

Practice is better than theory -
Loss Management as a Risk Management Tool

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Introduction

▶▶ The topics

- ▶ Loss management can be risk management?
- ▶ How do you practice?
- ▶ The learning curve - what do you need to learn?

▶▶ Practical themes

- ▶ Develop organisational capability to address major incidents
 - ▶ Develop wider database opportunity to consider incidents by considering near- misses
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Some definitions we will look at

- ▶▶ **Theory**
 - ▶▶ **Practice**
 - ▶▶ **Risk Management**
 - ▶▶ **Loss Management**
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**Loss management can be risk
management?**

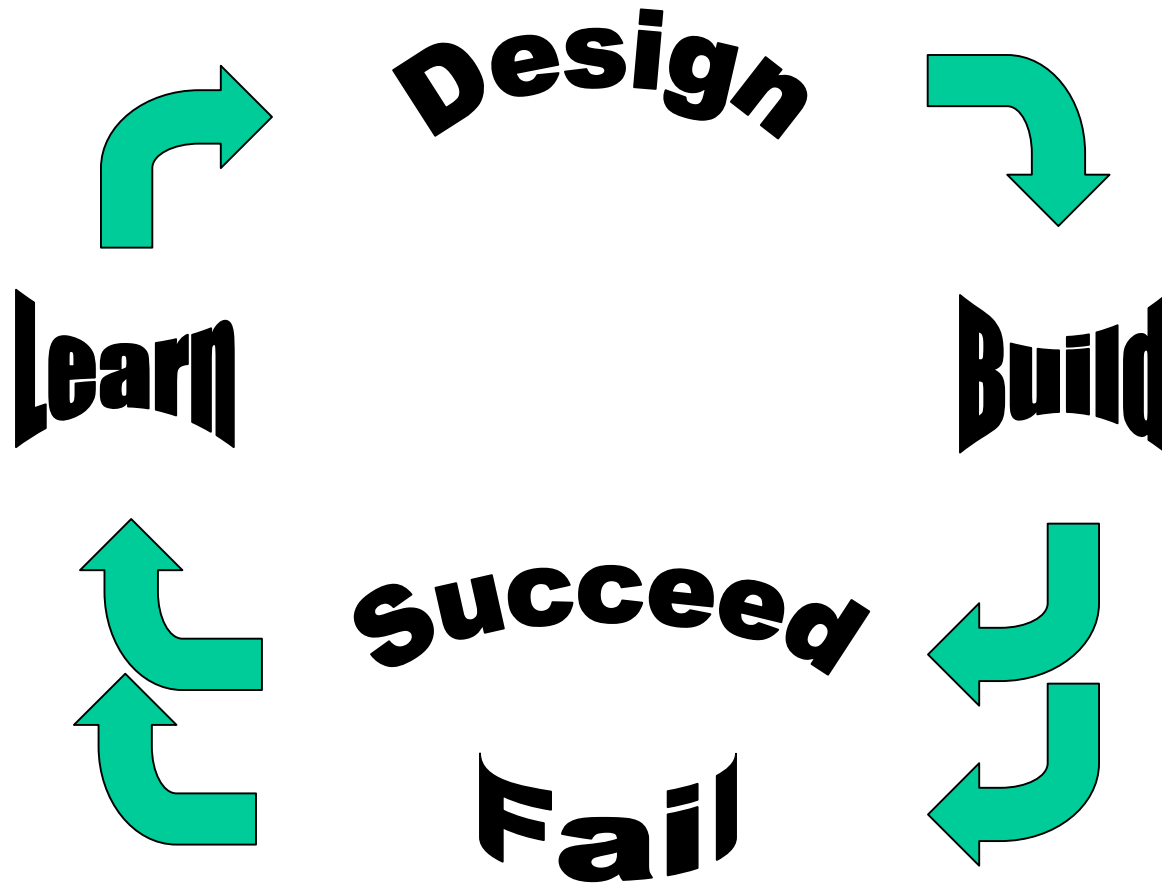
Closing the circle - managing incidents for best return



Our themes today:

- ▶▶ How can we add value to the business “at risk”?
 - ▶▶ How does risk and incident management help a business learn?
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The business circle



Case study - 1

▶▶ **Newly acquired subsidiary**

- ▶ Internal report
- ▶ Product line outage (1/2hr) in new subsidiary
- ▶ Fire caused by breakdown (believed electrical)
- ▶ Minimum damage @ £50, repairs effected by maintenance department
- ▶ Believed no impact to sales

▶▶ **Why might you want to investigate?**

▶▶ **What do you want to learn?**

Near misses - an opportunity to learn?



