MAY 2012

RISK MANAGEMENT IN HIGHER EDUCATION
BUILDING A SOLID FOUNDATION

CONTENT:

BACKGROUND AND FOCUS

In early 2011, Marsh Canada released the study "Risk in Canada's Higher Education Landscape" commenting on the state of risk and risk management in Canada's universities and colleges. With a focus on understanding the top risks for these institutions, the survey revealed that many key risks cannot be managed simply through insurance market solutions. This reinforces the importance of a well designed and executed risk management program. A risk management program will dictate how institutions decide to actively manage and respond to their primary risks. Two key takeaways from the study were:

1. Canadian universities and colleges face very similar risks in achieving their strategic goals and objectives

2. Many institutions have begun to develop an institutional risk framework, but the level of coordination and maturity is relatively low on average

Additional analysis, along with our industry expertise, revealed further key challenges that many institutions face in developing an institutional risk management program including:

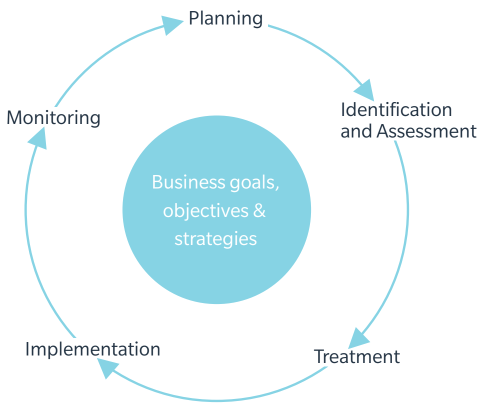
- Commitment and engagement of senior administration;
- Resource availability and capability;
- Failure to execute beyond initial assessment;
- Generating useful conclusions from assessment;
- Developing effective action plans to manage risks; and
- Sustainability of the risk management process.

A common driver of many of these challenges is ineffective planning. Institutions who fail to clearly set their risk management objectives and define the scope, processes and intended outcomes, will be challenged to develop a useful, sustainable program. This report focuses on the importance of planning within the development of an institutional risk management program.

DEVELOPING THE PLAN - THE FORMULA FOR A SOLID FOUNDATION

The traditional risk management cycle consists of five key stages: planning, identification and assessment, treatment, implementation, and monitoring.

FIGURE 1 – THE RISK MANAGEMENT PROCESS



The initial planning stage sets the framework's foundation by defining the institution's risk vision, objectives and desired state of risk management maturity. Effective planning ensures there is a link between risk and how it will affect the institution's strategic objectives. A well formulated plan ensures the process stays on course, has a focused vision and meets its intended objectives.

A well defined plan provides the risk management program with:

1. **Guidance –** Structure and direction to support current and future risk management decisions. Senior administration will exercise control over the main aspects of the risk management program.

2. **Consistency –** A clear understanding of the risk management goals and how success is measured with management alignment on the methods and procedures. Resources will be assessed and allocated accordingly to facilitate the program with all parties involved having a common understanding of the goals and objectives.

3. **Impact –** The ability to use risk information collected during the process to enhance strategic and operational decisions.

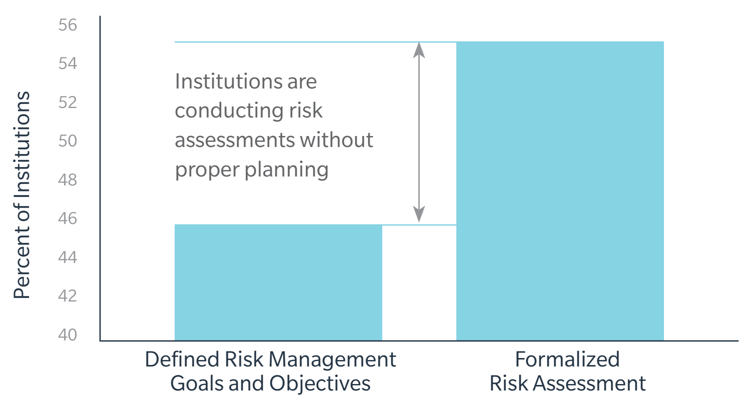
Creating a plan will ensure all stakeholders involved in the risk management process can actively contribute to the success of the program.

HOW ARE CANADIAN INSTITUTIONS FARING?

