



Risk Management: An Overview

In today's environment, regulators, donors, and volunteers expect Foundation managers to use the proper diligence in the management and protection of foundation assets. The days of passive insurance buying, when the insurance agent or broker was responsible for the adequacy of the insurance program and the insurance process was a once-a-year event are long gone.

This article outlines a five step risk management procedure to identify, avoid, and reduce risk and mitigate loss.

Step 1: Risk Identification

The first step in protecting Foundation assets is to determine what risks can deprive the Foundation of its assets. The essential question here is "what if?"

- What if a certain piece of property were destroyed or stolen?
- What if the office suffered a fire and was rendered unusable for several months?
- What if a foundation employee is involved in an at fault automobile accident while engaged in foundation business?
- What if a contract that the foundation planned to enter into goes awry?
- What if the foundation suddenly loses its CFO due to a job change or an unfortunate accident?
- What if confidential donor information is compromised or vital records are destroyed as a result of cyber crime or systems failure?
- What if the value of the foundation endowment plummets because of improper investments?

Step 2: Risk Measurement

The second step in the risk management process is quantifying the impact of potential adverse events. What is the operational and financial impact of adverse events? The essential question here is "so what?"

- What is the dollar effect of the loss of petty cash due to theft?
- What is the dollar effect of a problem with the foundation's transactional website?
- What amount of liability could the foundation have because of an automobile accident caused by negligence of one of its employees?

For each risk you should try and estimate a potential dollar impact range including out of pocket losses, lost opportunity costs, and other collateral costs resulting from business interruption. This analysis allows foundation personnel to focus on the most important risks to be addressed. You might not worry much

about the petty cash box but invest considerable time in assessing IT security or and potential legal threats to directors and officers.

Step 3: Risk Treatment

Risk treatment encompasses three distinct processes: risk avoidance, loss control, and claims management.

Risk avoidance: Identify actions the foundation can take to avoid risk altogether. The foundation might:

- Decline to enter into a high-risk contract;
- Arrange for subcontractors to perform certain high-risk tasks rather than foundation employees and obtain certificates of insurance from the subcontractors;
- Relocate offices from a known flood zone;
- Maintain an off-site data warehouse and redundant IT systems that would enable seamless resumption of business in the event that primary office equipment is destroyed.

Loss Control: Identify ways the foundation can reduce the probability of adverse events if risk cannot be avoided altogether.

The foundation might:

- Provide driver training for fleets of private passenger vehicles;
- Check employee's driving records prior to allowing them to drive on the foundation's behalf;
- Have a qualified investment committee oversee the work of independent advisors retained by the foundation;
- Establish a duplicate check signing process for all checks over a specified amount;
- Hire a trained caterer to serve liquor rather than rely on untrained foundation employees.

Claims Management: Identify ways to reduce the impact of adverse events.

The foundation might:

- Put sprinklers in foundation buildings;
- Become actively involved in the claims adjusting process that the insurers use for workers compensation or other liability claims;
- Maintain good property proof of value documents so as to avoid insurer attempts to underpay.

Step 4: Treatment of Residual Risk

Despite risk identification, measurement, and treatment, foundations will inevitably face risks. To minimize the potential financial impact of these risks,

large organizations can establish lines of credit with special borrowing procedures, and set up formal funded risk retention programs. Such approaches are, however, impossible for most foundations which must invest in insurance policies as the primary pre-loss funding device.

Step 5: Review

Risks are not static and may change swiftly over time. A correct decision made today might not be right tomorrow. A deductible based on an old appraisal may be too low in relation to the current value of a building. Special events formerly held in university venues may now be hosted in foundation owned facilities. The foundation may host special events in their building which were formally held in university facilities. Key financial staff may have been replaced by newcomers with less far less understanding of the foundation's business.

Risk management is not an event; it is an ongoing process in which foundation management must constantly evaluate possible risk and investigate options for minimizing potential risks and associated financial losses.

The risk management process is largely intuitive. Among the greatest challenges is cultivating an awareness of risk management among foundation staff and establishing appropriate processes throughout the entire foundation. While it is difficult always to know exactly what to insure and for how much to insure it, a solid risk management process can help inform your decisions and reduce the likelihood and impact of unexpected adverse events.

This article is excerpted from a presentation by [Thomas Atkins](#) at the 2006 CASE Conference for Institutionally Related Foundations. Thomas Atkins is a principal at [Albert Risk Management](#).

