

Section 20 – Risk Management

Overview

All organizations are subject to liability and claims from a variety of risks arising from torts, property damage, errors and omissions, injury to employees arising from unsafe conditions or hazards in the workplace, and natural disasters. Risk management encompasses identifying risks, evaluating potential losses, and ultimately planning and developing a risk management program to mitigate these risks to an acceptable level. The importance of risk management has grown steadily in recent years for various reasons, including increased use of technology and higher litigation costs.

Local governments face unique risk challenges. Unlike many business organizations, local governments provide facilities and services for all residents of a given area. Additionally, the nature of some of the services provided, such as public safety, can be considered high-risk areas, which could make obtaining adequate insurance coverage difficult or cost-prohibitive. Additionally, each community has unique risk attributes that might not be a risk area for other communities. For example, two seaside communities might exhibit similar risk profiles, except one operates a seaport facility with petroleum storage. Given the heightened awareness of terrorism on domestic soil, the seaport community would possess a very different risk profile. Consequently, a comprehensive risk management program is a vital component of a local government's administration. For some local governments, this responsibility and other insurance-related matters often falls to the finance department.

To implement a risk management program, the local government must establish written risk management policies and procedures that identify the local government's goals and individuals responsible for carrying out risk-related functions, and contain guidelines for making decisions about fundamental activities. Reviewing and updating a local government's overall risk assessment and insurance coverage can help ensure that the entity maintains the best mix of risk mitigation for the lowest possible cost to taxpayers.

Identifying Risks

The first step in creating an organization-wide risk management program starts with a comprehensive risk assessment, including identifying risks to understand the sources, types, and likelihood of risk. At a minimum, exposure to risks should be identified in the following areas:

- Economic environment (market trends)
- Internal environment (attitude of individuals towards risk)
- Legal environment (laws and legal procedures)
- Operational environment (day-to-day activities)
- Physical environment (e.g., natural disasters)
- Political environment (legislative activity, elections)

- Social environment (socio-economic composition of the community)

In most cases, such an assessment already exists; however, periodic re-assessment will provide a more current and accurate risk profile, reflecting the ever-changing risk environment. The purpose of this process is to ensure that all areas of significant risk have been identified and addressed, and that insurance coverage is adequate to meet potential claims.

Evaluating Potential Losses

To determine the level of coverage necessary for a given area, it is helpful to understand how the entity values particular assets. For instance, it wouldn't make sense to insure a new civic center from hurricane damages for significantly more than the cost to construct such a facility. Additionally, understanding the entity's liability profile and recent claims experience will also provide guidance on the correct level of coverage to consider. This can be accomplished by tracking the frequency and severity of claims, including such information as the number of open claims, the amount paid out, and the amount reserved.

Florida law provides most Florida local governments with some relief from liability claims. Section [768.28](#), F.S., makes it more difficult to collect on liability claims from a local government as well as setting approval and limitation terms on potential claims. If claims exceed specific thresholds (\$200,000 per individual claim/\$300,000 aggregate of all claims from common incident), the law requires approval by the Florida legislature before a claim can be paid.

Developing a Risk Management Plan

Based upon a completed assessment and a thorough understanding of the local government's risk profile, a risk management plan should be developed. A wide range of solutions are available to communities to combat each community's risk exposures. These include:

Loss Prevention and Control – This involves education and training to employees to raise awareness of safety issues and other workplace hazards that can result in loss. It also involves instituting routine inspection programs that detect, deter, or prevent unsafe conditions or practices that can result in accidents, theft, property damage, or other loss.

Risk Transfer – This involves acquisition of insurance, either directly by the local government or requiring others to do so contractually (e.g., construction contractor). Insurance can be obtained directly by local governments through:

- Traditional Insurance Coverage. Many insurance carriers provide property damage and liability coverage policies for local governments. Chances are an all-encompassing policy can be formulated for your entity. To reduce insurance company credit risks, it is advisable to deal with established A. M. Best Company rated "A" insurance companies.

- Public entity risk pools. Government associations may offer members participation in a variety of risk pools, which provide the opportunity to participate with other local governments and diversify self-insurance coverage geographically.

Self-Insurance – This involves the local government assuming the risk for the financial responsibility for all or some losses. Depending on the size of the local government and/or the assessed level of risk exposure for a given area, self-insurance can be an effective method of increasing coverage at reduced costs. Many commercial businesses and local governments currently provide self-insurance coverage or financial reserves for significant risks, such as workers compensation, property and liability exposures. Past claims experience, premium payments, and necessary coverage levels will assist in determining whether in house coverage would be a cost effective alternative. Self-insurance coupled with catastrophic insurance coverage for claims over a certain amount could provide the best mix of coverage for some local governments.

Risk Avoidance – This involves a local government avoiding the provision of specific services if the risk management costs are excessive. For example, a local government may decline adding a swimming pool in a recreational area.

References

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