The Risk Management Function

- Risk Management Process
- Risk Management Policy Statement
- Identification of Exposures
- Loss Control
- Port Risk Management & Insurance Guidebook
- AAPA Risk Management Committee
- The Future
The Risk Management Process

- **5 Basic Steps of the Risk Management Process**
  
  1. Identify and measure loss exposures
     - Type of value exposed to loss
     - The peril causing the loss
     - The extent of the potential financial consequences of that loss
     - Develop a Loss Exposure Matrix

<table>
<thead>
<tr>
<th>High Severity/High Frequency</th>
<th>Low Severity/Low Frequency</th>
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<tbody>
<tr>
<td>Low Severity/High Frequency</td>
<td>High Severity/Low Frequency</td>
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</table>
The Risk Management Process

2. Identify and examine alternative techniques for dealing with these exposures:
   • Risk Control Alternatives
     – Avoidance
     – Prevention
     – Reduction
     – Separation
   • Risk Financing Alternatives
     – Retention
     – Contractual Risk Transfer
     – Insurance Required of others
The Risk Management Process

3. Select the most appropriate risk management alternatives.

<table>
<thead>
<tr>
<th>High Severity/High Frequency:</th>
<th>Low Severity/Low Frequency:</th>
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<tbody>
<tr>
<td>Avoidance or Non-Insurance Transfer</td>
<td>Retention</td>
</tr>
<tr>
<td>Low Severity/High Frequency:</td>
<td>Low Severity/High Frequency:</td>
</tr>
<tr>
<td>Loss Control</td>
<td>Retention or Insurance</td>
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4. Implementing the selected alternatives

5. Monitoring and improving the selected alternatives
The Risk Management Policy Statement

- A formal, written policy statement is essential for communicating the port’s risk management mission and objectives

- Typical policy statement establishes:
  - What risk management encompasses
  - Risk management’s position in the port organization
  - Scope of authority and responsibility of risk management dept.
  - Port’s tolerance and capacity for bearing risk
  - Insurance procedures

- Sections:
  - Mission
  - Risk Retention
  - Cost of risk allocations
  - Lines of communication
  - Fund authorization
Identification of Exposures

Exposure identification can be a lengthy and time consuming process. Many resources are available to help with the identification process:

- Surveys, questionnaires and applications
- Review previous loss history
- Analyze your organizations financial statement and accounting records
- Department manuals
- Review other important records – ie: leases, contracts, purchase orders, capital improvement plans, etc.
- Personal inspections
- Employee interview
- Brokers, consultants and experts
Loss Control

- Loss control is a variety of techniques available to ports to handle the loss potential identified in the risk management process. These techniques can be broken down into two classes – Control and Financing

- Control Techniques:
  - Avoidance – avoiding the risk altogether
  - Prevention – safety committees, education, controlled access
  - Reduction – sprinkler systems, fire walls, etc.
  - Segregation of units

- Financing Techniques:
  - Transfer – contractual, insurance, etc.
  - Retention – keeping or retaining all elements of the exposure
Port Risk Management and Insurance Guidebook

- Prepared by the Maritime Administration /US Dept of Transportation
- Written by Port Risk Managers and Experts
- Specific to the Port Industry
- Contains useful tools and resources
- Exposure Identification Questionnaire
- Last update 1998
AAPA Risk Management Committee

- Sub-committee of AAPA Finance Committee
- Risk management seminar
- Conference calls
- AAPA website discussion room
- Benchmarking
- Membership
Future

- Higher profile of Risk Management in Ports
- Risk Management focus on Security issues
- Committee involvement with other AAPA committees
- More involvement is government related issues (TRIA)
The Risk Management Function

Thank You!

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