- ▶▶ **Often hidden in work maintenance orders**
 - ▶▶ **Identify root cause**
 - ▶▶ **Communicate this cause rapidly and clearly**
 - ▶▶ **Find solutions to rectify (reduce) root cause:**
 - ▶ eliminate
 - ▶ install safety devices
 - ▶ warn of hazard
 - ▶ change operating procedures
 - ▶ increase employee awareness
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Learning from incidents - Root cause investigation



How do you practice?

Theory

- ▶▶ **Definition - thinking about something**
 - ▶▶ **Includes - planning**
 - ▶▶ **Excludes- modelling**
 - ▶▶ **Is theory useful? YES, BUT...**
 - ▶▶ **Examples**
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Practice

▶▶ Two very different meanings

- ▶ Practice = Doing (vs thinking about it)
 - ▶ Practice = Rehearsing (vs not rehearsing)
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Practice (Doing vs Theory)

▶▶ 1950-1975 - Theoretical approach dominant

- ▶ Examples

▶▶ 1975-2000 - Practical approach dominant

- ▶ Examples

▶▶ Iterative relationship

The learning curve - what do you need to learn?

Risk management programme - must fit business goals and objectives



- ▶▶ **Any incident is an integral part of running the business not a stand alone occurrence. It is also a chance to learn about the business.**
 - ▶▶ **A true learning process, not just an audit:**
 - ▶ Non topical pre-planning - disaster plan
 - ▶ Topical pre-planning - e.g. storm coming
 - ▶ Day 1 response - immediate actions
 - ▶ Measured response - planned activity to minimise ongoing impact of incident
 - ▶ Learning loop for feedback
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Practice

