

AT RISK

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A Risk Management Newsletter for the British Columbia
Provincial Government, its Ministries and Organizations

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Executive Director's Message

I'm pleased to share this edition of *At Risk* with our colleagues and clients.

In these pages, we step through demystifying risk assessments. Asking ourselves the right questions and formally recording our answers in a structured way shouldn't be intimidating or difficult. A few tips and tricks from our seasoned risk assessment facilitators will help you get off on the right track.

We are reminded that systems designed to keep us and our property safe (mitigate risk) are only as good as our understanding of how to use them. Read more about sprinkler systems to see how you can

improve their chances of working for you. Managing these risks we create is easy.

Our "Ask Risk" feature explains the difference between surety bonds and letters of credit. We've also highlighted the receipt of two of our industry's highest honours by one of our risk managers. Congratulations!

And just a reminder that our intranet pages have undergone a facelift and been moved to a new URL. Be sure to visit us at our new location <http://gwww.fin.gov.bc.ca/gws/pt/rmb/index.stm> for more information. <

Phil Grewar, Executive Director

Getting the Most from a Risk Assessment

You already know many of the risks and issues when undertaking a new project or program or procurement, that is why they tasked you with the job. (Note that "risks" are anticipated *future* events—not yet occurring—while "issues" are *current* events). Therefore, you might be thinking, "I know this stuff. I do it every day. Why bother with a risk assessment?"

A risk assessment is more than a prioritized list of things that can go wrong. It is a governance tool in that risk-based decision making is a management best practice. It is a due diligence tool in that it demonstrates your analysis of costs and benefits, organizational capacity, stakeholder considerations and alignment with greater goals and objectives. Moreover, it supports transparency and defensible decision making in that it demonstrates that choices were thoughtful and based on the best information available at the time.

A risk assessment becomes a significant communications tool to differing audiences.

It tells a story about your project. It describes vulnerabilities, causes, impacts and solutions. It shows gaps in resources and expertise. It highlights interdependencies and interrelationships. It pits investment against return. It communicates an organization's tolerance for risks. It informs and assures constituents and decision makers.

The sooner this process is undertaken the greater the return. This is so because you ask the hard questions early, before any significant commitments to people, plans or things. When a project or program is at the conceptual stage, a high-level risk assessment will help expose vulnerabilities and aid in determining viability. At this stage you are asking, have we sufficiently defined the problem and scope of the solution? Would this project support our business goals and objectives? Is this project a potential risk to our goals and objectives? Do we have the money and expertise to deliver? Is it money well spent? Are there

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Getting the Most from a Risk Assessment (continued)

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policy, privacy or other legal implications? Could something happen that would reduce people's confidence in our services? Now is the time to investigate further, halt or reconfigure before momentum and investment become too great.

To satisfy this breadth and depth of questioning you need the right expertise. We suggest risk assessments via working groups with members who can speak to budget, policy, service delivery, systems, internal capacity and so forth. This kind of setting—with representatives around the table—provokes information sharing and understanding among constituents. A knowledgeable and representative working group can bring greater value than the sum of its parts in that you can rely less on assumption, find solutions quicker and create a common vision.

I have yet to tell you how to *do* a risk assessment. The how-to is the easy part really. A simple way to think about the how-to part is to ask your working group the following:

- ❖ What can go wrong?
- ❖ How likely is that something to go wrong?
- ❖ What is the impact if that something does occur?
- ❖ What are we doing to manage this currently?
- ❖ Are we doing enough?
- ❖ What else will we do?
- ❖ Who is responsible?

These seven questions illustrate the simplicity and the logic of a good risk assessment. Refer to our risk management standard, guideline and risk register template (available on our intranet site at <http://www.fin.gov.bc.ca/gws/pt/rmb/fg.stm> under Enterprise Risk Management) which provide a structured process and contain detailed how-to instruction. The process is the same for all risk assessments – the volume of risks and level of detail you include depends on the complexity and scope of the project.

The key part of the risk assessment is identifying events, causes and impacts. Collectively these three elements comprise a risk. Risk identification always begins with connecting a vulnerability or opportunity to the achievement of business goals and objectives. An event is something happening that stands in the way of achieving these goals. A cause is the source or condition that triggers the event and the impact is the consequence.

