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Public Risk Forum

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From the Editor's Desk

Dr. Peter C. Young, Managing Editor of Public Risk Forum.



Public Risk Forum aspires to provide a global forum for public sector risk management – a goal that makes *PRF* unique among all risk management publications. This online newsletter specifically intends to foster interactions among risk management practitioners and scholars throughout the world and to do so in a way that allows readers to gain new perspectives on risk management challenges and strategies. International exchanges have occurred in the past, albeit on a very low level, but we hope to radically expand the dialog over a short period of time. We also see great benefit in enabling readers to interact directly with these leaders in the field, and *PRF* will introduce features that will encourage this to occur.

Greater global interaction is an important aspiration, but it is not *PRF*'s sole objective. All other public risk management publications and information sources focus on technical aspects of risk management and tend to be produced for those important individuals we call risk managers. This is a noble cause and we view these individuals as part of our readership. However (and this is an important "however"), *PRF* seeks to expand the readership to include public sector executives. One of the most important changes in modern risk management is the explicit role that top managers have to play in setting risk management policy, in integrating risk management practices into their own jobs, and in assuring stakeholders that desired outcomes are obtained. Thus, our forum must not only invite global voices and perspectives, it must also welcome both risk managers and executives into the discussion.

Perhaps there is a third objective – one that arises from the second. We hope that *PRF* can reach both audiences (practicing risk managers and public executives) but we also hope that the newsletter might, directly or indirectly, encourage dialog between risk managers and executives and thus open the way for a fruitful integration of risk management into the general structure of management practices in public organizations. *PRF* will have features that encourage this specific kind of exchange.

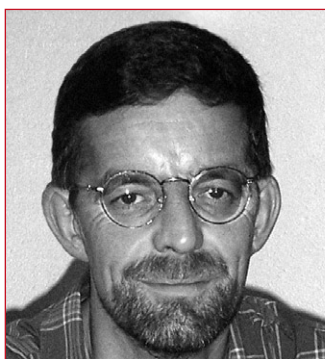
Can this all be accomplished? As the staff of *PRF* must concede, the world is a large place and gathering information is a tall order. In this regard, we fully expect to start small and grow over time. For a variety of reasons, our present contributors represent only parts of the global public risk management community – mainly, Europe, North America, South Africa, the Antipodes, and parts of Asia. This fact is due mainly to the growth of public risk management practices. Simply put, these are the parts of the world where formal practices have most rapidly advanced. This is all true enough, but *PRF* will expand its reach and so Central and South American, African, Middle Eastern, and Eastern European participants all are expected to join the forum within the next 12-24 months.

We at *PRF* are energized by the challenge ahead, and we are hopeful that *PRF* will become an important source of information for readers with an interest in public sector risk management. To that end, I want to encourage readers to provide direct comments, suggestions and corrections, and – when appropriate – to submit any news or information deemed important to share with the readership. Please feel free to contact me any time at pcyo@eirm.net.

Welcome to the *Public Risk Forum*

Notes From The Front-Line

By Martin Fone, Principal-Public Sector. Charles Taylor Consulting, London



From a risk management perspective, without doubt, the most significant development in the public sector arena in the United Kingdom has been the willingness to embrace the concept of mutuality as an alternative response to the risk financing and risk management needs of local authorities. There are now a number of groups exploring the value of establishing mutuals – amongst the large unitary municipalities, the district councils and amongst the fire authorities and police.

To a degree, the level of interest in mutuality is unsurprising. Until 1992 the vast majority of local government entities bought their insurances from a mutual – Municipal Mutual. When Municipal Mutual ceased trading because of its (then) inability to meet statutory solvency margins, a limited commercial insurance market emerged to serve their needs. That only a relatively small number of markets were prepared to invest time and resource to understand the risk requirements of the sector was as much a problem for local government as a benefit. It is difficult to demonstrate best value when you are buying services in an oligopolistic market. Commercial insurers have a different perspective – they are writing business for profit and the needs of a specific sector are outweighed by the needs and issues across an insurer's overall portfolio. The underwriting pricing cycle is notoriously difficult to deal with when your budget is limited. Pricing methodologies are opaque – and where were the specific rewards for good risk management practice?

A number of central government initiatives have made it easier for authorities to reconsider mutuality. The 'well-being' powers encompassed in section 2 of the Local Govern-

ment Act, 2000, were specifically developed to eliminate many of the legal obstacles which hitherto had prevented authorities from entering into partnerships with other authorities or private sector bodies. The National Procurement Strategy was designed to maximise cost efficiencies in the purchasing of services and positively encouraged innovative and collaborative purchasing initiatives. The Shared Services Agenda also provided a strategic 'hook' upon which to hang a proposition of mutuality.

A cursory scan of the way local government finances its risks around the world will reveal that some form of collaborative financing technique – whether it be termed a mutual, a pool, a reciprocal or a joint indemnity fund – is the norm in many countries. That this is so demonstrably the case cannot simply be a coincidence and is surely reflective of the fact that the public sector is the best at understanding and serving the public sector. Private sector market solutions can only be at best inadequate solutions, simply because of the mismatch of motivations and interests.

“Mutuals have the opportunity to insist on standardised risk management approaches and on continuous improvement in performance, rewarding the good performers and penalising the poor performers. By collectively responding to risk issues and sharing human and financial resources they are in a better position to achieve more than if they were operating in isolation.”

What is heartening for those at the centre of this movement is that so many authorities have understood that mutuality is about managing risks first and foremost and less about insuring risks. Yes it is important that the price of the cover is attractive relative to the commercial market and it is important that the terms and conditions of the cover are at least as good as those provided by commercial insurers. But the real benefits of mutuality reside in the management of risk. There are financial incentives – any underwriting surplus flowing from good risk management practice are retained for the benefit of the members rather than used to subsidise other parts of a commercial insurer's portfolio or to finance dividends to third party shareholders. There is peer pressure – all members of a mutual are under the microscope and peer pressure will require the poorer performers to raise their game. Mutuals have the opportunity to insist on standardised risk management approaches and on continuous improvement in performance, rewarding the good performers and penalising the poor performers. By collectively responding to risk issues and sharing human and financial resources they are in a better position to achieve more than if they were operating in isolation. Enhancing the ability to manage risk effectively and efficiently will ultimately be the lasting and long-term benefit to the public purse from the public sector mutuality movement.

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In the meantime there is the spirit of pioneering – market formation, establishing where mutuals and members sit in relation to EU Public Procurement law, dealing with Competition Law and State Aid issues, dealing with the regulatory authorities and establishing reinsurance market support. Heartened by the commitment of the potential members and the knowledge that the model works successfully elsewhere in the world and learning from the mistakes of Municipal Mutual, I am confident that I will be able to report in a not too distant future edition of this publication that the public sector mutual is up and running again in the United Kingdom.

One of the interesting challenges relating to the enterprise-wide risk management movement which has been exercis-

ing me much over the last few months has been that of risk information and risk communication.

It is a truism of risk management that it takes some form of external catalyst – whether it be legislative, regulatory or a major catastrophe – to concentrate the minds of the executive of an organisation to take risk management seriously. Following Barings, Enron, WorldCom etc the private sector has entered the world of compliance. Sarbanes Oxley, Basel II, MIFID are now a fact of life for many organisations. Over \$15bn was spent in 2005 on compliance and estimates suggest that this figure is likely to be at least doubled this year. This significant investment in response to external regulatory impetuses has resulted in the development of key building blocks to aid the business to enhance its financial and operational reporting. Compliance has forced organisations to take an enterprise-wide view of the data they store and an holistic approach to the reporting and understanding of their business.

In isolation, this investment in compliance neither drives the business forward nor delivers competitive edge. But the adoption of an ERM strategy founded on the good, accurate and timely information delivery systems necessary to provide a sustainable compliance platform provides the opportunity to deliver to the organisation real benefit from their compliance-related investment.

Implementing a sustainable compliance platform means that data is available in an enterprise-wide format which is in a consistent format across the organisation and is capable of being reported in formats which enable managers to drill down or take high-level views as appropriate.

Software, drawing on the operational data, can be implemented to provide management with the ability to identify risk and assess the impact of both negative and positive risk on the organisation, its performance and its performance prospects. Risks can be ranked according to their impact on the organisation and on their probability and aggregated across operating divisions. Equally, executives have the opportunity to examine risks at operational level and drill down to the lowest level of detail. Many hundreds of risks can be visualised in a single graphical view and the current status of key risks can be visualised through graphical mapping. The interrelationship and the impact of risks can be easily viewed.

