

Risk Management Resolutions



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Easier than a diet; good for the health of your nonprofit

Were you one of thousands of Americans who received a gym membership gift tucked neatly in a card from a loved one? Each year, millions of Americans jot down resolutions, most of which have something to do with the three Cs: calories, cardio workouts, or carcinogens.

Resolutions about the three health-inducing Cs are awfully tough to keep, as are risk management resolutions that could change the health of your nonprofit. Does the organization you serve have a mission worth preserving? Are there any risks lurking in your nonprofit's future that could spell significant set-back or disaster? Are you losing any sleep about risks related to HR, financial management, fundraising, reputation, or staff/participant injuries?

This article offers simple, timeless Risk Management Resolutions, easily adaptable to the circumstances and resources of your nonprofit. And best of all, they don't require the equivalent of giving up dessert or enrolling in a spinning class.

Remember that the Nonprofit Risk Management Center exists to help nonprofits address risk management challenges. We're here to take your phone calls and emails on any imaginable risk management topic. We offer frank risk management advice and point you to resources and materials that will help you better understand the dilemma you're facing and the solution we recommend. To access Risk Help, available exclusively to [Affiliate Members](#), call us at 703.777.3504.

Resolution #1: Blow the dust off your policies

Throughout the year, the Nonprofit Risk Management Center receives phone calls from chief financial officers, executive directors, program managers, and board members who ask various forms of the same question: "How will I know if my nonprofit is adequately insured?" During the conversation that follows, a staff member of the Center often asks, "Have you read your insurance policies?"

Most callers quickly admit to having never actually read the insurance policies purchased by their nonprofits. Most callers can name the insurance agent or broker who sold them the coverage, and a small percentage have a clear idea of the exposures the policies address. Yet only a scant number of these professionals responsible

for managing their nonprofit's insurance program have taken the first and perhaps most fundamental step necessary to discharging this fiduciary duty.

Reading an insurance policy is not an easy nor necessarily enjoyable task. But doing so almost always opens the reader's eyes with regard to how the coverage works. See the sidebar on page 7 for steps to reading your policies.

Resolution #2: Establish goals for your risk management program

It is not uncommon for risk management activities to arise in a nonprofit even prior to a conscious decision on the part of the organization's leaders to embrace the discipline. For example, many nonprofit leaders who report that their organizations have negligible risk management activities later admit to the existence of a rigorous screening program, periodic training for supervisors, safety training for volunteers, and a long history of purchasing insurance to finance certain exposures. The elements of a risk management program do indeed exist, but the elements are not linked or effectively organized into a risk management effort that looks backward and projects into the future.

The process of formalizing risk management in a nonprofit begins with a goal-setting exercise: What do you hope to accomplish by stepping up your risk management efforts this year? What are your top risk management goals in light of past losses, current concerns, and changes looming on the horizon? An organization's risk management goals will also depend on the number of losses it has incurred and whether it changes minimally from year to year or expects to grow exponentially in the year ahead. They also depend on its risk management appetite. An organization with a hearty appetite for risk-taking may vow to gain greater control over its risk-financing strategy by shifting to self-insurance. Another nonprofit may choose to focus its energies on avoiding recurring losses while a third organization may identify forecasting catastrophic losses as a top concern.

Another aspect of goal setting concerns the role of risk management in the organization. Some nonprofits aspire to involve personnel throughout the organization in risk management activities, from managers to line staff to volunteers and participants. Other organizations aim to consolidate risk management responsibility under one person or as a department.

No single set of risk management goals will work for every nonprofit, nor is there an ideal structure or framework that meets the needs of a single type of nonprofit or all nonprofits.

Resolution #3: Conduct a risk assessment or risk management review

This resolution is probably the most difficult and time-consuming item on our list, and you deserve a note of congratulations for even daring to add it to yours. Undertaking a risk assessment requires more than a change in philosophy or approach, it requires putting facts, figures, and analysis on paper. A risk assessment is a thorough review of an organization's exposures and strategies for addressing those exposures. When the Nonprofit Risk Management Center conducts a risk assessment as part of our consulting work, the process generally includes an insurance coverage review, whereby we match existing insurance coverage (or other risk financing measures) with exposures and offer an opinion about the adequacy of coverage.

There are two general approaches to conducting a risk assessment: (1) hire a third party to undertake the review; or (2) design and implement your own strategy. In many ways, the latter approach is best, because an added benefit of the process is your immersion in your nonprofit's risks and strategies. At the end of the process, you will have a greater appreciation for the risks you face as well as the existing strategies in place to manage risk. You'll also have a keen understanding of what additional work needs to be done.

However, a growing number of nonprofits (particularly medium to large organizations) find that the complexity of their insurance programs and risk management efforts have outpaced the staffing of the risk management and insurance function, making it impossible for current staff to undertake the risk assessment. If this is true for your organization, obtaining help from an outside consultant is a sound strategy.

A word of caution: many nonprofits report that they have undergone a "risk assessment" conducted at no charge by their insurance agent or broker. While it is possible that your insurance professional has undertaken a review of your exposures, we have never seen a pro bono review that consisted of more than a cursory review

of risk issues with the focus entirely on *insurable* risks. Furthermore, there is an inherent conflict of interest present when you ask your insurance professional to conduct the review — few, if any, will identify weaknesses in the assistance you are receiving from their firms or errors they have made in placing your coverage. Interestingly, mistakes made by a broker or agent frequently come to light when the review is conducted by a third-party consultant. The bottom line is that if your nonprofit seeks help conducting a risk assessment, obtain that help from a firm or individual unconnected to your current insurance program. At a minimum, the consultant should have no financial stake or interest in your insurance program. This ideal vantage point will allow them to provide candid and valuable feedback on your exposures and your coverage.

