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How Universities Can Map their Way to Smarter Risk and Cost Control

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Demographic changes, shrinking federal and state support, a lethargic economic recovery, anemic endowment returns and increasing wariness of student loan debt are the perfect storm forces converging on America's mid-sized colleges and universities, threatening to swamp their finances in seas of red ink.

Faced with an urgent need to address cost structures, these institutions are scrambling to adapt educational offerings to compete in this changing environment. They would do well to take a lesson from their better-heeled brethren when it comes to addressing an important, but often overlooked, area of fixed cost structures - risk management.

For most mid-sized and smaller institutions of learning, risk management has historically followed a rather straightforward formula: buy insurance. Simple, right? From property and casualty to professional liability, employee benefits, sports and travel, typical exposures are addressed as a cost of doing business. For larger institutions, however, the approach to risk management and control is anything but typical.

Faced with operational complexities on par with those of a city, larger colleges and universities have long understood the value of taking a more strategic approach to understanding and managing enterprise risks. Personnel dedicated to risk analysis and control at these institutions are tasked with taking a holistic view of the manifold exposures, liabilities and responsibilities, as well as developing innovative ways to reduce the cost of dealing with them.

You might think about it as the relative difference between a married couple with a child doing their own taxes and General Electric maintaining a well-staffed department of experts handling theirs.

The payoff for this extensive, dedicated effort is actually two-fold: a smarter, more cost-effective approach to managing the structural operational cost (risk), as well as better insight into and control over a number of key aspects of their operations.

But, can mid-sized and smaller institutions afford this approach? Not the exact approach, perhaps, but a subset of this approach could make a real difference.

One particularly useful method proven successful in helping schools adopt a more strategic mindset in identifying and managing their risk and ultimately reducing costs is the development of an enterprise risk map.

A risk map is a way of visualizing the various types of potential losses an institution faces across its entirety of operations, the likelihood each loss has of occurring and the likely financial impact. Each data point is categorized and appropriately placed in various quadrants on the risk map. The objective is to identify the top risks facing the school by using the so-called “critical needs assessment approach,” which looks at the likelihood of losses and their potential severity.

So, how do you build a risk map for your small to mid-tier college or university?

In larger institutions with dedicated functions, the process typically starts with the risk manager assembling an in-house team to perform a “Campus Exposure Analysis.” For mid-tier and smaller schools, this could be headed up by a chief financial officer or other higher level business administrator.

The team itself is comprised of key operations stakeholders such as finance, facilities, campus police and security, environmental health & safety, faculty and administration. Each is responsible for bringing forward a delineation of current practices, operations and procedures so they can be examined from a loss and liability perspective, and then quantified in terms of potential impact and likelihood to occur. This exercise requires a close review of insurance requirements and major contracts as a way of surfacing loss and liability potentials and relevant data. Some examples include:

- Construction/Renovation projects
- Vendors
- Consulting and Professional Services
- All major leases
- Special Events
- Hold harmless and indemnification agreements
- Independent contractors

A detailed, line-by-line comprehensive review of all losses experienced by the institution is conducted to build out real-world historical data, and this information, in turn, informs the placement of risk points within the map's quadrants.

The risk map the team produces is used by the school’s stakeholders to drive a more comprehensive, better-informed process of aligning the costs of effective risk control with actual loss potential and school initiatives and priorities. It’s a visual communication that illustrates the full scope of risks faced and promotes a far more vigorous decision making process. The visual nature of the risk map is particularly useful in that it combines subjective judgments with data, and makes this insight accessible for evaluation and discussion by both novice and expert, alike. Examples of possible outcomes are:

- Data driven identification of the top risk facing the school
- Re-evaluation of current risk management practices, operations and procedures
- Alignment of risk management activities with university objectives
- Agreement on future risk management actions that limit loss exposures, reducing costs

Once established, future iterations of the map can be more easily created and then adapted to incorporate new functions and variables. There's always a new storm on the horizon. A strategic risk management approach will pay dividends for schools seeking safe passage on the road ahead.

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