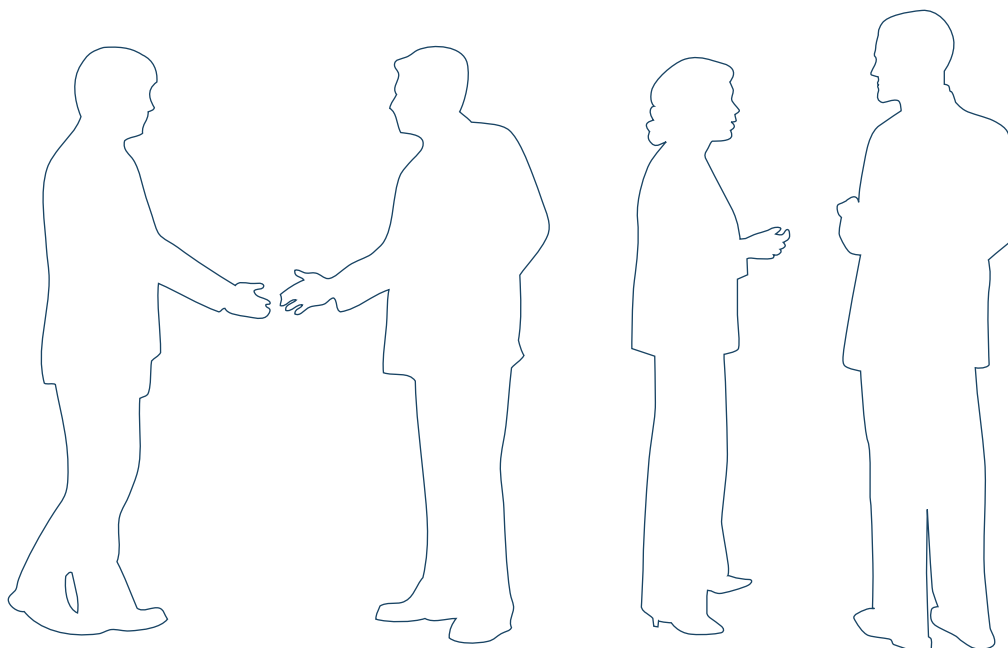
These powerful tools help address the risk information and risk communication issues surrounding the implementation of an ERM strategy in a way that capitalises upon an organisation's significant compliance investment that

maximise the effectiveness and efficiency of risk communication and allow an organisation to act in a risk-intelligent way. The reduction of the impact of uncertainty on the organisation and the more appropriate allocation of resources to meet the real challenges of the business enable an organisation that has embraced an ERM strategy to attain real competitive edge and maximise shareholder value.

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Understanding the risks and exposures associated with the organization and its operations is as important for the public sector as the private, if not more so. Having an holistic view of risk and having consistent approaches to risk across functional areas of the business will derive real benefit to the authority. This is a real challenge for the public risk management community. It would be somewhat perverse to demand some form of external regulatory treatment simply to achieve this goal but this may simply what it needs. Perhaps another value of a mutual approach to the management of risk is that the mutual can position itself as the catalyst for change in the way information about risk is captured and disseminated within and out-with the organization.

For the public sector, however, these catalysts do not pertain. Much good work has been done by a number of associations to try and benchmark risk and measure performance but the results have generally been unsatisfactory or sketchy and without the carrot and stick approach that regulatory compliance brings with it will always be. There is a very real possibility that as far as the adoption of enterprise-wide risk management is concerned, the private sector will leave the public sector behind.



What is the New Risk Management?

By Dr. Peter C. Young, Managing Editor of Public Risk Forum.



2006 is a time of extreme dynamism in the risk management world. Risk management has moved rapidly from a rather narrow and technical concept to a central feature of general management. Further, its application has broadened and today we think about risk management is seen as relevant to the widest possible range of issues. And, of course, there are many standards, legal guidances, auditing rules, and other external expectations that are pressuring organizations – public and private – into thinking about risk management in new ways.

Emblematic of this dynamism is the range of labels and models that have been applied to describe the emerging view and to differentiate it from the past. Enterprise risk management, strategic risk management, organization risk management, total risk management – all have been employed to describe risk management as a broader and more proactive approach to assessing and addressing risks. Of these labels, enterprise risk management (ERM) seems to have gained the upper hand at the moment, but even supporters concede that some of its features are not always applicable in non-corporate settings, and so the debate continues. To avoid an interesting but unnecessary digression here let us simply refer to all these current developments as fitting under the title, the New Risk Management.

One of the interesting aspects of the New Risk Management has been the legacy issues that influence many of the current points of contention. Financial risk managers have shaped their current views around the centrality of financial risks (interest rates, currency, inflation), while traditional insurance managers naturally view the broader approach as emanating from a focus on what might be called insurable

risks (fires, lawsuits, work place safety). Most recently, as risk management has come to interact more fully with the auditing world, newer descriptions of risk management have taken on a distinct “internal controls and reporting” hue. It is easy here to recall the story of the seven blind men and the elephant. Each defines the elephant in the context of his personal encounter – and that encounter is greatly influenced by that individual’s own experience and knowledge.

It must be said that the competing views do reveal a liveliness and intellectual energy that is one of the hopeful aspects of the current situation. The levels of commitment and activity demonstrate the importance of the topic and also reveal that serious work is being done to resolve many of the most important questions of the day. Later, this article will have something more detailed to say about new practices, so for now the focus should be on the issue of risk management’s placement in the firmament of general management practices. This is a critical issue because risk management’s transition from technical specialization to general management – which is a central aspect of New Risk Management thinking – is dramatic and can be hard to understand.

“...virtually all recent developments in risk management emphasize that risks are everywhere in organizations and that technical aspects of risk management are just a part of a coordinated effort within organizations to address all risks in the service of the overall goals and strategy”

First, note that there continue to be technical aspects of risk management and there always will be. Risk financing, for example, requires knowledge of insurance, capital markets and financial engineering that is beyond the reach of most general managers. Likewise, environmental risk management requires technical science and engineering expertise – and indeed, the same can be said of legal risk management, disaster recovery, political risk management, and supply chain risk management. However, virtually all recent developments in risk management emphasize that risks are everywhere in organizations and that technical aspects of risk management are just a part of a coordinated effort within organizations to address all risks in the service of the overall goals and strategy.

The simplest way to convey this idea is through the accompanying diagram.

Strategy, Operations, Risk Management Model



In a world of complete certainty, management would only require those activities necessary to determine strategy (strategic management) and implement measures to move an organization from its present position to its desired goals (operations management). However, the world is not certain and therefore much of everyday work can be described as measures undertaken because risk and uncertainty are present. To the extent those activities are seen as serving an organized and rational policy, those activities are “risk management.” Put this way, it can be said that everyone already practices risk management – the New Risk Management simply poses the question: are organisations practicing risk management effectively or poorly?

The other benefit of this image is that it conveys the role of risk management on two critical dimensions. First, it shows that risk management is part of everyone’s job, but secondly, it emphasizes that risk management is a central aspect of

overall organizational management. That overall organizational management dimension requires that coordination and consistency be present in the risk management efforts of each manager and employee, and it also acknowledges that technical experts are necessary to address specific aspects within an organization. But most importantly, this imagery reveals a central tenet of the New Risk Management, and that is the critical role that must be played by top management in setting risk management policy and assuring that the organization’s risk management efforts are consistent with that policy and with corporate strategy.

What does the New Risk Management look like in practice?

First, the New Risk Management can be mainly characterized by the following:

1. Risk management entails the management of all organization risks.
2. Risk management is driven by overall organization policy, goals and objectives, and strategy.
3. Risk management seeks actively to manage risks in a manner that leads directly to organization value enhancement.
4. While top managers set overall policy, all managers and employees are risk managers within the scope of their responsibilities.
5. Within this overall structure there is scope for technical risk specialists to play critical roles.

These are principles of the New Risk Management, and as such only suggest the practical issue of risk management in action. This article now turns to modern risk management in action.

The implementation challenge

Although there is a great deal of complexity to the challenge of implementing a major change to organization management (and an encouraging amount of research and writing on this currently is being done), it is sufficient here to note that a few very important implementation lessons are emerging. The following likely are the most essential: *Risk Management templates do not work terribly well as a first step – risk management is specific to organizational cultures.* Simply put, the essence of the New Risk Management is that it is – mainly – a change in the way an organization thinks about risk and how the organization incorporates that thinking into general managerial planning and action. Only by accident will an off-the-rack template work effectively. The implication here is that understanding the organization and its culture is the first step toward incorporating risk

management. In other words, templates support risk culture, they do not create it.