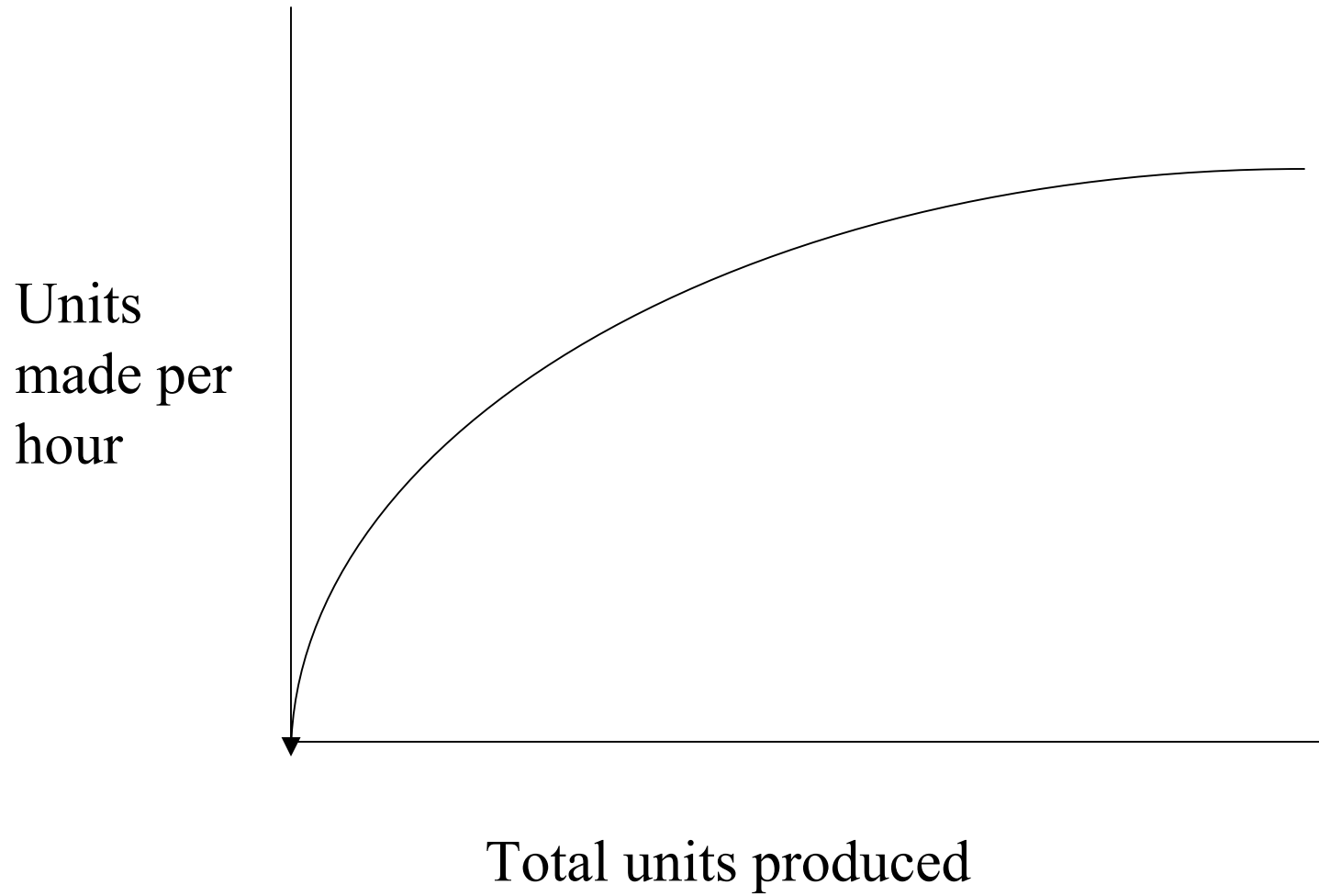
▶▶ Rehearsing

- ▶ Gary Player
- ▶ Learning curve
- ▶ Examples- Ikea
- ▶ Application in business
- ▶ Relevance to shareholder value
- ▶ Practising on the job vs simulation

▶▶ The real thing

- ▶ The adrenalin factor
 - ▶ The learning circle
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The Learning Curve



Learning from incidents

Large losses- an obligation to learn

- ▶▶ **Post mortems**
 - ▶▶ **Root cause analysis**
 - ▶▶ **Getting up the learning curve - BUT...**
 - ▶▶ **How much of this is happening?**
 - ▶▶ **How much preplanning is done?**
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Investing in learning