For example, a local non-profit society has a goal of increasing public awareness. A negative risk event could be poor attendance at an open house. Low attendance could be caused by inclement weather, ineffective marketing or limited accessibility to their location. The impacts could be to their budget or reputation and ultimately to the business goal of increasing awareness. As you can see, there is a logical progression through the risk identification process.

Risks can also lead to positive outcomes. For example, a new policy or priority direction from government could provide an opportunity for your program to increase its mandate and serve more people. However, we usually consider risk as a negative thing.

After you identify risks via event, cause and impact, you then rate them according to likelihood and consequence. Do not agonize over this step. While you strive to assess accurately, remember that the objective is an ordered ranking from most to least threatening. Extended debates around the table about whether the likelihood of some event rates a four rather than a five will make little practical difference to its relative position in the list. Worse yet, the exercise will quickly become tedious and participants will disengage.

Typically, we rely on our experience and knowledge to assess likelihood rather than applying a fixed formula. Loss history and other statistical data may inform your rating but usually it's a gut feel based on experience. We suggest you consider likelihood within a fixed period, say over the



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Getting the Most from a Risk Assessment (continued)

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project's lifecycle or within a three-year planning cycle. You may look further out if the subject of your risk assessment warrants a longer timeframe. Use a period of time that is practical and meaningful. RMB's risk register template includes a likelihood and consequence matrix with descriptors that you can modify to fit your particular context.

It can be challenging to rate consequence. This is where it is critical to define and communicate the context and scope of your risk assessment with the working group. For example, how will the group define a catastrophic event? Will the failure of your initiative bring down the institution? That is unlikely. Will a failure bring down your program? That is unlikely too, but there is

bound to be some ripple effect. For example, a \$100k loss within a program area could mean the program fails to meet its primary objectives, yet a government entity may absorb that amount of financial and performance loss with relatively minor impacts to its budget and business objectives.

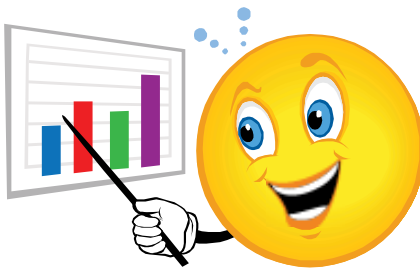
when assessing likelihood, you need to limit the reach of consequence. We advise that you limit consequence to that which falls within your immediate control – to the business, program, or project objectives for which you are immediately responsible.

Once you have identified and rated your risks you proceed with evaluating the adequacy of current controls to determine the need for further mitigations. From here, the process relies on typical project management practice toward implementing your activities. All the while, you monitor your risk environment for changes, communicate with key constituents, keep your risk register updated, and re-assess when necessary.

Clarifying context and scope, identifying risks via event, cause and impact, and defining likelihood and consequence are the critical first steps to ensuring you produce a high quality and valuable resource to assist you, the project team, and senior decision makers through your project's lifecycle.

The Risk Management Branch has specialized resources available to assist you with your risk assessment, including professional advice, training and facilitation services. <

In the same way that you limited the period



And the Award goes to....

Our very own Glen Frederick, RMB's Director of Client Services—Core Government and Crowns, received two significant awards in 2011.

In May, during the Risk and Insurance Management Society (RIMS) Annual Conference in Vancouver, Glen received the Harry and Dorothy Goodell Award. This award recognizes an individual who has furthered the goals of RIMS and the risk management discipline through outstanding service and achievement. This is the highest and most prestigious award bestowed on a risk management practitioner by RIMS. RIMS is the global organization dedicated to the advancement of risk management practices whose members represent more than 3,500 industrial, service, nonprofit, charitable and government entities throughout the world.

In September, he was recognized with the Donald M. Stuart Memorial Award during the 2011 RIMS Canada Annual Conference in Ottawa. The Donald M. Stuart Award is awarded by the Ontario chapter to acknowledge Canadians who have made outstanding contributions in the field of risk management. This award is considered Canada's highest honour within the risk management profession.

In addition, Glen's career achievements were the subject of a profile in a major industry publication. Congratulations Glen! <



Ask Risk

What is the difference between a Surety Bond and an Irrevocable Letter of Credit?