Finding the internal champion for the New Risk Management is essential, but frequently is hard to do. Such is the level of dramatic change in the risk management world that champions for change are hard to find. There are two reasons for this:

- *Existing risk management specialists may not be sufficiently knowledgeable or positioned to take on a championing role, and*
- *The breadth of scope of the New Risk Management means that very few managers have the wide range of vision or experience to lead such change.*

The approach that works best is the approach that managers continue to use. This sounds circular, but the statement emphasizes that the implementation of risk management must make sense to managers and therefore managers are central to the implementation process.

Pathways to implementation

It certainly is true that each implementation will have unique features and – on an ongoing basis – the forms that the New Risk Management takes will be unique. However, there do appear to be four rather general approaches to implementation. And, these approaches seem to suggest the organization's specific culture and its attitude toward change. Those approaches are:

1. The project-based or experimental model.

This approach involves small introductions of the New Risk Management into new projects or specific activities. This approach is widely used and seems to work best in organizations that “learn by doing.”

2. The policy driven model.

This approach entails top management establishing a broad policy on risk management, but then allows risk management to develop organically throughout the organization. Managers are given accountabilities and ownership of their risks and risk management results are part of their annual performance review. This approach is often used by organizations with a great diversity of business activities or where geographic distances militate against command and control approaches.

3. The functional integration model.

Used in situations similar to those noted in #2, this approach involves the organization-wide integration of a language and

assessment process for risk management. The actual management of the risks is the product of an organic process.

4. The full immersion model.

Occasionally, organizations are in a position where wholesale change can occur. This may be due to a highly structured and formal organization and culture, but more frequently it occurs when a broader organizational change is taking place (a merger or acquisition).

And then what happens?

Modern thinking does not require the presence of someone called a risk manager since, by default everyone in the organization is a risk manager and – in a very real sense – the CEO is the top risk manager of the organization. However, a number of practicalities intervene and most organizations that move toward a version of the New Risk Management identify a person to take coordinating responsibility for risk management efforts. That person, symbolically, is referred to as the Chief Risk Officer – though that actual title may not be used. Frequently, there is a team, rather than an individual, but that group enjoys a sufficiently central and elevated position in the organization from which to coordinate risk management activities.

Each Public Risk Forum newsletter will contain a feature article of general interest to the readership. In keeping with its current status as a newly launched publication, PRF will use the Feature Article in its first four issues as a platform for setting forward several central ideas about modern risk management.

Dare To Share

– a new perspective on approaching risks*

By Jack Kruf, President of PRIMO Nederland, Citymanager of Roosendaal



In his book, *La Gestion des risques*, my French PRIMO colleague, Olivier Hassid, stated that events such as the attacks on the World Trade Center and on the trains in Madrid, the Indian Ocean tsunami, and also the financial scandals of Enron and WorldCom seem to underline the urgency of and demands for the control of risks. What has happened over the last few years, he argues, puts risk management in a completely new perspective

He is very right. Risks seem to surround us and confront us more and more in our streets, neighborhoods, villages, suburbs and cities. We all know this.

With these comments as background, I want to focus on the position and perspective of the city manager/CEO within this environment—in general—and the necessity of sharing detailed information, knowledge and experience. Sharing is a challenge, simply because this world is very complex and interlinked. But, we want to be efficient and effective, don't we?

In my comments today, I want to bring forward the idea that sharing has a lot to do with daring but also that there are different barriers that seek to prevent us from effective sharing. These are barriers, however, that should be overcome.

First, let me talk about the barriers. I believe that these barriers are—in fact—a risk in their own right, and they impact the three domains in which the city manager works. The first domain is society, the second is the governmental organisation and the third is our own municipal organization. After discussing these issues, I would like to give a short outline of PRIMO, The European Public Risk

Management Organisation, which has been established for the purpose to make sharing possible.

Risk Management: the long term view

History teaches us that risk management has been with us for a long time, though always appearing within distinctive forms and utilizing the specific instrumentalities of the time. Consider just a few examples.

The Inca's developed advanced techniques to reduce risks of loss of fertile soil due to heavy rainfall in the Andes. They built an empire with the development of terrace-farming. The new control techniques led to sufficient food supplies for everyone.

The farmers in Spain, Portugal, Cyprus and Malta have known for thousands of years what to do to get the best out of their crops, and to protect, for example, the olive trees from shortage of water supply, erosion and diseases.

The Dutch built dikes and polders and used mills to reduce the risks of the land being flooded by the sea. They developed a global concept for this. The risk management of water is relevant today in the discussion of global warming. Hopefully, history can help teach us what to do.

So, our ancestors and their risk management brought us where we are now – here in this room in Malta. Risk management, dear colleagues, is in our genes already. So let's focus a bit.

“The Dutch built dikes and polders and used mills to reduce the risks of the land being flooded by the sea. They developed a global concept for this. The risk management of water is relevant today in the discussion of global warming.”

Society

The bomb attacks in London and Madrid, the riots in France, the assassination of a Dutch politician and filmmaker, the reaction to the publishing of a Danish cartoon, the speech of the pope last week – they all remind us how fragile society is. They all remind us how fragile society is. Risks seem to emerge from society, sometimes exploding. And, they tell us a story.

But which story? We, as city managers, have to know what is going on out there. It is our role. That's quite simple. We have to think smart. We have to sense, monitor, investigate, analyze—searching for the right facts and conclusions. We have to know how much social stress there is, how long our water supplies will be last, what the impact is of the heavy rainfall to our city plans, and we also have to know about the trends among our young people—the generation to come. What is in their minds?

Yes, we are in the middle of a changing world. And only the right information can lead to the right conclusions and decisions. So we need the eyes of the condor. And we need to share what we see and hear.



Government

Our governmental and political structures in Europe are founded on the principles of democracy. Of course every country has its own accents, rules and cultures, which sometimes seem so different, but in essence have a lot in common. What do they have in common?

Well, they have the layers, so to speak. Governmental layers that is. Yes, seen from a certain distance they are beautiful, like an Italian landscape. But, traveling through the landscape we experience that there are many hills to climb, rivers to cross, marshlands to avoid and barriers to overcome. You can not step easily from one layer to another, that is, from Brussels headquarters to our little villages. Sharing is sometimes not an easy thing.

Above that, Federal organizations often make their own policies far away from our municipalities, although they will deny that.

So, distance here can be a problem – yes, I think so. And I want to add one more thing: our European and federal governmental organizations are not so good in synchronizing and timing. They all have their own accents and drives which result in the fact that policies simply cannot be implemented within our municipalities. We experience that every day.

The trend all over Europe is to decentralize tasks from federal to local. This is often in combination with cost cutting, although other descriptions are being used. Sometimes it is impossible to implement policies. The municipalities are often left with their search to find answers to these new challenges. This causes, in my view, much loss of energy and ideas.

So sharing and communication from federal to municipal level – and vice versa – is one key factor for efficiency in local government. Indeed, creating a flow of communication lies at the very heart of UDITE's purpose (Union of Local Authority Chief Executives in Europe).

Our municipalities

The third domain is the playing field of our own municipal organization. Society, stakeholders, policymakers on national and European level, mayor and aldermen and their day to day business, and of course our own organizations are around us. Let me give you a few of my reflections. We should focus here on assuring safety for our citizens. This is evident and certainly is the most important task. Also, we should strive to be internally perfectly in control and therefore be able to realize our political targets.

Mayors, aldermen and city manager/CEOs increasingly are held responsible for the mistakes/faults of the local organization. And we all know that good news travels very fast to the top, but bad news isn't and often stays hidden.

Management of risks is only possible if sharing of information happens effectively and at the same time it is almost unnatural for the most of us. We want to share our certainties, pride and victories, not our uncertainties and doubts. It is human nature.

“Management of risks is only possible if sharing of information happens effectively and at the same time it is almost unnatural for the most of us. We want to share our certainties, pride and victories, not our uncertainties and doubts. It is human nature.”

So how do we handle this professionally?

Define the targets and organize a way your employees bring forward their uncertainties about the targets and the processes behind those targets. Create an environment where they are feeling safe to do this. Sharing is what professionals do.

Let me try to convince you of the power of sharing by giving you an example directly from nature.

Imagine two birds with the same intelligence. One bird is the great tit, or mesange – the other is the robin, or rougegorge. The great tit shares everything he sees and hears with his fellow birds, the robin cares just for himself and his territory.

Scientists have discovered that the great tits in Sussex possessed the knowledge of opening a new type of cap on a milk bottle, and that when that new bottle cap was introduced in Manchester, the great tits there already knew how to open it. So the great tits are both smarter as individual birds and they are much smarter as a group. They know more because they share more.