- ▶▶ **Key financial barrier - budget dollars for what if's**
 - ▶▶ **Costs too high at point of usage**
 - ▶▶ **Need to load into premiums**
 - ▶▶ **Key impact of 9-11**
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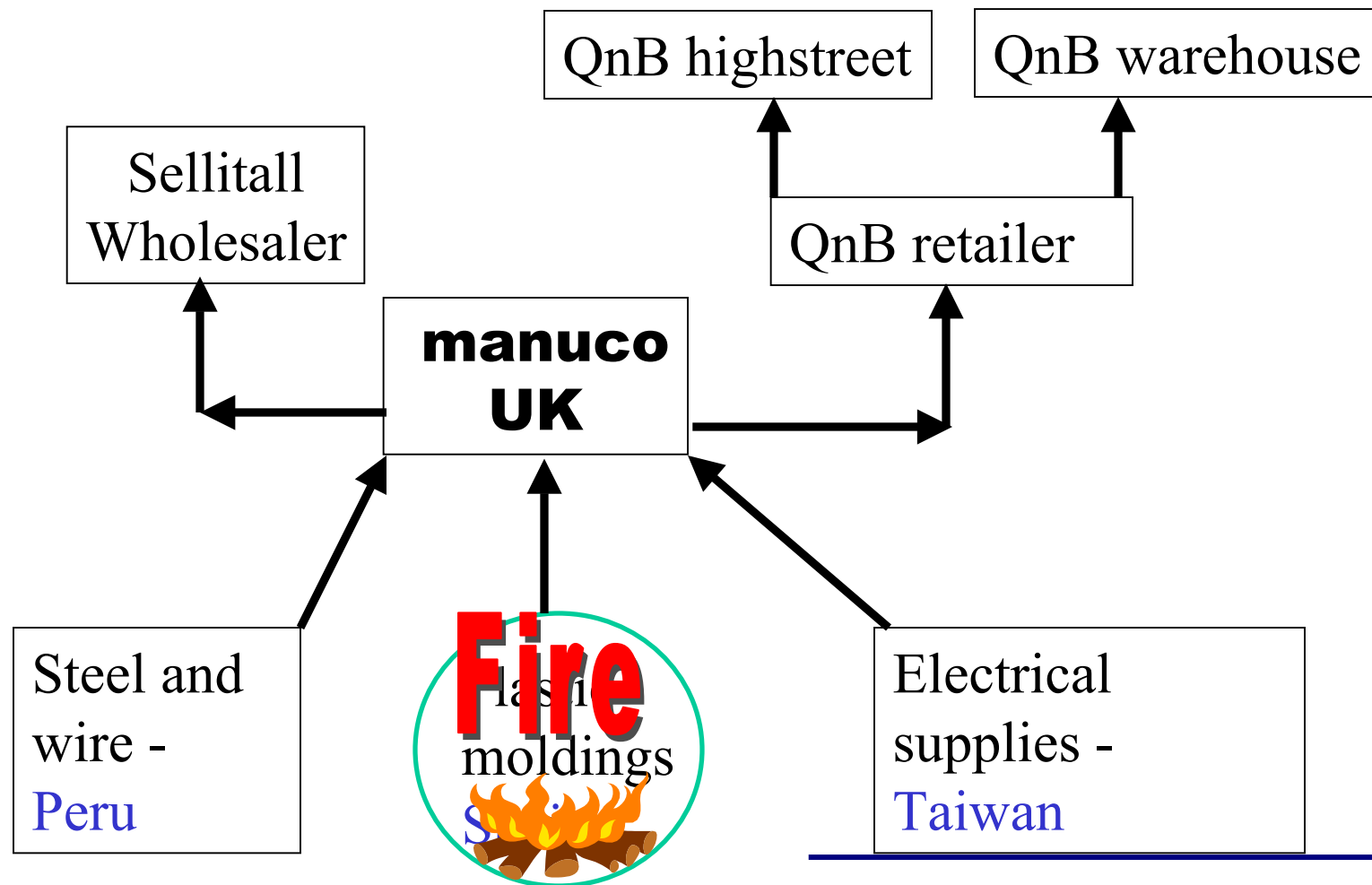
Risk Management

- ▶ **Definition - acting to protect the company's assets**
 - ▶ **Evolution of insurance function**
 - ▶ **Evolution of finance function**
 - ▶ **Enterprise-wide approach to risk**
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Case study