Surety Bonds and Irrevocable Letters of Credit are both acceptable forms of financial security for the Province. Below is a summary of some differences in how they function:

<p>What is a Surety Bond?</p> <p>A three-party agreement among the surety company, the <i>obligee</i> (the Province), and the <i>principal</i> (the contractor). A performance bond protects the Province from non-performance and financial exposures should the contractor default. Surety bonds are generally cost effective for the contractor.</p>	<p>What is an Irrevocable Letter of Credit (ILOC)?</p> <p>A cash guarantee to the Province, who can call on the ILOC on demand. An ILOC protects against financial exposures only and does not ensure performance of the contract. An ILOC creates a contingent or balance sheet liability for the contractor.</p>
<p>Description of Pre-Qualification</p> <p>A surety company will assess the contractor's business operations, financial resources, experience, organization, existing workload, profitability, and management to verify the contractor is capable of performing the contract. The contractor must reimburse the surety in the event of a claim. This process is designed to review the financial strength of the contractor and the ability of the contractor to complete the project.</p>	<p>Description of Pre-Qualification</p> <p>The bank examines the quality and liquidity of the collateral in case there is a demand on the ILOC. If the banker is satisfied that the contractor can reimburse the bank if demand is made upon the ILOC, there is no further prequalification. Banks do not investigate the contractor's capacity to perform the work to the same degree that a surety company would. For this reason, more contractors are able to obtain ILOCs than surety bonds.</p>
<p>Term</p> <p>Surety bonds remain in force for the duration of the contract plus a maintenance period (subject to the terms and conditions of the bond, the contract documents, and underlying statutes).</p>	<p>Term</p> <p>An ILOC is usually date specific, generally for one year. The Province however, requires that all ILOCs contain "evergreen" clauses for automatic renewal.</p>
<p>What happens when there is a claim?</p> <p>The surety company has obligations to both the Province and the contractor. If the contractor and the Province disagree on contract performance issues and the Province declares the contractor in default, the surety must investigate the claim.</p> <p>The surety's will work with the Province to identify and implement a solution. Options are as follows:</p> <ul style="list-style-type: none"> • Provide support or financing to the contractor; • Takeover responsibility for completion of the contract (up to penal sum of bond); • Tender for a new contractor; or • Pay the penal sum of the bond. <p>Please note, if control over completion of a contract is important to a ministry, the wording of the bond should provide that the ministry will complete (or arrange to complete) the outstanding work.</p>	<p>What happens when there is a claim?</p> <p>The bank will pay on an ILOC upon demand of the Province if made prior to the expiration date.</p> <p>There is no completion clause in an ILOC—it will provide money up to the value of the ILOC but the bank is not obliged to complete the contracted work. The task of administering completion of the contract performance is left to the Province.</p>



Provincial bond and ILOC templates can be found on the RMB intranet site located at: <http://gww.fin.gov.bc.ca/gws/pt/rmb/fq.stm> If you have any questions or need to revise a template to meet the needs of the contract, please contact RMB for assistance. <

Auto Sprinkler Systems—Help Them Help You

The National Fire Protection Agency (NFPA) in the United States has been keeping records of fires for some time. Using these records the NFPA has developed statistics on the effectiveness of sprinkler systems and the causes when the systems have not achieved the expected results.



Automatic sprinkler systems are an important tool used to protect buildings from extensive fire damage. When a fire breaks out in a building with a high fuel load (paper, furniture, etc.) temperatures can reach the point where most combustible materials (fuel) will spontaneously combust in 6-10 minutes. As the response time for most fire departments is 6-10 minutes you can see that in many cases a fire will be well established by the time the firefighters are able to start their work. This time line reinforces the importance of an automatic sprinkler system that will activate well before temperatures reach that critical point.

In 2006, the NFPA reported that when sprinkler systems do operate they are 96% effective at extinguishing a fire, as they are designed to do. When they don't operate, water did not reach the fire 55% of the time. Of the systems that failed, 38% did not release enough water due to system damage, and a further 2% of systems had the water turned off before the fire was extinguished.