This is where PRIMO (Public Risk Management Organisation) comes in. Sharing is one of the main reasons UDITE, MARSH AND EIRM created PRIMO.

PRIMO Europe

PRIMO aims for sharing in a broad sense. This is accomplished by developing and making available tools for assessing the risks in society, to bridge the gap between European,

federal and local governments, to come in direct dialog with federal government about implementation of important policies, and to support you in your tasks as CEO by making experiences, knowledge and people, easily accessible.

PRIMO, Public Risk Management Organisation, is therefore, a platform for efficient local government. PRIMO is, along with UDITE, at the very heart of streaming the information and connecting people within and between countries and cultures. Sharing between you and your European colleagues should be easier to do.

This brings me to my final conclusion.

Sharing is a necessity for city managers. No question about it – horizontally and vertically – by sharing information we are more intelligent as group, just like the great tits. The laws of nature tell us. Sharing is growing. Sharing is adding value, and sharing leads to adequate risk management and therefore to efficiency in local government. And this is why we are here, isn't it? We should work just like the airline and oil companies. When an accident with a pipeline or airplane happens, results of the investigation are shared with the entire market.

We are in Malta, of course, so let me say that also within the light of new presidency of UDITE it is my conviction that we can learn a lot from our Maltese colleagues, simply because they have a lot of sharing already in their genes.

The Maltezer cross can, in my view, be seen as a symbol of the cultural, religious and linguistic richness of Europe and in this context today for the fact the sharing in the context of risk management is the only way to efficiency in local government and to the safety for our civilians and the environment.

“Sharing is adding value, and sharing leads to adequate risk management and therefore to efficiency in local government.”

**Note: The article is a transcription of a speech given at the September 2006 UDITE (The Union of Local Authorities Chief Executives of Europe) meeting held in Malta.*

Status report on PRIMO Europe

By Malene Mouritze Marfelt, Communications Officer at the EIRM.
The EIRM functions as the secretariat for PRIMO Denmark.



Risk management has become a key issue on the agenda in the public sector. European public leaders express their needs for methods and tools to identify and assess risks. As a consequence, PRIMO Europe (the Public Risk Management Organisation) was established in 2005, and the interest for the organisation is growing throughout Europe. Several national PRIMO chapters have been created and private partners contribute to the development of PRIMO Europe with their specific expertise related to risks.

If you have noticed a growing interest in risk management within your local authority, this is fully in line with an overall trend throughout Europe. Everywhere, local authorities are being asked to identify risks, evaluate their risk profile and attend to risks that affect their objectives and operations.

In 2005, UDITE (the Union of Local Authority Chief Executives of Europe) initiated PRIMO Europe as a transnational vehicle for public risk management.

Today, PRIMO Europe has grown to be the largest European risk management network for public CEO's.

The initiative has met great interest from all over Europe, which has led to the establishment of PRIMO Denmark, PRIMO Netherlands and PRIMO France. PRIMO Malta, PRIMO Flanders and PRIMO Cyprus are in the process of being established. More national chapters will follow in 2007.

The purpose of the organisation is to disseminate knowledge of modern public risk management supporting public sector managers in their daily decision-making in risk management issues. In the long term, PRIMO Europe aims to make risk management a natural and integral part of public governance.

Members of PRIMO Europe are offered a large range of activities ranging from conferences, seminars and round table

discussions to access to a comprehensive online library with risk-related articles and reports. Moreover, PRIMO Europe members have the possibility to take an online introductory course in risk management.

PRIMO Europe cooperates with a number of private companies, in order to share knowledge and get inspiration from the private sector's intensive work with risk management during the last years. The public private partnership (PPP) is based on experience sharing and the private partners contributes to the organisation with their specific knowledge within a certain risk area.

In September 2006, the PRIMO Europe board was gathered in Malta, where the national PRIMO Presidents took part in an official signing ceremony of the PRIMO Europe Statutes.

During the ceremony, Allan Vendelbo, Chairman of the PRIMO Europe board, underlined the necessity for sharing experience and knowledge about risk management on a European level. According to Mr Allan Vendelbo, PRIMO Europe shall focus on assisting top decision-makers in meeting new expectations and requirements from citizens through providing information in a format that is easily accessible, understandable, and immediately usable for public leaders.

For further information about PRIMO Europe please visit:

<http://www.primoeurope.org>

News from ALARM

The national forum for risk management in the public sector

By Lynn Drennan, Chief Executive, ALARM



ALARM's membership has now grown to over 1800 individual and corporate members, representing a diverse range of professions within a variety of public sector and public service organizations, including local authorities, the police, fire service, national health service, housing associations and central government agencies.

This month (November) a major survey that will benchmark risk management practices, across local authorities, was launched. The survey has the support of, and technical input from, the Audit Commission. It is expected that results will be available towards the end of the year, and a report produced early in 2007. Previous surveys were conducted in 2000 and 2003 and respondents to this year's questionnaire will receive feedback, comparing their responses now, with those they gave in the past. They will also receive feedback which will allow them to compare their current practices with that of other authorities.

A Special Interest Group, which has been examining issues surrounding the management of the risk of Fraud, is due to produce a Standard on this topic, by the end of this year.

The Cullen Centre for Risk and Governance at Glasgow Caledonian University was commissioned to produce guidance documents on the topics of Alternative Risk Finance and the Corporate Manslaughter Act, which were published in late 2005 / early 2006. The latest publication focuses on

Absence Management and Workplace Rehabilitation. This publication will be available in November from the ALARM website.

Dr Lynn Drennan, recently appointed Chief Executive of ALARM, chaired a session on 'Intelligent Public Risk Management' at the UDITE Congress in Malta on 22-23 September. A webcast of the session, which included presentations from Jack Kruf, Secretary-General of PRIMO Europe, Jan Mans of the Netherlands and Judy Jones of Marsh UK, can be seen on:

<http://www.udite.public-i.tv/site/webcasts.php>

US Update

Focus on Disaster

By Claire Reiss, Deputy Executive Director and General Counsel of PERI



Terrorism, natural disasters and the possibility of a global avian influenza pandemic have increased the focus in the U.S. on crisis and disaster preparedness, response and recovery. The catastrophic potential of these events has broadened interest in crisis and disaster beyond the traditional emergency management community.

On May 16 - 17, 2006, the International City/County Management Association (ICMA), the National League of Cities, and the National Association of Counties, all organizations of local government leaders, sponsored Restoration 2006, a conference held in New Orleans on the issue of post-disaster rebuilding and renewal. The meeting website is

<http://www.restoration2006.org/en/index.aspx>

PERI sponsored Palm Beach County, Florida's Post-Disaster Economic Redevelopment Planning Workshop, which gathered experts from around the U.S. to discuss issues of economic redevelopment following a disaster. Palm Beach County used the information and perspectives gathered at this meeting to prepare a Countywide Post Disaster Redevelopment Plan which is posted on PERI's website at

<http://www.riskinstitute.org/NR/rdonlyres/1BD5EC5B-4C0B-4248-B165-E073E68DAF0E/0/PostDisasterRedevelopmentPlanPalmBeach-CountyFL.pdf>

Facilitating Mutual Aid

PERI and ICMA are launching the National Emergency Management Network (NEMN) to enhance local governments' abilities to work together to increase their com-

munities' disaster response and recovery capacity. NEMN will build relationships among its participants, and those participants will guide NEMN's development of resources and tools.

NEMN's first tool is a technology platform that provides a secure online interface for local governments that want to share emergency response and recovery resources with one another. This technology platform will be supported by training that will help participating local government leaders identify and address the issues related to working with other local governments and building the regional connections that are so critical to disaster response and recovery. Additional information about NEMN is available on PERI's website www.riskinstitute.org.

Disaster Volunteer Liability Issues

PERI has been awarded a grant from the U.S. Department of Homeland Security (DHS) to research and develop tools and best practices for minimizing liability risks when utilizing volunteers—including the use of citizens and volunteers to support emergency responders. The Volunteer Liability Research Project is an extension of PERI's previous work with Citizen Corps, and will be conducted over a 12-month period. The end product will be a comprehensive package of tools and best practices completed by July

31, 2007. Additional information is available on PERI's website, at

<http://www.riskinstitute.org/PERI/NEWS/PERI+Awarded+75K+Grant+from+Department+of+Homeland+Security+to+Develop+Toolkit+on+Volunteer+Liabilit.htm>.

Additional information about the Citizen Corps Program is available at www.citizencorps.gov.