Supply chain

A supply chain remapped



Asset management

- ▶▶ **Human assets - people and knowledge**
 - ▶▶ **Physical assets - buildings, m/c, w.i.p., etc.**
 - ▶▶ **Operational assets - productive capacity, supply chain, distribution channels**
 - ▶▶ **Financial assets - cash, bonds, financing facilities, debtors**
 - ▶▶ **Intangible assets - reputation, brand, know-how,**
 - ▶▶ **Strategic assets - infrastructure, future income streams**
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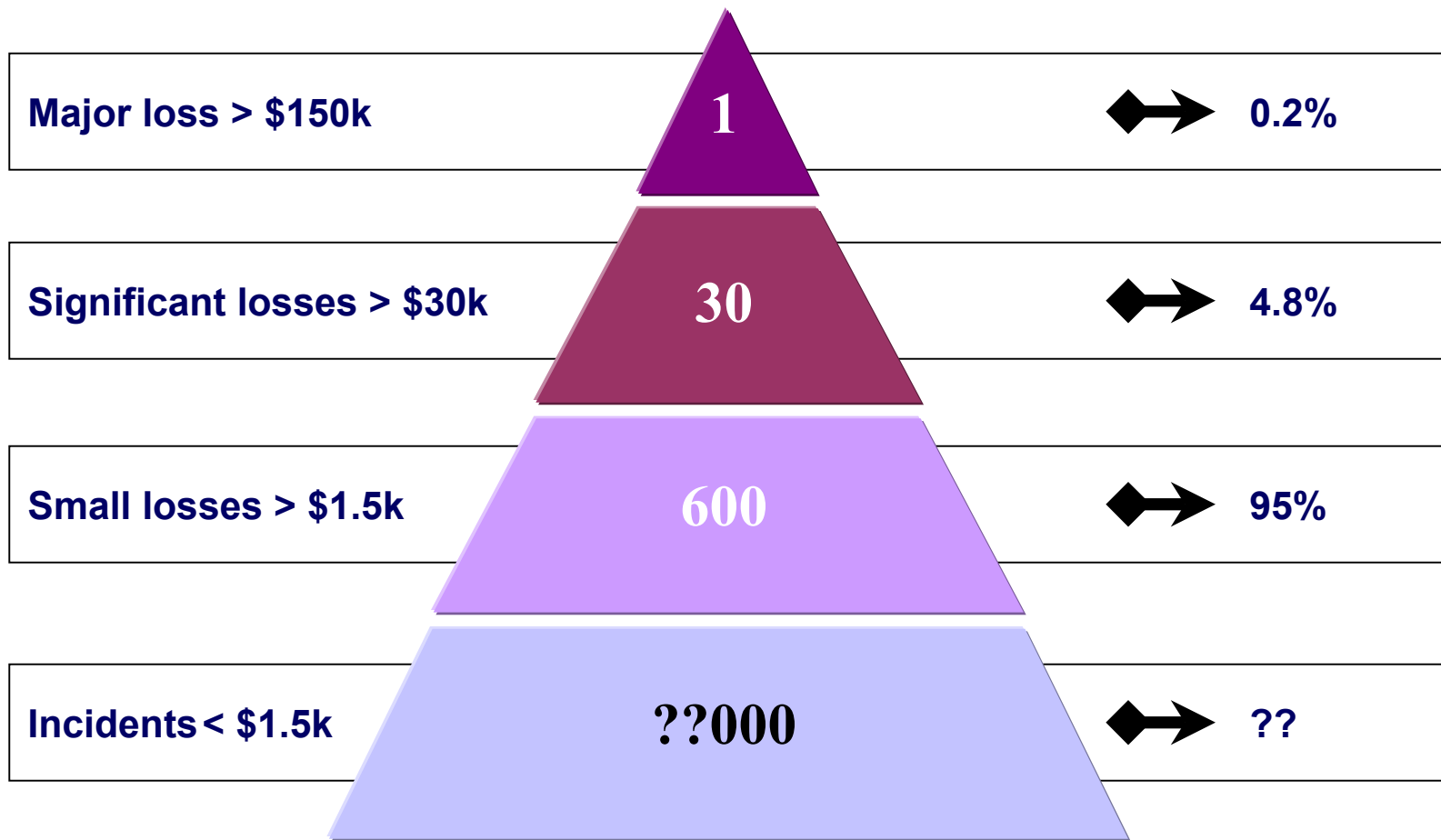
Loss Management

- ▶▶ **Definition - responding to unforeseen incidents in a way which minimises loss to the company**

