Discussion Outline

• Board Governance

• Strategic Risk Management
Board Governance: First Principles

• Boards must adhere to several basic tenets that define a fiduciary:
  – The Duty of Care
  – The Duty of Obedience
  – The Duty of Loyalty
  – The Duty to Act in Good Faith
  – The Duty to Serve the Public Interest
## How Effectively Do Boards Oversee Institutional Risk?

<table>
<thead>
<tr>
<th>Boards with a Formal Process for Risk Assessment</th>
<th>All</th>
<th>Budget &lt; or = $51 Million</th>
<th>Budget &gt; or = $51 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Public</td>
<td>33</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>Private</td>
<td>34</td>
<td>24</td>
<td>47</td>
</tr>
</tbody>
</table>

Source: AGB Survey of Higher Education Governance
How Effectively Do Boards Oversee Institutional Risk?

<table>
<thead>
<tr>
<th>Board members and senior administrators regularly evaluate major risks</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Every board meeting</td>
<td>8.6</td>
</tr>
<tr>
<td>Every year</td>
<td>24.4</td>
</tr>
<tr>
<td>Every other year</td>
<td>3.1</td>
</tr>
<tr>
<td>As needed</td>
<td>50.8</td>
</tr>
<tr>
<td>None of the above</td>
<td>13.7</td>
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<tr>
<td>Other</td>
<td>10.7</td>
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Source: AGB/United Educators Survey on Boards and Risk
### How Effectively Do Boards Oversee Institutional Risk?

The board monitors institutional risk through regular, formal reports from administration

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
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<tr>
<td>Mostly agree</td>
<td>22.8</td>
</tr>
<tr>
<td>Somewhat agree</td>
<td>30.4</td>
</tr>
<tr>
<td>No opinion</td>
<td>8.7</td>
</tr>
<tr>
<td>Somewhat disagree</td>
<td>24.2</td>
</tr>
<tr>
<td>Mostly disagree</td>
<td>13.9</td>
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</table>

Source: AGB/United Educators Survey on Boards and Risk
How Effectively Do Boards Oversee Institutional Risk?

<table>
<thead>
<tr>
<th>Overall, how would you rate your institution’s approach to and management of risks?</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exemplary</td>
<td>5.0</td>
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<tr>
<td>Above average</td>
<td>43.6</td>
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<tr>
<td>Average</td>
<td>39.9</td>
</tr>
<tr>
<td>Below average</td>
<td>9.7</td>
</tr>
<tr>
<td>Poor</td>
<td>1.7</td>
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</tbody>
</table>

Source: AGB/United Educators Survey on Boards and Risk
Strategic Risk Management: The New Link to Governance?
Risk Management in Application

Risk Management principles can be applied to any type of risk, whatever its nature, whether having positive or negative consequences.

Compliance Programs:

• Use Risk Management principles to help identify, assess, evaluate, and treat ethical and regulatory risks.

Enterprise Risk Management (ERM):

• Is a coordinated program applied throughout the life of an organization and to a wide range of activities, including strategies and decisions, operations, processes, functions, projects, and services.
ERM Compliance Factors

• Risk management procedures of institutions are under increasing regulatory and private scrutiny

• There has been a shift from a defensive function focused on policies, procedures and expenditures, to a strategic function focused on optimizing resource allocation and effectiveness

• Recent mandates and guidelines are fueling the momentum
ERM Guidelines and Best Practices: Overview of S&P’s ERM ratings criteria

Culture

- Organizational structure
- Risk management staff roles and accountability
- Risk communication (internal and external)

Risk Controls

- Risk identification, measurement and monitoring
- Risk limit application and enforcement
- Risk control processes—policies, infrastructure, methodology (PIM)
- Sector and firm-specific risk control criteria

Emerging Risk Preparation

- Environmental scanning, trending, stress testing, contingency planning and other pre-loss practices
- Expectation planning for negative events pre and post-loss performance

Strategic Risk Management

- Utilization of risk management and return on risk in strategic decision making
- Risk consideration within capital budgeting and allocation, performance measurement and other administrative practices
Strategic Risk Management: Expectations & Opportunities

Key Performance Indicators (KPIs)

- Manage RM through Total Cost Of Risk: 20%
- Competitive procurement of risk transfer: 15%
- Financial measures for retained/insured exposures: 15%
- Insurance budget management: 13%
- Mitigate liabilities/support preparedness: 7%
- Align RM objectives with institution's risk tolerance: 6%
- RM alignment with institutional goals: 5%
- Build strategic risk awareness across the institution: 4%
- Deliver successful claim results: 3%
- Compliance: 3%

Source: Excellence in Risk Management VIII
Factors Affecting Organizational Context

• Board and audit committee
  – Independent and engaged?

• “Tone at the Top”- philosophy and operating style
  – Communicates support for compliance and commitment to ethics
  – Code of conduct?
  – HR practices and policies: Recruitment and hiring, orientation, evaluation, promotion, compensation and disciplinary actions

• Organizational structure
  – Centralized vs. decentralized
  – Assignment of authority and responsibility

• Risk culture (appetite and tolerance)
Risk Assessment & Management Process

1. Organizational Context
2. Risk Identification
3. Risk Assessment
4. Risk Evaluation
5. Risk Treatment
6. Monitoring, Review & Corrective Action
7. Communication
Interdependency of Risks

Financial Risks
- Endowment Returns
- Loss of Funding
- Claim Reserve Liability
- Tuition Stability
- Economic Conditions
- Cash Flow

Strategic Risks
- Global Footprint
- Technology Transfer
- Strategic Alliances
- Reputational / Branding
- Intellectual Property

Hazard Risks
- Pollution
- Property Damage
- Public Liability
- Employee Injury
- Natural Disasters

Operational Risks
- Student Activities
- Research & Development
- Business Continuity
- Regulatory Environment
- Campus Safety

Externally Driven
- Economic Conditions
- Public Liability

Internally Driven
- Endowment Returns
- Loss of Funding
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Community College Risk Map

- Slips, Trips and Falls
- Minors on Campus
- Funding
- Campus Safety & Security
- Transportation
- Regulatory Action
- Time Element / Business Interruption
- Failed Response to Crisis
- Work Comp Injury
- E-Risks
- Educators Legal Liability
- Employment Practices
- Reputation

- Third Party Use of Facility

- High Frequency
- Medium Frequency
- Low Frequency

- High Severity
- Medium Severity
- Low Severity
Resources on Enterprise Risk for Colleges and Universities

Nine Easy Steps to Consider Risk in Budget Reductions
http://accounting.ucdavis.edu/

Creating a Risk Conscious Climate, by Rick Whitfield

Developing a Strategy to Manage Enterprisewide Risk in Higher Education

Enterprise Risk Management Tools for Self Assessment
www.ue.org/documents/University of Washington_ERM Self-Assessment Tools.pdf

ERM in Higher Education

Measuring the Total Cost of Risk

Meeting the Challenge of Enterprise Risk Management in Higher Education

Texas A&M – List of Risks
http://universityrisk.tamu.edu/AssessmentTool.aspx

University of Minnesota Heat Maps
http://www1.umn.edu/audit/HeatMapSummary.html
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