This report focuses on the planning stage of the risk management process; a vital enabler to the phases that follow. Risk management is regularly considered to be synonymous with risk assessment. As such, institutions often begin their risk management journey by conducting a risk assessment without determining the requirements or objectives. Inadequate planning will result in difficulty arriving at consistent views of risk and its materiality. Jumping to the formalized assessment will leave the institution with a laundry list of risks but little information to make effective long-term decisions, or make risk management decisions that do not effectively mitigate the risks of the institution.

The results of our survey suggest that many institutions are entering into the risk management process in the absence of effective planning.

FIGURE 2 – RISK MANAGEMENT GOALS VS. RISK ASSESSMENT



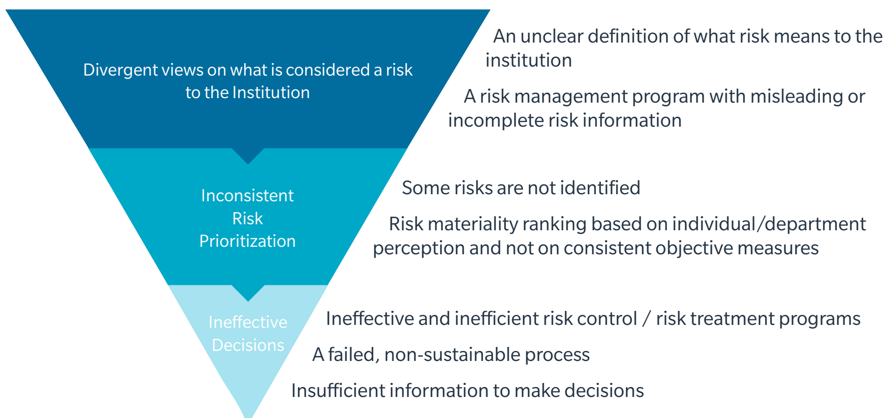
While 55 percent (31 institutions) have completed a formalized risk assessment, only 46 percent (26 institutions) of respondents have formally defined their risk management goals and objectives. These results indicate the absence of risk management best practices with institutions rushing into the assessment phase without asking the appropriate questions or conducting adequate due diligence.

While this gap may appear to be relatively small (only five of the institutions that conducted a risk assessment did so without formally defining goals and objectives), when we mapped the institutions that have conducted a formalized risk assessment it was revealed that only 19 of those 31 institutions had formally defined their goals and objectives.

At the time of the study many of the institutions that set their goals and objectives had not progressed beyond that stage. These institutions may be either in the process of working towards a risk assessment or may be unable to move forward. Some institutions might have no intention of conducting a risk assessment, not fully valuing how the assessment ties back to the institution's strategic objectives.

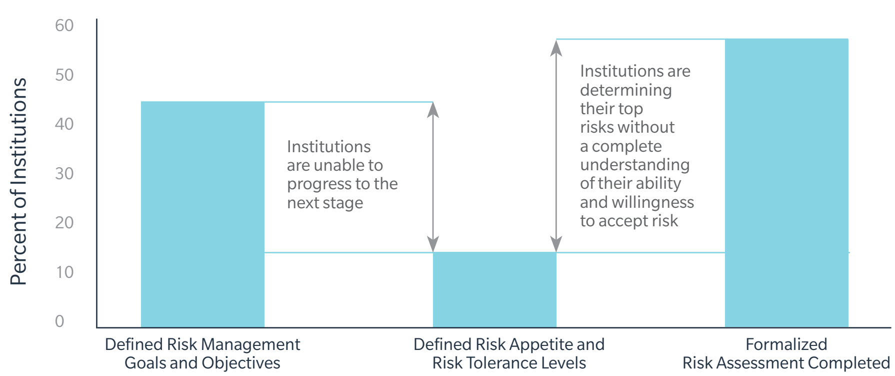
More troubling is that a significant number of institutions have conducted an assessment without conducting the appropriate planning. As shown in Figure 3, failure to properly formulate a plan can have several material impacts on the institution's risk management program.

