Proactive vs Reactive in Risk Management
“Ring the Bell”

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The views and opinions expressed during this presentation are those solely of the presenters and not those of any company or entity with which they may be associated.

"Could you use a crystal ball for risk management?"

- Video► 1:47
To identify challenges and explore practical experiences in **risk management**; while conducting an effective risk assessment and Monitoring and Auditing Plan.

To identify **proactive risk management**, which consists of mitigating the risks of threat events before these might possibly occur and negatively impact the organization.

To identify **reactive risk management** which consists of responding to risk events as they occur to mitigate negative impacts to the organization.

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**Key Definitions**

**Risk** – A situation involving exposure to danger, hazard, threat or loss.

**Risk Management** – A systematic process of identifying and assessing an organization risks and taking actions to protect against them.

**Risk Assessment** – A process or method to identify and assess the probability of risk occurring and their potential impact.

**Proactive Risk Management** – An adaptive, feedback, and controlled approach that focuses on mitigating the risks of threats before they may occur and negatively impact the organization.

**Reactive Risk Management** – A response based risk management strategy, which is enacted post occurrence of a risk or until a crisis surfaces to mitigate the impact to an organization.
Effective Risk Management Program

Risk Management
Five Key Stages

1. Identification
2. Assessment
3. Control
4. Monitoring
5. Reporting
Why is it important?

- Comply with regulatory requirements
- Limits exposure and save cost
- Increased certainty and fewer surprises
- Better service delivery
- Prevent or reduce Compliance concerns
- More efficient use of resources
- Improved planning and decision making
- Proactive vs Reactive

Key Challenges for Managing Risks

- Inability to Evaluate risks properly
- Inability to predict likelihood of risks; creating a bigger risk
- Struggle to define risk and understanding context, hindering efficiency
- Risk assessments aren’t collecting valuable information or are not being conducted at all
- Accountable staff not taking ownership or understanding processes
- Lack of support from Leadership
Proactive vs Reactive

- Effective Risk Management Program
- Prevent and mitigate unavoidable risks in a controlled and effective manner

Reactive

- “Don’t worry, I’ll think of something” (worrying about the problems when they occur)
- Nothing is done about risk until something goes wrong – “Constant Fire Mode”
- Crisis Management is a choice of management techniques

Not all risks can be avoided

3 Lines of Defense Model

1st Line of Defense
- Operational Management
- Internal Controls

2nd Line of Defense
- Risk Management
- Security
- Finance
- Quality
- Compliance

3rd Line of Accountability
- Internal Audit
- External Audit
- Regulators

Enterprise Risks
- Strategic Risks
- Business Risks
- Emerging Risks

Adapted from ECIA/FERMA Guidance on the 8th EU Company Law Directive, article 41
Best Practices

• Centralized risk management function
• Risk owners identified/trained
• Fixed/measureable objectives and controls
• Annual Risk Assessment
• Annual Audit Plan
• Risk Management Dashboards
• Risk Management Committee
• Risks escalation Process

Governance, Risk Management, and Compliance

GOVERNANCE / COMMITTEE
• Define risk strategy
• Risk ownership and accountability
• Oversight

Centralized Function(s):
• Risk Framework
• Strategy
• Training
• Enforcement

RISK MANAGEMENT
• Risk Identification
• Evaluation and Management of Risks
• Identifying threats / opportunities

COMPLIANCE
• Involved in all risk planning decisions, driving forward strategies to meet requirements
• Annual Risk Assessment
• Measures to ensure compliance with laws, regulations, policies and procedures
**Risk Assessment**

- A process or method to identify and assess the probability of risk occurring and their potential impact
- Cross functional approach representing different functions in an organization to identify and analyze potential events in each functional area and how they may negatively impact the organization
- Analyzes what can go wrong, how likely it is to happen, what the potential consequences are, and help an organization determine risk mitigation steps and establish controls
- Conducted annually; Beginning of 4th quarter

**Auditing and Monitoring**

Performed day to day (ongoing) and is a key mechanism for tracking overall performance and identifying potential problems

A formal systematic and disciplined approach designed to evaluate and improve the effectiveness of processes and related controls, especially those in risk areas.

Identify risks in the organization, analyze and evaluate exposure, prioritize those risks and develop plans of action to address the risks.
Risk Management Committee

- Cross-functional Committee with leaders from each line of business
- Oversees the risks and engages in risk management
- Helps educate, formalize, identify, and monitor all types of risks
- Assists in the implementation of effective risk management practices;
- Monitors specific risk areas related to noncompliance with laws, regulations, and contracts;
- Assesses financial risks and reporting matters
- Meets Monthly at a minimum
Sample Risk Management Tools

Risk Escalation Process

**STEP 1**
Issue Identified; Execute escalation process

**STEP 2**
Report issue to Compliance & accountable Leadership

**STEP 3**
Document issue in tracking system. Assess risk and complete impact analysis

**STEP 4**
Assess risk, complete impact analysis and develop remediation plan

**STEP 5**
Communicated to stakeholders and self disclose to regulator agency (if applicable) with immediate action and follow-up

**STEP 6**
Mitigate risk and monitor remediation plan to closure
Scenarios

Recap – Closing Thoughts

• Proactive Measures:
  • Establish a committee that focuses on risk management
  • Leveraging executive endorsement to enforce program initiatives
  • Getting input from leadership
  • Training accountable leaders and risk owners
  • Develop effective dashboards
  • Open lines of communication

• Reactive Measures:
  • Establish an effective escalation process
  • Mitigation – plan for resources in anticipation of fire fighting
  • Fix on failure – resources applied when risks strike
  • Crisis management
  • Open lines of communication
Questions?