Resolution #4: Take a panoramic view

A panoramic view is invaluable as you fine-tune your risk management program. Unfortunately, too many nonprofits continue to view risk management narrowly as a discipline solely focused on insurance or other areas, such as crisis management.

Organizations are well-advised to look beyond the traditional confines of the discipline and consider risks (threats and opportunities) in all areas of operations and activity. Keep in mind that the risks you face arise in traditional operations plus other areas such as fundraising, board service, client involvement, compliance with emerging accountability standards and stakeholder expectations.

Felix Kloman, a former board member of the Nonprofit Risk Management Center and highly-regarded visionary in the field of risk management offers the following advice about the opportunity for a wider view:

“Risk management, particularly its enterprise approach, is reaching a peak in organizational attention.... 2005 is, therefore, an opportunity to redefine the process of risk management within organizations, a time to adopt new ideas, try approaches and generate results....

Risk management is not just about compliance...buying insurance, reducing personnel accidents, quality control, securing data, protecting property or fairness to employees, or even contingency planning. It is all of these and more. It tries to recognize opportunities in risk as well as concentrations of downside outcomes and the correlations that reduce them. It looks at organizations as entire entities rather than the sum of individual parts.

That is why I've insisted that the goal of risk management is *to enhance the flexibility and resilience of an organization so that it can build and maintain the confidence of... stakeholders in an uncertain future* [emphasis added].”

Taking a panoramic view requires that you seek the perspective of a diverse group of people as you work to identify and address threats and opportunities. Some nonprofits tackle risk management with great ambition but fail to consider the viewpoint of line staff, service volunteers, or even the people receiving services from your agency. Participants can help provide a wide-angle view of potential problems and the need for thoughtful communication.

Resolution #5: Get to know your advisors

One of the insights that often results from a risk assessment is an updated view about the types of services available from the nonprofit's insurance professional (agent or broker). Or an organization may learn that it should be consulting legal counsel more regularly for advice concerning contracts with partner agencies, vendors, or other matters of importance.

Unfortunately, too many organizations view the call for help to an advisor as a last resort. A better approach is to view your advisors as partners in your mission. Great advice can help keep your organization healthy and poised to meet its ambitious goals for the future. Failing to seek advice in a timely fashion can lead to unnecessary turmoil, expense, and even disaster.

Most lawyers, CPAs, and insurance professionals that work with nonprofits can readily share a horror story of the client who “didn't call me until it was too late for me to help.”

Make certain your nonprofit has ready access to capable, experienced advisors who can assist you without

delay and at a rate you can afford to pay. Remember to contact these advisors as the project develops and before a crisis erupts.

Resolution #6: Learn from your peers

Every nonprofit manager and board member has an existing or potential network of peers who have “been there” and “done that.” Whether you’re a manager who is handling an insurance renewal for the first time, a new CEO developing HR policies for your nonprofit or a board member charged with responding to damaging media coverage, remember that you’re in good company. Colleagues throughout your community have struggled with similar issues, and others may be grappling with similar tasks at this very moment. One of the most important tools at your disposal is advice from your peers. Here are a few suggestions for reaching out.

- Consider whether you are part of a network of similar providers (e.g., Big Brothers Big Sisters of America, American Red Cross, YMCA, etc.) and ask whether a friend or colleague in this existing network has handled a similar matter.
- Think about your professional peers—people who hold similar positions to you. Might any of the peers you’ve met at association events have words of wisdom to offer?
- Consider similar providers in the vicinity, such as other groups that provide after-school tutoring to children, sports programs, social services agencies, and the like. Most peers at similar organizations would be flattered to be asked for their professional insights, just as you would if the circumstances were reversed.

Resolution #7: Don’t delay

Some readers may find it ironic that I’ve waited until the end of this piece to address the human tendency to procrastinate. Yet many good risk management intentions remain in such limbo. The most important message about improving, expanding or broadening your risk management efforts is to begin as soon as possible. Don’t put off a measured but practical effort to involve others in risk management programs or to take a closer look at the insurance coverage you rely on. Don’t wait until risks materialize before sharing your view of the risk management landscape with your board of directors. And don’t wait to reach out to your peer network or professional organizations like the Nonprofit Risk Management Center for advice and assistance on risk management issues. Practical advice and meaningful support are available free of charge or at an affordable cost from a variety of sources.

Melanie Herman is executive director of the Nonprofit Risk Management Center. She welcomes your feedback or questions about any of the topics covered in this article. Melanie can be reached at 703.777.3504 or via [email](#).

Peter Bernstein’s Big Ideas

(The following statements are from an interview conducted by Jason Zweig with Peter L. Bernstein, author of *Against the Gods: The Remarkable Story of Risk*.)

1. “Understanding that we do not know the future is such a simple statement, but it’s so important. Because it’s hard to accept, you have to keep reminding yourself: We don’t know what’s going to happen with anything, ever.”
2. “...it’s so inevitable that a certain percentage of our decisions will be wrong. That doesn’t mean you’re an idiot. But it does mean you must focus on how serious the consequences could be if you turn out to be wrong... you have to think about the consequences of what you’re doing and establish that you can survive them if you’re wrong. Consequences are more important than probabilities.”
3. “The riskiest moment is when you are right... In many ways, it’s better not to be so right. That’s what diversification is for. It’s an explicit recognition of ignorance.”