Our lives and world are full of opportunities and each comes laden with risks.

Fortunately, throughout history our forefathers have taught us to avoid some risks by recognizing impending danger, side-stepping falling trees, or escaping if not unharmed at least with our lives. Most of us have learned to listen, heed fare warnings, and move out of harms way. Most of us are fairly good at measuring risks and taking appropriate action to protect ourselves and reduce our loss. From the day we're born until the day we die Risk Management is a way of life. The basic questions therefore are: "Should we avoid or take risks? Are we skilled risk takers or are we poorly trained victims waiting for the next disaster? Are we gambling with our future or systematically managing our options?

Textbook questions include: Have we identified, measured and controlled all our risks? Do we have the properly trained personnel in place and ready to respond if something bad happens? Do we have an action plan, a contingency plan, a business resumption plan, and an incident command plan in place, tested and ready to roll? Have our security policies, procedures, and personnel been benchmarked and updated based on our current and future business plans? Will we survive and prosper after our next worst case scenario? And last but not least; How does our Risk Management program compare to those in our industry who have a like and similar business environment, or will we be held liable for having failed to effectively manage our risks?

This paper defines Risk Management (RM) as a "Method of Management" that advocates internationally tested RM performance standards, teaches generally accepted RM terminology, and encourages everyone to focus on the benefits we all gain when we speak a common language that's understood in every community, country, and cultures. It's important to note that Risk Management methods work best when they're channeled through a secured "closed loop" feedback system able to communicate RM needs from the frontlines to their RM reinforcements out of harms way and RM training, equipment, and response resources back to the frontlines during an emergency or life threatening incident.

As you study alternative Risk Management methods, consider not only what might work to control risks in the present, but also risks that will emerge over the long run. Design your RM programs to be flexible enough to adjust to short term operational anomalies yet consistently sound and security enough to provide lasting protection over the long run. Budgets are tight and to often security is the last budget to be funded. Take the time during design and development to get it right. Criminals and con artists will challenge your programs enough. Don’t leave any doors open, exposures unprotected, or risks poorly managed!

All companies and large organizations should designate a primary Risk Manager and a backup in case the primary is not able to respond or take command during a crisis. Before a crisis the primary RM should act as the pivot person on site to make sure all risk controls are channeled and properly communicated to the frontlines. In addition to confirming all RM information reaches the front lines, the Risk Manager is responsible to periodically test, train personnel, and ensure that all appropriate risk controls are put in place and consistently used. The primary RM and backup(s) should be required to accumulate continuing education credits appropriate to the RM needs of their company, industry, community, and country.

While we live in an ever changing world, television and the internet are drawing us closer together. Recent experiences with earthquakes, hurricanes, terrorist attacks and tsunamis underscore our need and our ability to come to the aid of all people everywhere. Risk mangers not only have to be trained in RM fundamentals, but also prepared to take command and play an active roll in the recovery process. All Risk Managers should have a working knowledge of the unified “Incident Command System” and be familiar with response terminology and the response protocols advocated by the US National Incident Management System (NIMS).

This paper provides a basic introduction to “Risk Management." Refer to our web site at RMLearningCenter.com and COPs007.com for advanced RM training and risk specific workshops.

What is Risk?

Risk is the UNCERTAINTY OF LOSS. There are only two types of risk: **PURE Risk** where there is only the potential for loss, and **SPECULATIVE** Risk where there is a potential for gain and loss.

PURE RISK embraces all possibility of loss with no chance for gain. Fires, floods, vandalism, burglary, robbery, embezzlement, terrorist attacks, natural disasters, all result only in a loss, never a gain. Pure risks often result in the destruction or confiscation of property legally through law suits, wages being garnished, property being attached, or are when you face a forfeiture. The focus of most Fidelity bonds is on pure risks such as burglary, robbery, forgery, embezzlement, and liability.

Losses can be direct or indirect. For example, fire damage can cause the direct loss of buildings, their contents, and the lives of employees. Indirect losses include lost good will, lost member confidence, and increased operational costs during recovery.