Major Events

The U.S. suffered a serious public health emergency when bagged spinach contaminated with E.coli O157:H7 sickened 199 Americans living in 26 different States in late August and early September, 2006, causing three deaths. On September 14, the United States Food and Drug Administration (FDA) issued a press release advising consumers not to eat bagged fresh spinach. The FDA announced on September 29, 2006 that all spinach implicated in the current outbreak was traced back to a vendor in California, and that vendor recalled all its raw spinach products with a date code of October 1, 2006 or earlier, including those being sold under other brand names. The FDA announced that it and the State of California expect the industry to develop a comprehensive plan to minimize the risk of another outbreak in spinach and other leafy greens, and advised firms to review their current operations in light of the agency's guidance for minimizing microbial food safety hazards. Implementation of these plans will be voluntary, but FDA and the State of California are not excluding the possibility of regulatory requirements in the future. For more information, go to

<http://www.fda.gov/oc/opacom/hottopics/spinach.html>

and

<http://www.cdc.gov/foodborne/ecolispinach/>

Three school shootings in September and October 2006 have administrators in U.S. schools considering how to guard against this ongoing problem. On Sept. 26, 2006, in Bailey, Colorado, an adult male took six female students hostage at Platte Canyon High School. After releasing four hostages, he shot and killed one of the remaining hostages and then killed himself as police entered the room where he was holding the hostages. On September 29, 2006, a 15-year-old student allegedly shot and killed the principal at Weston School, a Pre-kindergarten through 12th grade school located in the small community of Cazenovia, Wisconsin. On Oct. 3, 2006 a thirty-two year old man entered the one-room West Nickel Mines Amish School in Nickel Mines, Pennsylvania and shot ten schoolgirls and then himself. The shooter and five of the girls died.

Public Entity Risk Institute

The Public Entity Risk Institute (PERI) is a nonprofit, nonmembership organization located in Fairfax, Virginia. PERI's mission is to advance the practice of enterprise wide risk management by local governments, small businesses and small nonprofit organizations. PERI accomplishes its mission through a variety of activities, including its Data Exchange; its website, www.riskinstitute.org, which was selected as a 2006 Business Insurance Magazine Best of the Web in the Risk category; and a variety of other publications and services, many of which are produced in partnership with other organizations whose missions intersect with PERI's.

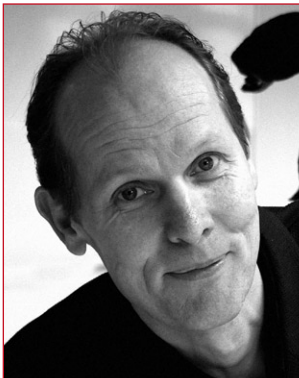


...in this world there is nothing certain but death and taxes.

Benjamin Franklin

Dealing with the uncertainty that matters

By Finn Kjær Jensen, Director of EIRM. The EIRM functions as the secretariat for PRIMO.



In recent years, there has been a shift in emphasis from risk management to enterprise risk management (ERM – or in Danish Risk Leadership) in many organisations, the reason being a number of social and societal changes that have put risk issues on their agendas. Some of the changes are related to increasing complexity, globalisation and rapid technological development; all of which make predictability, forecasting and planning more difficult. Another important factor is the heightened sense of susceptibility to risks that is emerging among many groups. Many people in modern-day societies see the world as vulnerable, uncertain and fraught with risks.

More than ever, as citizens and consumers, we seem to be aware of what can happen to us, our children, our bodies, our societies and the world around us. This risk awareness is reflected both in the news media and in people's increasingly absolute demands on public organisations and private enterprises to be in control of everything that could threaten our lives and the world we live in. In brief, we do not want to be exposed to the risks that turn up uninvited at our dinner tables, in our natural environment and in our societies. And the demands of citizens and consumers result in growing political focus on these issues and consequently an increasing number of codes, rules and regulations in this area at both a national and international level.

Paradoxically, the fact that the world has presumably never been a safer and healthier place to live – if we look at it in a broad historical perspective – does not seem to affect our demands in this respect.

From wall-to-wall risk management...

However, whilst there has been a dramatic increase in our sensitivity to risk, it has not become easier for us to handle these risks. Many risks are complex, interwoven and transnational. The resolution of one risk problem often simply leads to a risk problem of another order. The resolution of a traffic risk in connection with urban planning may turn into a social risk of increased crime. The resolution of an international legal risk related to the reduction of taxes on a certain food product may cause a health risk. And so on. In fact, it seems virtually impossible to eliminate risk completely.

Thus, it really comes as no surprise that, in times like these, many public-sector organisations and private-sector enterprises tend to become defensive, careful, alert to mistakes and hesitant in their innovation, especially in the light of the constant attention the media pay to even the smallest mistakes and the risks that seem to lurk behind every new initiative.

However, as we know, fearful defensive thinking and the build-up of defences rarely lead to major conquests. In other words, there is no reason for wall-to-wall risk management. Instead, managers and experts should concentrate on identifying and handling the risks that are critical in relation to overall values, goals and strategies. Not everything is a risk: a risk is an uncertainty that matters.

“...fearful defensive thinking and the build-up of defences rarely lead to major conquests. In other words, there is no reason for wall-to-wall risk management.”

... to calculated audacity

The starting point must be to build up a holistic perspective on risks, an overview of all the risks that may threaten the goals and activities of public-sector organisations and private-sector enterprises: a risk profile which, as mentioned above, is closely linked to the organisation's goals, values and strategies. From this starting point, the work to identify the most critical risks faced by an organisation and its general appetite for risk begins. Where is it willing to run a calculated risk aggressively and where is it not willing to do so? This work is value-based, rationally calculating and creative.

We should note that modern ERM is also a matter of communication. In-house risk communication must help build up a culture in the organisation that is aware of risk. External risk communication must help qualify and create understanding for risk-related decisions through the involvement of citizens, something that will be demanded to an increasing extent. It must thus be expected that organisations and enterprises will not only face a demand to act in risk areas on a well-considered basis; the management must also at any point in time be able to explain the assumptions and values on which a given risk assessment and handling are based.

ERM: An idea as well as a tool

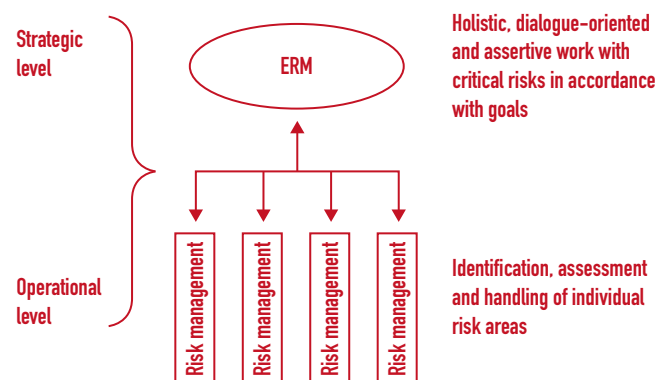
Generally, ERM is a management concept. It is a specific tool that managers can use in their work to achieve their goals. It is also an idea, i.e. ERM incorporates a conception of what good management should also be: a systematic consideration of what can go wrong and – certainly also important – the opportunities that inevitably present themselves whenever there is a risk. Given this, it is clear that ERM does not claim to be an all-encompassing manage-

ment philosophy. Its aim is in fact to function as a more discreet, albeit crucial supplement to an already existing management process.

ERM and risk management are not completely identical. Nor are they two completely different concepts: they represent an important qualitative shift in perspective. Where risk management is primarily a technical discipline within an increasing number of fields (accounting, law, healthcare, environment, health and safety at work, insurance, information technology, finance, communication, construction, urban planning, utilities, etc), ERM is about adopting a holistic, dialogue-oriented and aggressive perspective on all the risks faced by an organisation in relation to its goals.

One reason I am focusing on the shift from risk management to ERM is my wish to make it clear that ERM is in fact a qualitatively different perspective on and approach to risks. That being said, it is also important to stress that risk management and ERM should be correlated. Strategic risk work should be connected and consistent with practical risk work.

There should thus be two mutually complementary aspects of working with risk. There are elements of ERM in risk management, and there are elements of risk management in ERM. In terms of methodology, the two approaches share several elements with regard to technique and procedure.



The purpose of ERM

In the course of time, a multitude of arguments have been presented as to why an organisation should work with risk management and ERM. Many of these arguments are undoubtedly both true and noble. However, it might be useful to sort them and categorise them under four main headings.

Value creation

ERM has a clear financial purpose. Through systematic risk handling, an organisation gains a better financial situation, also as a result of reduced costs resulting from damage, accidents, mishaps and errors. The organisation avoids expensive hospital treatments, expensive equipment renovation and other repairs, expensive litigation and the costly consequences of negative press coverage. However, the organisation does not only create value through savings. ERM also creates value because it generates trust and innovation, together with all the related benefits.