If we assume that the sprinkler system was designed and installed correctly to provide appropriate coverage, why are so many losses the result of water not reaching the fire? Obviously something has happened that interferes with the system's ability to cover a room when it is activated. One common cause of sprinkler failure is the storage of items too closely below the sprinkler heads. The minimum clearance for a sprinkler to create its full spray pattern and ensure complete coverage of the space is 45cm (18 inches). It is essential to maintain this distance below the sprinkler for it to function correctly.

Consider inspecting your storage areas on a regular basis to ensure that the sprinkler heads are clear and unimpeded. This is particularly important if rooms are accessed by multiple people who may not be aware of the dangers of stacking material too close to the sprinkler head. Additionally, it may be useful to post an appropriate warning sign outside rooms where this is a problem.

In two thirds of cases where a sprinkler system failed to operate it was due to the system being shut off when the fire occurred. It is not unusual for a sprinkler system to be shut down for maintenance, upgrades or repair, but it is essential that the system is returned to service after shutdown. Poor maintenance attributed to another 11% of system failures making human error responsible for a total of 75% of the cases in which sprinkler systems failed to operate.

Another common cause of sprinkler failure is missing ceiling tiles. A missing ceiling tile will allow a fire's heat to rise above the dropped ceiling and delay the heat build-up at the sprinkler head (delaying activation). The more time a fire has to build before the sprinkler head activates, the less likely the sprinkler system will be able to control the fire. Therefore, it is important that any time ceiling tiles are removed they be replaced again as soon as possible so that the sprinkler system will function as designed.

Sprinkler systems are an effective way of protecting our buildings and people from fire damage. However, it is important to remember that when a sprinkler system is interfered with they are less likely to operate as expected which can result in unnecessary losses. We can mitigate these risks by taking a few simple steps to ensure that our sprinklers will perform as designed. <

Ongoing Risk Management Education

- ❖ **British Columbia Risk & Insurance Management Association (BCRIMA)**
BCRIMA provides education primarily through monthly luncheon speakers and a spring Professional Development Day session. Educational opportunities are posted on the BCRIMA website as they become available:
<http://britishcolumbia.rims.org>
- ❖ **Canadian Risk Management (CRM) Program**
Simon Fraser University offers evening courses toward the CRM designation in downtown Vancouver and downtown Victoria. For more information call them at 778-782-5095, see http://www.sfu.ca/cstudies/mpprog/pd_details.php?dID=11 or send an email to mpp-info@sfu.ca

University of Northern British Columbia offers weekend courses toward the CRM designation in Prince George. For more information call them at 1-866-843-8061, see <http://www.unbc.ca/continuingstudies/certificates/riskmanagement.html> or send an email to cstudies@unbc.ca

Risk Management Conferences

- ❖ **RIMS 2012 Annual Conference** April 15-19, Philadelphia PA
<http://www.rims.org/annualconference/RIMS2012/Pages/default.aspx>
- ❖ **2012 RIMS Canada Conference** September 9-12, Saskatoon SK
http://conference.rimscanada.ca/RIMS/RIMS_Canada_Conference/Home/Default.aspx
- ❖ **2012 Western Regional RIMS Conference** Colorado Springs, Colorado
<http://rockymountain.rims.org/>

Risk Management Resources

- ❖ **Risk Management Magazine** <http://www.rmmagazine.com>

About Our Organization . . .



Among the other areas we specialize in, Risk Management Branch has over 25 years experience as the central resource for management of government's property losses. We have been successful in significantly reducing the cost of property losses to ministries and by extension the taxpayers of British Columbia. We have a team of skilled adjusters who can assist ministry staff get back up and running following a property loss without paying more than necessary.

- ❖ Visit our Internet site: <http://www.fin.gov.bc.ca/PT/rmb/index.shtml>
- ❖ Be sure to bookmark our intranet! Government staff may visit us at:
<http://gww.fin.gov.bc.ca/gws/pt/rmb/index.stm>

It should be clearly understood that this document and the information contained within is not legal advice and is provided for guidance from a risk management perspective only. It is not intended as a comprehensive or exhaustive review of the law and readers are advised to seek independent legal advice where appropriate.

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To view previous editions of **At Risk** please visit our Internet site:

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Comments, questions, requests for further information about the contents of this newsletter, or questions for possible inclusion in our ASK RISK column, can be directed to "At Risk Editor" via email at RMB@gov.bc.ca or faxed to (250) 356-6222.