SPECULATIVE RISKS are created when we speculate hoping to make a gain, but exposing ourselves to a potential loss. Building a new building, offering new products or services, promoting new legislation, or launching a new policy or procedure all involve speculative risks. You hope to gain but you could suffer a loss. A good Risk Manger spends much time evaluating the probability and possibility of a risk occurring that might result in either a direct or indirect loss.

What Is Risk Management?

Far too many people think of Risk Management only in terms of insurance and bond contracts or how they can transfer risks to someone else. In fact, managing risks involves managing **all** risks whether they are insurable, bondable, transferable, or not. The bulk of a Risk Manager's work is done before risks are transferred through insurance and bond contracts. That which is exposed to loss and you're attempting to protect is referred to as a "loss exposure." Risk management is the conscious and systematic three step process to **IDENTIFY, MEASURE,** and **CONTROL** all risks that might threaten your loss exposures.

> **Risk Identification -** Some risks are easy to identify. For example, you trip over a cord going across a traffic isle and you've identified a tripping hazard. Other risks such as burglary, robbery, fire, forgery, and embezzlement take considerable RM training to identify or recognize you have a real possibility for a major loss.
>
> **Risk Measurement-** The importance of measuring a risk in terms of its potential **frequency** and **severity** can not be understated. Security budgets are always tight so it most important to focus your RM resources where they can do the most good. The goal is to prioritize your risks and focus on those that might cause the greatest loss.
>
> **Risk Control-**Once your focused on the most important risks, you use five Risk Management Controls to either avoid, reduce, spread, assume, or transfer the risk to someone else.

- **Avoid-** Your first consideration is to determine whether or not you really want to accept a risk. Many can and should be avoided. For example, the residents of New Orleans could have avoided hurricane Katrina and the subsequent flood by not living below sea level in an area known for hurricanes.

- **Reduce-**If risks can not be avoided, the Risk Manager must focus on reducing loss exposures and the associated risks of doing business. For example, a company that must store currency will purchase burglary resistant safes to reduce the risk of a burglary. They hire internal auditors and implement sound internal and audit control procedures to reduce the risk of embezzlement, and they maintain appropriate fire extinguishers to reduce the risk and loss from a fire.

- **Spread-**The third risk control spread out the risk. For example, storing back up disks off site spreads the risk of losing all vital records during a fire. Spreading currency on premise among locked containers will slow the robber and reduce the loss from a fast hit robbery.

- **Assume-**Assuming risk means accepting responsibility for some of the loss. Accepting a deductible on your property insurance is a form or risk assumption. Large companies will often self insure the physical damage to a single vehicle and only insure catastrophic losses. Most health insurance policies rely on the insured assuming some of the cost for medication and routine office appointments.

- **Transfer-**Risks that cannot be totally avoided, effectively reduced, efficiently spread, or safely assumed, should be transferred to someone else. Hold-harmless agreements, lease agreements, the Fidelity Bond, and insurance contracts are examples of "transfer tools."

Why Is Risk Management Important?

Risks are a part of life in every company, community, country, and culture. They're really what makes life exciting and worth getting out of bed in the morning. Risks motivate us to climb mountains, take voyages into uncharted wilderness, launch new companies, and create new inventions. Risk takers entertain us on weekends and help us set our sights on great adventures. As I said in the beginning, we are all risk takers from the moment were born until the moment we die. And maybe, for those of us who believe in heaven and hell, we'll be risk takers for all eternity. So, enjoy being a risk taker and get ready to be the best Risk Manager you can be. The more you learn to manage risks, the more opportunities you'll have to succeed.

I'm particularly excited to hear about the risks we've shared over the years as the internet draws us all closer and closer together. I daily thank God for the privilege he's given me to have worked in virtually every community in the US and every country in the free world. He's blessed me with opportunities to listen to and learn from so many I affectionately call the "grassroots of our global culture." How important is Risk Management? It's important enough to open doors, turn on lights, and point us all into the future!

Who Is Responsible For Risk Management? You are!

Rich Woldt CPP, CFE
CEO: The Risk Management Learning Center
Licensed Private Detective
email: Rich@RMLearningCenter.com
608-712-788