Ethics

Another important purpose of ERM is to protect welfare, values and the world, or in other words, to take care of people, the institutions of society, and nature. Systematic work with risk is thus rooted in a healthy (not exaggerated) concern for our fellow human beings and the world we share. ERM can be seen as a specific code of ethics in the sense that it seeks to ensure compliance with applicable law and an action-oriented translation of an ethical or value-based foundation.

Robustness

Through a systematic identification, assessment and handling of risk, an organisation reduces the likelihood of risks developing into real threats. Risks will continually appear, but the organisation will develop greater certainty in its work through the use of well-founded systematics in dealing with those risks. A certain robustness in relation to changes in the external environment is a third purpose of ERM. Such robustness is achieved through organisational learning, which should be an integral part of good ERM. Risk preparedness leads to a tolerance of risk, and a tolerance of risk leads to confidence.

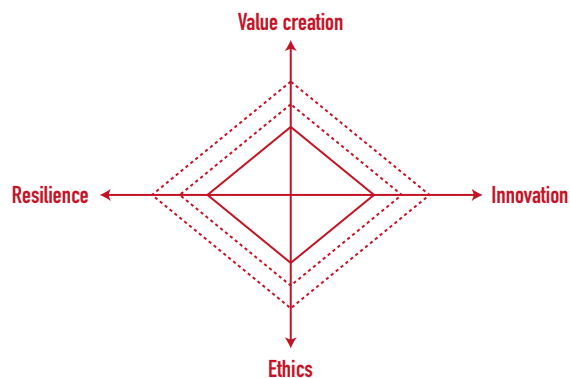


Innovation

Limitation engenders creativity. Ideas are born out of real or perceived limitations. When something is not permitted, seems impossible or is believed to involve too many risks, a desire will arise to overcome what is not permitted, seemingly impossible or risky. We know this especially from the world of art. There is a fundamental connection between risk and innovation: implemented creativity. The purpose of good ERM is thus to provide room for innovative, creative and responsible responses to critical risks. ERM thus becomes tantamount to working with what might be possible. As a well-known saying goes: when a tempest is approaching, some people build shelters; others build windmills.

These four dimensions can be made into a system of coordinates that provides the organisation with a map it can use to plan and document its activities.

VERI map



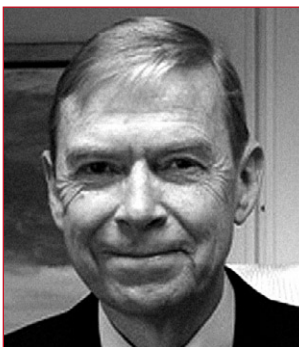
ERM in the future

There is little doubt that ERM is an area that will see rapid growth for many years to come because of the way the world works (unfortunately).

However, ERM must find its natural place as a supplementary management philosophy and a supplementary tool for managers and experts. ERM is no revelation, and ERM should not dominate the agenda, but rather become an integral part of already existing approaches and processes. Trying to manage risk is a very well-known exercise for most organisations; we would be in trouble if it was not. So what is new is not the attempt to manage risk; the new thing is the fact that the world around organisations and enterprises has changed and that the requirements with respect to handling risk are now far more explicit. For this reason, a much more systematic approach is necessary.

A conversation with four leaders in public risk management

Peter Sylow, CEO of KommuneForsikring



On a recent trip to the United States, Peter Sylow had an opportunity to sit down with four leaders in public sector risk management: Harold Pumford (chief executive of the US Association of Governmental Risk and Insurance Pools – AGRIP), James E. Huckaby (Immediate Past President of the US Public Risk Management Association – PRIMA), and Peter Andrews and Carolyn Halpin (respectively, President and Past President of ALARM – the UK national forum for risk management in the public sector).

Peter Sylow: There are now hundreds of risk pools in the US. What are the topical issues for pools and pool administrators?

Harold Pumford: Many pools were established 10-15 years ago and many of their CEOs have a municipal background. As this generation of CEO's will be retiring a new generation of leaders will be recruited and they will influence the future development of pools in the US. In my opinion the new generation of CEOs will have a very diversified background – and few of them will have a background as city managers. How will they develop the range of services provided by pools and the quality of services? That is a fundamental question.

PS: Do you see pools growing or slowing?

HP: The understanding of the pool system is growing within the municipalities that are members. Now it is not only the executive level that sees the advantages. Furthermore, we see new pools being established and a growing number of local governments joining existing pools. In terms of market share, I would say we have seen a growth in pool market share in 2002 and 2003 of about 50 percent. This growth is continuing, but the curve is flattening.

PS: What are the competitive advantages of pools?

HP: The pools have a proven ability to reduce risk. Many pools have risk consultants that have a thorough knowledge of local governmental risks. They understand the mentality of local governments, so their programs are commitment-based rather than compliance-based, as may be the situation for some other programs.

PS: Which trends do you see for pools internationally?

HP: It has not been possible to get a clear picture of what is going on internationally in pooling. I am aware of recent developments in the UK and Australia, but that is about it. I do support the idea of international initiatives to create a dialog on pooling issues. It is my experience that even though local governments elsewhere in the world may feel they are in a unique situation, as far as risk and risk financing are concerned they would certainly benefit from experience by colleagues elsewhere in the world that have had similar experiences.

PS: Thank you Harold. Peter and Carolyn, you obviously have a different perspective from the UK. It is impressive how far local governments have gone to develop tools for

measuring success in public risk management. What have been the drivers behind this development?

Peter Andrews: Different government initiatives over the past years have meant that local governments are regularly assessed and have to document best practices. I would point out one recent helpful tool of great importance. H. M. Treasury have developed a very useful “Risk Maturity Matrix.” With the matrix you can make self-assessment and benchmark your performance according to seven criteria:

- Leadership
- Strategy
- Employee abilities
- RM in partnership situations
- Process
- Risk handling
- Outcomes

Under each criteria you can mark your performance on a score from 1 (awareness) to 5 (excellent capacity). I would recommend that interested parties download the document from the home page of H. M. Treasury. It can be found under “risk.”

PS: On many occasions it is underlined that ERM is also about seeing the upside of uncertainty. Could you give some examples, Carolyn, of this in the UK?

Carolyn Halpin: Well, it is an aspiration in a number of British local authorities to focus on opportunities, when risk management is promoted within the organization. Perhaps “benefits” is a better word. We have a number of targets set by government and as risk managers we can help to “do more than your targets” and thus improve the local governments’ score and give better service to our citizens. And performing better on your programs by risk management practices is a key issue when you discuss how to measure success in your programs.

PS: If you do not have a “helicopter” perspective of your local community it is difficult – not to say impossible – to put your priorities right. Would you say that local government leaders use ERM in connection with their long term planning?

PA: I would say that I do not think we have seen a lot of ERM practice in connection with the 10 year plans of local authorities. ERM is more an executive issue than for politicians so far. It is, however, a very interesting area, well-suited for exchanging international experiences and

thoughts. It may even be one of the new trends in ERM development.

PS: How does ALARM look at ERM and the interest that the executive level takes in ERM?

CH: ALARM sees this as a career development – absolutely!

PS: Thank you Peter and Carolyn. James, may I turn to you? Why did you choose “Turning risks into rewards” as the title of the 2006 PRIMA conference?

James Huckaby: The conference committee wanted to find a catchy slogan – significant as the conference was in Las Vegas – to emphasize the emerging importance of upside risk management. PRIMA wanted to signify that risk management has a much broader scope that insurance and should be part of general management. The better you can articulate the possibilities the better the chances that CEOs will see the merits of ERM. Reduction of cost will give more money to local governments and thus create new possibilities.

PS: What are the key issues for risk managers in the US?

JH: Right now the workforce is changing and a lot of non-English speaking people are employed in local governments. As risk managers we have to focus on the risk this brings to employers. Furthermore, we spend a great deal of time on buying adequate insurance at a reasonable price. The cost of insurance is skyrocketing after Hurricane Katrina. So, we try to find the risk profile and risk appetite of each local government in order to strike a balance between retaining risk and buying insurance.

PS: Would you say that ERM, is a common concept in the US?

JH: I would say yes if you look at local governments with a more advanced view of risk management. The ERM concept is more and more common, though it has spread less quickly than I had expected.