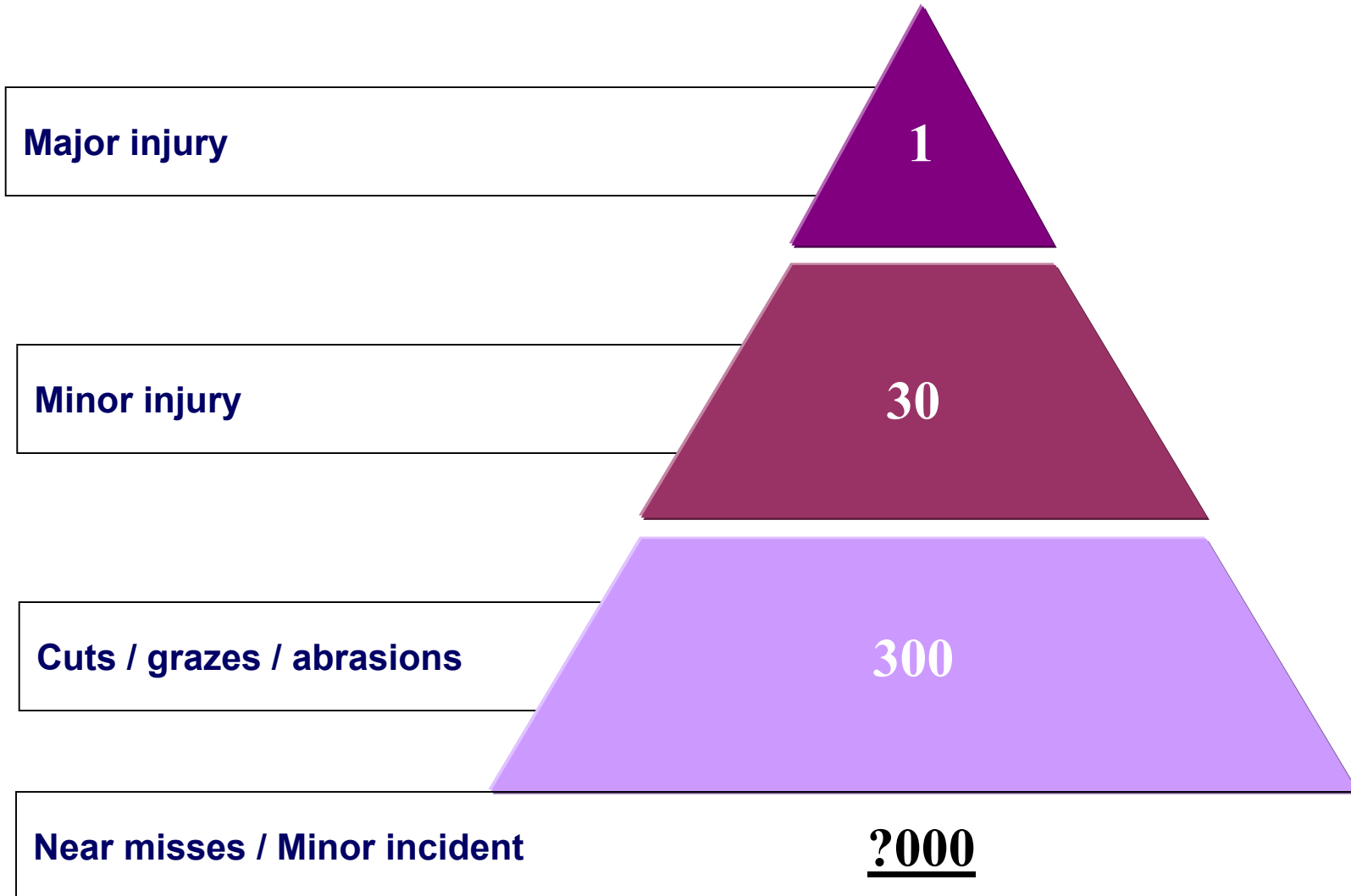
Key words

- ▶▶ **Proposition 1 - there are more small losses than big ones**
 - ▶▶ **Proposition 2 - the response should fit the loss**
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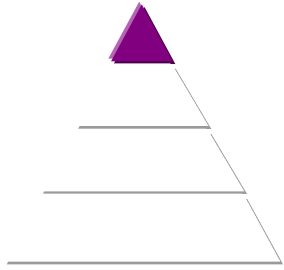
Property claims triangulation



Injury triangulation



(source - British Safety Council Study and others)