FIGURE 3 – IMPLICATIONS OF INEFFECTIVE PLANNING



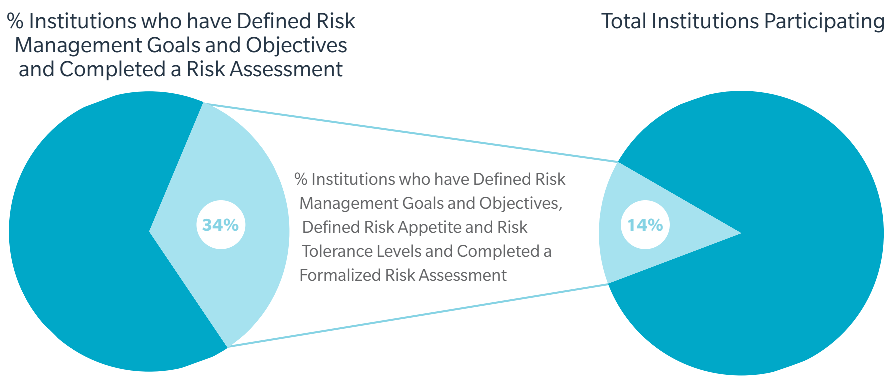
Another key foundational element of a risk management program is defining the institution's risk appetite and risk tolerance levels. While a risk assessment will uncover an inventory of risks, risk appetite and risk tolerance can help guide the thresholds for determining risk materiality and subsequent prioritization. Forty-one percent (23 institutions) of the institutions who completed a formalized risk assessment did not define their risk appetite or risk tolerance levels.

FIGURE 4 – RISK MANAGEMENT FRAMEWORK DEVELOPMENT STAGES



Upon further review, the data reveals that only eight of the institutions who completed a formalized risk assessment also defined their risk appetite and risk tolerance levels.

FIGURE 5 – INSTITUTIONS WHO HAVE PROGRESSED THROUGH THE RISK MANAGEMENT PROCESS



Only 34 percent (eight institutions) who defined their risk management goals and objectives and completed a formalized risk assessment had also defined their risk appetite and risk tolerance levels.

Interestingly those same eight institutions that completed the three stages represent only 14 percent of total respondents.

This leads to the conclusion that many institutions have developed a risk management program without first defining their core objectives. The majority of the work already completed focuses around a risk assessment or risk register with no supporting framework in place.

AVOIDING THE STUMBLING BLOCKS

When developing an institutional risk management process, planning is critical to the ongoing success of the program. Asking and answering the right questions is helpful to developing a well-suited risk management program.

What do we want to get out of our risk management program?
The first crucial step is for the institution to define the goals and objectives of the risk management program. These should be tied explicitly to the institution's strategic plan. To achieve this, the goals and objectives must be defined using a top-down process, with senior administration setting the vision.

What does risk mean to the institution? How do we define risk?
Every institution has a strategic plan and is able to measure success against that plan. In order to properly capture and account for risk, it must be defined against that strategic plan and those same measures of success. Risk represents uncertainty to achieving planned success. Aligning the goals and objectives with the institution's strategic plan ensures risk is

defined in a common language, applied consistently across the institution, and is relevant to senior administration.

What are we currently doing about risk and risk management?
The planning process involves considering what the program will be used for, what is to be achieved from the risk management process, what information will be collected and what information may be of interest to the board or other stakeholders. Setting an initial benchmark by evaluating the current state of the program (or any that may exist within the institution) will help identify material gaps with respect to the desired outcomes.

How much uncertainty is the institution willing or able to accept?
Risk metrics lay the groundwork to measure materiality. Institutions should consider how stakeholders can be affected by risk outcomes and key performance indicators in terms of risk issues (e.g., financial performance, student enrolment levels, research grant financing, faculty tenure, quality of education).

Who needs to be involved to make the program a success and how does the institution ensure the message is communicated?
Finally, it is critical to communicate the plan, process, roles and responsibilities from the top down. The communication plan should also outline what to do with the risk information after it is collected, how to obtain institutional and stakeholder buy-in and a strategy to disseminate the risk management plan across all business units. The plan should also include assigning roles, responsibilities and high level accountabilities to key stakeholders and developing process timelines.

The Case For Collaboration
Many of the institutions who responded to the survey face the same challenges or roadblocks which prevent them from fully deploying successful risk management programs. Often, institutions lack sufficient resources, experience or capital to consider putting their efforts towards executing a risk management program or other initiatives.

Institutions should consider developing the risk management program in collaboration with their peer organizations. Many institutions face the same issues, have similar structures and stakeholders. Benefiting from economies of scale and multiple perspectives, a common approach and framework can be developed for the benefit of all involved.

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