PARTNERS
RISK STRATEGIES

Changing The Landscape: Why Institutions of Higher Education Should Consider Risk At Every Level

Institutions of higher education are under more pressure than ever before. The challenges presented by Covid-19 put what were already liability-prone entities in an even greater predicament. The average total cost of risk (TCOR) for all businesses have increased year after year with increased exposure the TCOR will continue to escalate. It's important for every institution of higher education to examine their existing risk and their risk profile.

Questions that help guide this process are:

In far too many cases, risk management is merely an afterthought. People pay lip service to risk, not realizing the repercussions that decision will bring their organization.

- How to prepare for the future?
- How to deal with uncertainty?
- How to understand and prepare for emerging risk?
- How does risk management impact the bottom line?
- What additional risk is created by not having an integrated risk model?

Developing a solid risk management plan in an evolving landscape can be challenging. In far too many cases, risk management is merely an afterthought. People pay lip service to risk, not realizing the repercussions that decision will bring their organization. In fact, it's every leader's job to consider risk, whether that's the CEO, CFO or General Counsel.

In this paper, we provide a practical approach to achieving effective risk management.

Start with the basics

In any assessment of risk, it's important to start with the basics.

Risk management involves:

- Identifying risks
- Assessing the current state
- Understanding the impact of the risk on people, process and finances
- Anticipating the risk, mitigating the risk and recovering from the risk
- Developing leadership/management strategies based on your ability to anticipate, mitigate and to recover.

Categories of Risk:

- Avoidance – eliminate activity that is deemed too risky
- Mitigation – reduce the likelihood of losses
- Transference – move risk to others (an insurance policy)
- Retention – determine acceptable risk

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Risk is not stagnant but is fluid and changes often. Many businesses have outdated processes, disconnected systems, distributed responsible parties and lack visibility to understand the true breadth of risk. Those who are most prepared review risk on a frequent basis. Best practice for risk management involves partnering with an external resource to objectively review risk. This is often done by engaging an appropriate partner with expertise in specific areas of risk. For example, an audit partner (financial risk), an organizational consultant (talent risk) and an insurance broker (physical risk).

Risk management requires an investment, but leaders should prepare for this investment in their annual budgets. When that doesn't happen, expenses related to unprepared interruptions adversely impact the budget and can prove to be more costly than the investment made in risk management.
Risk management should be integrated into the decision matrix for large strategic decisions. Each decision should consider the impact of risk on the organization, its people, processes, technology and reputation.

The Bottom Line

Risk management has never been more important. Institutions of higher education are under more pressure than ever to deliver better cost and higher value. The world as we know it has change dramatically, but good fundamentals and best practices are still the foundation for success.

The Client

Our client was a university in the southeastern United States. The CFO engaged our organization for two reasons: 1) they were simply looking to reduce the cost of insurance and 2) they were looking to manage the cost of personnel.

Reduce the Cost of Insurance

As our team began to do its work to determine the current state. As a trusted advisor we knew that it was important not to just look at the current coverages and we knew that there was "risk" in just looking for cost savings. We applied an Enterprise Risk Management (ERM) approach to reviewing the current state. It is difficult to see and understand the total risk when the risk is distributed. The ERM approach is a process that allowed us to review all risk under a collective umbrella to evaluate TCOR across the enterprise.

We met with all stakeholders and developed a matrix that reviewed the following risk:

- Financial
- Reputational
- Physical
- Talent
- Emerging
- Regulatory

We conducted an assessment of the current coverages to ensure compliance with their mission, vision, and strategic direction of the college/university. Using the ERM approach we quickly identified gaps in coverage which created risk for the client.

The client had a long-standing relationship with their existing broker and in many ways was reluctant to the coverages audit. The broker was local, and the client was one of - if not the largest - client of the broker.

We diversified their risk profile and created a model whereby the client could actively manage and anticipate their risk. In fact, our firm was able to save them more than $1 million year over year.

Our firm developed a “trusted advisor” relationship with the President, CFO and General Counsel for the university. The ERM model identified gaps that created risk for the client. In doing this, we were able to mitigate the risk with their existing carriers. In this instance, it was important to keep the carriers that was familiar to them since we were changing their broker relationship. Introducing too much change with any client creates additional risk.

Upon completion of the assessment and project, we were able to significantly improve their coverages while mitigating risk. We diversified their risk profile and created a model whereby the client could actively manage and anticipate their risk. In fact, our firm was able to save them more than $1 million year over year.

Reduce the Cost of Personnel

The client university was facing a challenge with ensuring its learning community was prepared for the future. Many of the faculty were contemplating retirement, some had an aged skillset that needed improvement. On the other hand, many of the faculty had tenure and passion for the college while other faculty had "retired on the job" while remaining on the payroll.

Leadership must have the courage and foresight to use the tools appropriately.

Our team did a comprehensive review of the faculty and executive leadership, and their contribution to the school. We reviewed performance indicators and success metrics. We again reviewed the vision, mission and the 10 strategic plan for the college/university. It was clear that changes needed to be made with regard the need to prepare for the future with both faculty and the executive team. An assessment was completed for the faculty in conjunction with the senior executive team and President. A plan was developed to replace talent where necessary. We devised a competitive retirement plan for both faculty and executive leaders. That retirement plan had a dual usage 1) to help the appropriate folks transition out of the organization and 2) the plan was used as a retention tool for new and existing key talent. Leadership must have the courage and foresight to use the tools appropriately.

Additionally, we reviewed the organization for its effectiveness and developed strategies to improve many of their core processes. These processes also included building new governance polices for the Board of Directors. Many of the policies reviewed board member composition, decisioning, and board metrics.

Outcomes

Strategic Outcomes:

The college/university has benefitted strategically from this exercise and now has its risk aligned with its mission, vision, and strategy. It has improved its reporting and efficiency measures. It now has a more balanced approach to its operational and risk management review. It endeavors to use a more holistic view to review and managing risk (ERM). The organization has strengthened its risk posture and will use its broker to perform risk audits.

The client has stronger reporting of its risk (financial, property/physical and talent risk). The board has created metrics by which to govern itself.

The client continues to benefit year over year while improving its risk profile. Additionally, the client has been introduced to new tools and resources, which it uses to manage and mitigate risk.

Lastly, our firm as seen as a trusted advisor to the client.

Our team at Partners Risk Strategies/3P Advisors is proud of the work we've done for institutions of higher learning. With decades of experience in risk management, we are poised to provide an accurate and fair assessment of your university's risk and help you implement necessary changes to achieve your goals.

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