Responding to loss - major losses

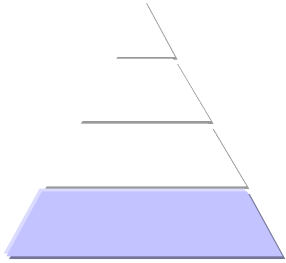


▶▶ Incident features

- ▶ Time critical – BI leads
- ▶ Stakeholder need - reputation
- ▶ Board level response
- ▶ May be multi-location
- ▶ Response leader is key

▶▶ Success factors

- ▶ Enterprise wide approach
 - ▶ Pre-planned response
 - ▶ Effective crisis management
 - ▶ Depth of resource
 - ▶ Multi –disciplinary team
-



Responding to loss - incidents



▶▶ **Incident features** (e.g. Small PL, Products, Stock shrinkage)

- ▶ High volume
- ▶ Poor data capture
- ▶ LEO not evaluated
- ▶ Owned in operational budget
- ▶ Not worth on site inspection

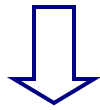
▶▶ **Success factors**

- ▶ Better awareness
 - ▶ Practical & effective policies
 - ▶ Information capture
 - ▶ Root cause analysis – trends
 - ▶ Monitoring compliance
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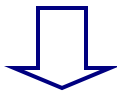
Planning/training/awareness - the learning circle



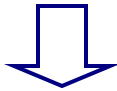
Disaster recovery planning



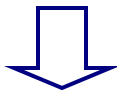
Immediate pre planning



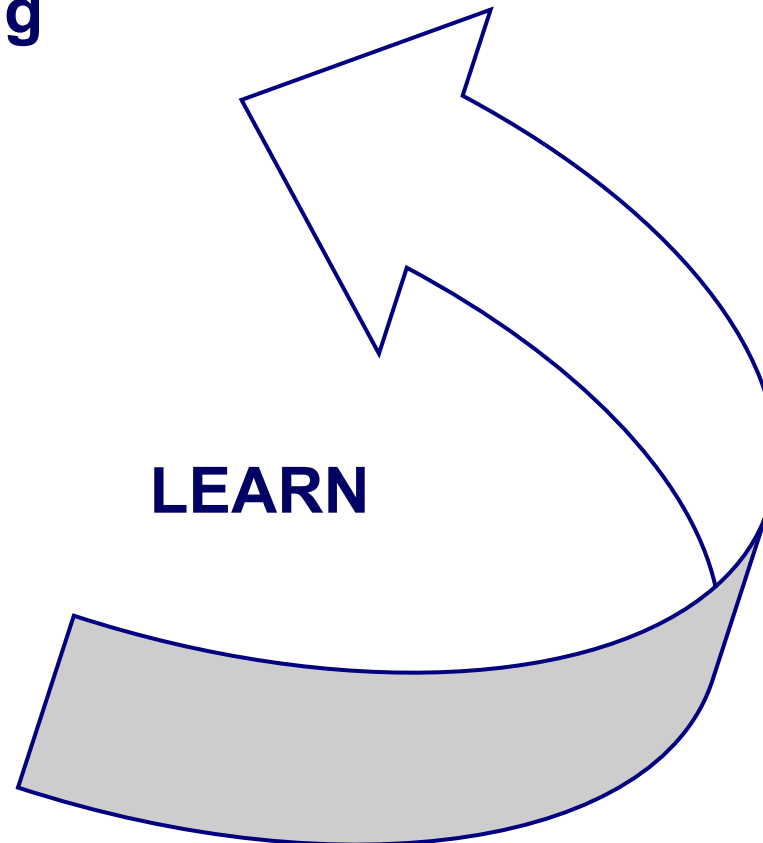
Emergency response



Crisis management



Business recovery



Conclusions

- ▶▶ **Theory + practice + practice + learning process = minimised losses**
- ▶▶ **Lost economic opportunity not fully measured**
- ▶▶ **Practice & learning processes generally weak**
- ▶▶ **Tomorrow's risk manager**
 - ▶ enterprise wide approach
 - ▶ addresses full spectrum of losses
 - ▶ integral to operational management
- ▶▶ **Questions**
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