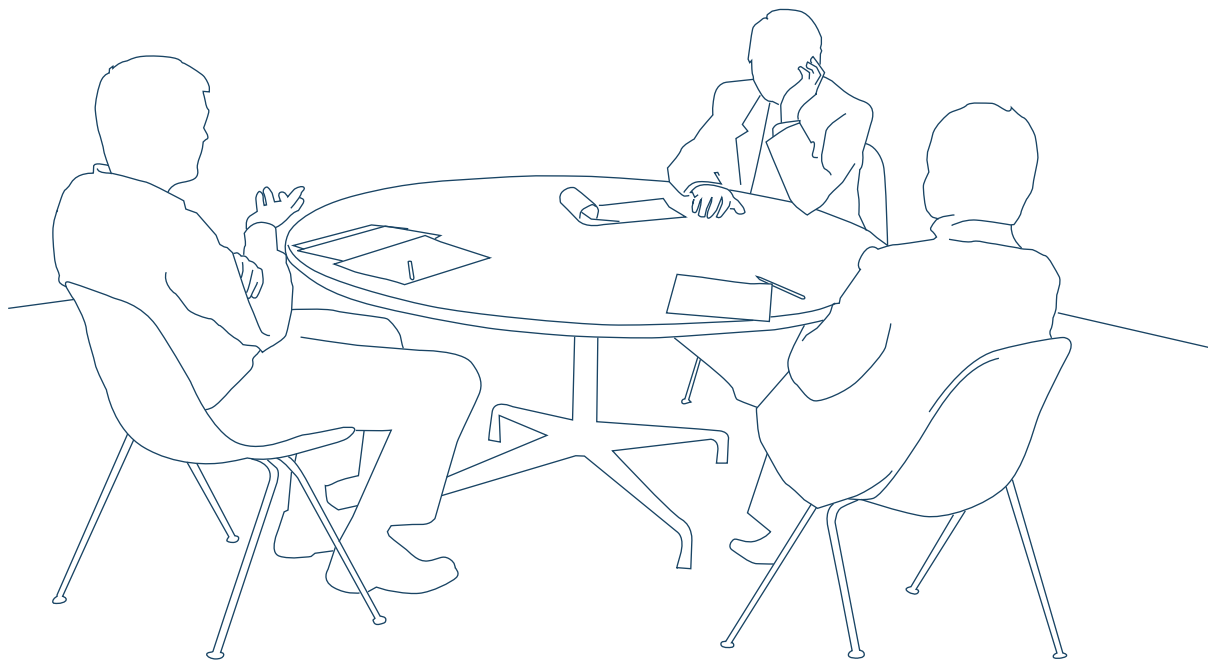
PS: What accounts for the slowness in ERM development?

JH: We do not have a situation like the UK with a lot of central government demands for local authorities... especially regarding best practices. In the US, the development of ERM is driven mainly by other factors including common sense, management practice, economic restrictions, and litigiousness.

PS: Finally, how does PRIMA look at ERM?

JH: PRIMA sees ERM as an incredible opportunity to our members to increase the content in and value of the risk management position. As an organization, we must support our members to grasp this chance by giving them the right educational opportunities. It is important that risk managers learn to promote the value of these skills – right now there is a world of opportunity but presentation skills are indispensable. However, ERM is also a two-sided sword as the position of risk manager can be taken over by other groups with better academic qualifications.

PS: Thank you to all four of you for your time.



Glasgow Caledonian University

Public Risk Forum intends to provide reports on academic research being conducted in the public sector risk management arena, and to identify and highlight institutions supporting such work. In this issue we look at Glasgow Caledonian University located in Glasgow, Scotland.

The Cullen Centre for Risk and Governance (CRAG) at Glasgow Caledonian University is dedicated to providing applied research and consultancy services for industry, commerce, professional institutes, the public sector and the voluntary sector, both within the UK and internationally. As an inter-disciplinary centre, CRAG focuses on a broad range of governance-related areas, including:

- Accountability
- Auditing
- Internal control
- Risk management
- Governance
- Corporate social responsibility
- Ethics
- Regulation
- Occupational health and safety

CRAG employs a dedicated team of full-time Research Fellows and Research Assistants, who support the work of senior academic staff in Glasgow Caledonian University. The 'risk' group supports Risk Management programs at both Masters and Undergraduate level with around 300 full-time and part-time students, drawn from the UK and internationally.

Three of the key public risk management figures at Glasgow Caledonian University are Drs. Bill Stein, John Hood and Darinka Asenova. Public Risk Forum offers a short professional biography of each, including a summary of their current research activity.

Dr Bill Stein

Dr. Bill Stein is a Senior Lecturer in the Caledonian Business School (Decision Analysis & Risk Subject Group) at Glasgow Caledonian University. He teaches and researches in risk management and insurance. He is interested in the development of risk management in the National Health Service, has served as a risk management advisor to the NHS and is Programme Director of the Graduate

Certificate in Clinical Governance at GCU. Dr. Bill Stein is also Programme Director of the MSc Risk Management at GCU. Current projects and recent publications relevant to the public sector include:

- Risk and the regulation of care.
- Corporate governance in Local Government: Audit committees and Risk management
- Insurance with rent schemes for public sector tenants
- Rehabilitation and return to work following work-based injury or illness

Recent publications:

Henry, W., Crawford, M., Manochin, M., McKendrick, J., Porter, B and Stein, W. (2007) Audit Committees in Scottish Local Authorities: 1998 – 2005, *Public Policy and Administration*, Volume 22, Number 2.

Alternative Risk Financing (2005) Guidance for members of ALARM (Association of Local Authority Risk Managers) <http://www.alarm-uk.com/articleimages/ALARM-ARFNov%2005.pdf>
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Stein, W. & Crawford, M. (2005) Auditing risk management in UK Local Authorities: issues of independence and perspective inherent in a dual role for internal auditors. *The Journal of Finance and Management in Public Services* Volume 4, Number 2.

Crawford, M. & Stein, W. (2004) Risk Management in U.K. Local Authorities: the effectiveness of current guidance and practice. *The International Journal of Public Sector Management* Vol. 17 (6)

Dickson, G., Price, L., Maclaren, & W. Stein, W., (2004) A Comparative Study of Accident and Emergency Nurse and

NHS Trust Management' Perceptions of Risks. *Journal of Health Organization and Management* Vol. 8 No 5.

Crawford, M. & Stein, W. (2002) Auditing risk management: Fine in theory but who can do it in practice? *International Journal of Auditing* 6: 119-131. ISSN 1090-6738

Dr John Hood

Lecturer in the Caledonian Business School (Decision Analysis & Risk Subject Group) at Glasgow Caledonian University and teaches and researches in various areas of risk management. One of his interests is risk and its management in the public sector, in particular local government. Current projects and recent publications relevant to the public sector include:

- Public Private Partnerships and Risk
- Risk issues surrounding new methods of local authority financing
- Employers Liability insurance and local authorities
- Insurance with rent schemes for public sector tenants
- Rehabilitation and return to work following work-based injury or illness

Recent publications:

'Local Authority Corporate Risk Management: A Social Work Case Study', (with J Allison) *Local Governance*, Vol. 27(1), 2001

'Competition and Safety in UK Local Authorities: An Empirical Study', *Public Management Review*, Vol. 4(1), 2002

'Managing the Risk of Public-Private Partnerships in Scottish Local Government' (with N McGarvey) *Policy Studies* Vol. 23(1) 2002

'Closed Circuit Television Systems: A Failure in Risk Communication?' *Journal of Risk Research*, Vol. 6 (3) 2003

'The Risk Management Implications of Outsourcing Claims Management Services in Local Government' (with P Young) *Risk Management: An International Journal* Vol. 5 (3) 2003

'Risk and the Outsourcing of Risk Management Services: The Case of Claims Management' (with P Young), *Public Budgeting and Finance* Vol. 23(3) 2003

'Minimising Risk: The role of the Local Authority Risk Manager in PFI/PPP Contracts' *Public Policy and Administration*, Vol. 18(2) 2003

'The Social, Economic and Political Issues Surrounding Employers' Liability Insurance in the UK' *Journal of Social Policy* Vol. 34(2) 2005

UK policy on enforcement of compulsory motor insurance: a choice between ever greater complexity or a radically simpler model' (with Bill Stein) *Journal of Insurance Regulation* Vol. 23(3) 2005

'Risk Financing in UK Local Authorities: Is There a Case for Risk Pooling?' (with Peter C Young) *International Journal of Public Sector Management* Vol. 18 (6/7) 2005

'Local Authorities and the Financing of the Employers' Liability Risk' (with Nataliya Acc-Nikmehr) *Public Money and Management* Vol. 26(4) 2006

Dr Darinka Asenova

Dr Darinka Asenova joined the Division of Risk at Glasgow Caledonian University in 2000. In 2003 she completed a PhD entitled 'Risk Management in Private Finance Initiative Projects: The Role of Financial Services Providers'. She also holds an MSc degree in Physics from Sofia University. Darinka Asenova has a multidisciplinary background which includes risk management, economics, and public policy. Her current research interests and publications are in the areas of public-private partnerships, public sector risk management, as well as other contemporary public policy and risk management issues. Darinka Asenova teaches undergraduate and post graduate courses in corporate risk management, enterprise and risk, and business environment. Current projects include:

- Risk issues surrounding new methods of local authority financing
- Accountability and decision making in PFI projects
- Risk and the regulation of care
- The social impact of the pension reform in Bulgaria

Recent publications:

Foo, L. M. and Asenova, D., (2006) Stakeholder Engagement in Scottish Educational PFI Projects, Proceedings of 5th STURN Conference June 2006, STUC Glasgow, pp 52-62.

Asenova D., Beck M., Akintoye A., Hardcastle C. and Chinyio E., (2004), Obstacles to Best Value In NHS PFI Projects: Evidence From Two Hospitals *The Journal of Finance and Management in Public Services*, 4(1): 33-51.

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* This paper was awarded Marshall Dimock Award for the best lead article in PAR for 2005.

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Question

By Adrian Mifsud, President of UDITE and President of the Association of Local Council Executive Secretaries in Malta (ASKLM)

In Malta, the identification and assessment of risks has become an important issue in the public sector. Therefore, we are about to establish a PRIMO Malta for public directors and other public leaders.

Enterprise Risk Management (ERM) is based on the idea that an organization has an integrated, coordinated, organization wide approach to assessing and addressing risks. As a practical matter, what does this mean for public directors?

Answer

This question is very important because 1) there are very complex and technical aspects of ERM, and yet 2) there is an expectation that top managers and directors take direct responsibility for assuring that ERM is properly deployed in their organization. Does ERM require top managers to acquire challenging new technical skills and knowledge?

A closer reading of the ERM literature shows that directors are NOT expected to become technical experts, but are expected to introduce risk management thinking into their daily activities. And, critically, directors must expect to see risk management input included in the information that flows to them.

The proper way to think about this can be characterized as follows: Management, in general, can be said to involve activities of goal setting and process controls. In other words, managers set policy and then manage resources in a way that moves the organization toward goals or policy objectives. The Enterprise Risk Management argument states that uncertainty and risk are aspects of management that, heretofore, have not been subject to systematic inclusion in most managerial decision making – however, understanding the impact of risk and uncertainty on goals and processes is essential.

Understanding the technical dimensions of risk and uncertainty does require specialist knowledge, it is true, but this is not a requirement for directors. Specialists exist within the organization or can be hired to provide appropriate advice. For the director, the introduction of risk management into his/her daily activities really boils down to including three simple questions in all decision making.

1. *Why might I be wrong?*
2. *Why might the results of my plans be different than expected?*
3. *Where do I go to get answers to these questions?*

This sounds simplistic, but it is not. The first question deals with what we might call cognitive or perceptual risk. Have we understood our assumptions? Have we framed the problem incorrectly? Are we ignoring or omitting vital information? Is our information flawed or biased? Risk can intrude on management in a number of different ways, but most fundamentally, it comes about because we haven't considered alternative possible outcomes, nor do we typically allow for the possibility that our perception is biased, flawed or based on bad information. "Why might I be wrong?" is a risk management question and it should be inserted into any director's decision making process.

The second question asks us to consider the possibility that things may not go as planned. Revenue may not meet expectations, surprise events like fires and floods derail timetables, an unexpected court decision imposes new requirements on a local authority – all these things are the artifacts of risk. But we should not just think about negative events. An unexpected opportunity for community investment might speed up the accomplishment of certain goals. A possible innovation might improve worker productivity. The search for alternative sources of revenue might reduce financial volatility for a local authority. Risk management is not just about the possibility of plans being unmet; it also

can be about measures taken to exceed goals and objectives or to meet them more easily.

The third question deals with the challenge of creating a risk management culture within the organization and also with creating a risk management infrastructure outside the organization. Creating an expectation that employees' performances will be partly judged on their incorporation of risk management thinking in their jobs is a first step. Encouraging the development of relationships with relevant technical risk experts (investment management advisors, insurance brokers, legal experts, health and safety experts, even lobbying firms) provides an organization with the appropriate technical expertise to embed risk management in the overall management structure.

Considered in this context, the director is responsible for risk management but the principal addition in his or her daily activities is the *expectation* that pertinent information on risk and uncertainty are included in the decisions of all managers and employees of the organization.

This month's question has another facet. The question seems to pose a particular challenge to the "integrative" value of ERM. Does linking together the management of all organizational risks really improve overall management?

The class room answer to that question is "yes" and that is because risks do not present themselves to us in neat categories. Creating artificial categories (financial risks, insurable risks, reputational risks, political risks) forces us to impose a structure on our risk portfolio that likely constrains our responses... it certainly constrains our thinking. An organization's risks are highly interrelated and correlated – they could not be otherwise since they are connected to a single organization. Therefore, adopting a more holistic view of risks allows us to appreciate how risks connect and – importantly – how risk management measures connect.

That is the academic answer. The practical answer is that directors do not think in compartments or silos. They look at their organization holistically and they consider all aspects of every decision. Presenting information to directors on risk in an integrated way actually simplifies the decision making and managerial process. This is a very important point to emphasize. Effective ERM does not mean directors have another hat to wear, it actually can simplify their jobs, presenting risk-related information in a way that is relevant and easier to understand.

All of this begs for an example. A large US urban county is very lucky to have a terrific manager, who began as

the traditional risk manager but recently has become the deputy chief executive for the county. He recognized from his years of experience as the traditional risk manager that many of his problems (mainly dealing with insurable risks) could not be properly separated from risks outside the scope of his duties. A fire to a public facility might be partly due to improper fire prevention activities, but equally it could be due to budgetary problems, improper training of employees, vandalism and civil unrest, inattentive management, and more. He came to see that one of the central risk management problems for his county was its inability to see the interconnectedness of its risk portfolio.

With his promotion he sought to remedy this situation. He also reasoned that since top management would have to champion any change that the key practical objective for him was to introduce changes that *made managing easier, not more difficult* for top managers. But how to do this?

In brief, he saw that directors and top managers were already practicing risk management, but that given the non-integrated nature of all risk management practices, he could only conclude that they were practicing it badly. Improving their risk management performance was best achieved by making sure that planning and budgeting information included aggregated and integrated information on risks. His answer was to introduce small risk management expectations into the planning and budgeting process; expectations that required managers and employees to consciously include information on "why might we be wrong?" and "why might our plans and expectations not be met?"

The result was that with virtually no effort on the part of top managers, risk information was presented to them in a more meaningful way—a way that enhanced their effectiveness. Over time, the Enterprise Risk Management concept has been expanded into new areas of activity, but starting with the organizing of *information* proved to be an insightful approach to engaging top management in more effective risk management.

Peter C. Young

**Do you have questions for EIRM?
Contact us at pcyo@eirm.net**

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29 – 31 March 2007, Cambridge, UK

Risk and Rationalities, ESRC Social Contexts and Responses to Risk Network

10 – 13 June, 2007, Boston, US

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1 – 3 July, 2007, Cardiff City Hall, UK

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Catastrophic Risks

by E. Banks

Catastrophic risk stands as one of the most significant and challenging areas of corporate risk management. The onset of hurricane, earthquake, windstorm, terrorism, systemic financial dislocation, or “clash losses” can create billions of dollars of losses, financially damaging companies and regional/national economies.

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by Sean Watson

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International Political Risk Management Looking to the Future

by Theodore H. Moran and Gerald T. West

The third in a series of volumes based on the MIGA-Georgetown University Symposium in International Political Risk Management, this book offers assessments of needs, trends, and challenges in the international political risk insurance industry. It examines the lessons that can be learned from investment losses, insurance claims, and arbitrations.

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by Rachel Briggs and Charlie Edwards

Doing business is getting more and more complex. Globalisation has changed the structure and pace of corporate life; the saturation of traditional markets is taking companies to more risky places; the shift towards a knowledge economy is eroding the importance of ‘place’ in the business world; new business practices such as offshoring challenge companies to manage at a distance; and new forms of accountability, such as corporate governance and corporate social responsibility, put added pressure on companies to match their words with deeds, wherever they are operating. One response has been the shift from functional to matrix structures, where companies organise themselves into teams with diverse skills and expertise to solve specific business problems, power is devolved to the local level, and effective management relies on being able to work across the organisation through trusted networks rather than the official channels.

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