HCCA Regional Conference
September 29, 2017
Risk Management Panel Speakers –
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EVALUATING AND ASSESSING RISK - AN ENTERPRISE RISK MANAGEMENT APPROACH

MAKING ERM SUCCESSFUL
Vicki Yamasaki
CEO,
Yamasaki ERM Solutions
ENTERPRISE RISK MANAGEMENT …

- Is a discipline to **manage risks** and **seize opportunities** related to the achievement of strategic objectives.
- Encompasses a **360° view**.
- Is a top-down driven process.
- Aligns with the strategic direction of organization.

*Contributes to Improved Decision Making*

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**KEYS TO SUCCESS**

<table>
<thead>
<tr>
<th>What to do</th>
<th>What to avoid</th>
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<tr>
<td>Get buy in from top</td>
<td>Survey managers only</td>
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<td>Make your CEO/CFO your advocate</td>
<td>Start with the audit risk register</td>
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<td>Think BIG, think strategic</td>
<td>Keeping the identified risks to yourself</td>
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<td>Tie identification/scoring into strategic priorities of enterprise</td>
<td>Report only operational and compliance risks</td>
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<td>Report top 10 risks to board/top mgmt</td>
<td>Report laundry risks of risks</td>
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AUDIENCE OPINION
Which do you believe is more effective risk management?:

A) Identifying & discussing risks once a year?
B) Jumping on an issue when it surfaces?
C) Identifying/scoring risks with top/middle management periodically in the year
D) Developing strategies to address top risks?
E) B, C & D

STRATEGIC VS. THE OTHER RISKS
Strategic risks are often ignored, even though they cause the most financial loss.
STRATEGIC RISKS DESTROY GREATEST VALUE

Proportion of time spent on each type of risk

Percentage of Risk Failure Leading to a Significant Market Decline

- 42% Strategic Risk
- 13% Operational Risk
- 8% Legal/Compliance Risk
- 7% Financial Risk

0% 20% 40% 60% 80% 100%

Source: CEB 2015 Study “Reducing Risk Management’s Organizational Drag”

STRATEGIC RISK – A DEFINITION

Strategic risk is the risk that a company’s strategic objectives and business strategy are flawed or may be ineffectively executed. It is also the risk of being unable to adapt to change in the environment. Such risks have the potential to expose a company to not achieving its ultimate goals.
EXAMPLES OF STRATEGIC RISKS

- Business model
- Distribution strategy
- Business scale
- Customer Experience
- Organizational change management
- Missed strategic opportunities
- Brand/Reputation
- Emerging regulatory, legal, financial, tax, consumer trends
- Business concentrations
- Mergers & acquisitions
- Product development
- Execution of Strategy
- Strategic inaction
- Innovation

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FOR QUESTIONS
ERM: How do you do it? The BIG PICTURE!

Venezuela

ERM would have helped!

- Venezuela could have used some ERM
- Venezuela has one of the world's largest oil supplies
  - When oil prices were high, times were good
  - Oil prices are now low, times are bad
    - Economy is tanked (pun intended)
    - Government is in turmoil
    - People are starving
- ERM would have considered the possibility that oil prices could go down and that someday the oil could run out.
- ERM would have helped Venezuela to consider mitigation such as diversity of investments, creating new business unrelated to the oil market, saving for a rainy day

ERM is about the big picture!
Why did no one tell me about the BIG PICTURE?

- Organization really needed an ERM program
- Studied all of the various ERM models
  - COSO – Committee of Sponsoring Organizations: Accounting, Financial and Auditing groups
  - Casualty Actuarial Society
  - RIMS Risk Maturity Model
  - ASHRM Pearls: Enterprise Risk Management
- Countless seminars and sessions on ERM
  - Could understand the concept – sort of
  - Always left with no more clarity than when I arrived
- Many vendors wanted to sell ERM risk assessments

ERM Epic failure

- Chief Auditor, Chief Compliance Officer and Chief Risk Officer - worked very hard, but first effort was failure.
  - Senior leadership/organization had no foundation or knowledge of ERM
    - No definitions, no objective, no top down, bottom up approach
  - We told the organization what the risk were.
    - Tried to identify and score all of the risk ourselves – no risk owners, no subject matter experts, no fresh eyes
  - Scoring was very basic and subjective: Married to heat maps
    - 1-5 likelihood; 1-5 impact
  - Really was not an ERM process, rather just a work plan for normal and ordinary course of business
- NO BIG THINKING
  - Health Care Reform
  - Domestic Terrorism
Finally, a wise woman told me about the BIG PICTURE

• Need to separate normal course of business work = while part of ERM it is not ERM
  • For clinical risk management – incident reports, RCAs, education
  • Quality – falls, infection prevention
  • Compliance – planning for new regulations, auditing for compliance
  • Internal Audit – billing, coding, internal operations
• Focus on the big picture – It’s the Strategy

ERM – Now on the BIG Picture Path

• Risk Owner University
  • Selected and embedded Executive Risk Owners and Risk Owners in Organization
  • Taught ERM in day long session with opening by CEO
  • Improves decision making and supports strategy
• Governance
  • Enterprise Risk Management Steering Committee = Executive Leadership Team
• Foundational Documents
  • All debated, approved and blessed by ERMSC
  • Statement of Risk Philosophy and Appetite
  • Enterprise Risk Management Policy
  • Risk Scoring Assessment Criteria, Exhibit A
  • Risk Scoring Assessment Matrix, Exhibit B
• Risk Identification, Scoring, Prioritization
  • Risk Identification and Scoring done by Risk Owners, Mandated by Senior leaders
  • Scoring matrix is easy to use, with drop down choices
  • Utilize standard scoring format tied to readily identified corporate metrics
  • Results reviewed by CRO and ERMSC, reported to Board of Directors
• Reports to Board of Directors
  • Top ten risks and Emerging Risks
  • Current and planned mitigation
  • Highlighted by details
• ERM Process and Services Defined
  • Risk identification, evaluation, scoring and prioritization of specifically identified risks that may be a barrier to IU Health’s ability to achieve its strategic goals and objectives;
  • Establishing ERM risk tolerance levels, based upon existing corporate metrics, in coordination with the normal operating management process;
  • Providing tools/consultation to assist in evaluation/analysis of the risk appetite for new businesses or services
The Risk Scoring Equation

- **The Equation**
  - After assessing each category, the following equation quantifies the total score for each risk:

\[ \text{Impact}^{**} \times \text{Likelihood} \times \text{Velocity} \]

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Risk Scoring Matrix

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Score</th>
<th>Impact</th>
<th>Likelihood</th>
<th>Velocity</th>
<th>Score</th>
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**Notes:**
- Impact: Low, Medium, High
- Likelihood: Low, Medium, High
- Velocity: Low, Medium, High
- Score: 1, 2, 3
Big Picture things you hope to see on a risk scoring matrix

- The big things
  - Loss of tax exempt status
  - Loss of accredited status
  - Large physician group leaves
  - Major Payer cuts your system out of its network
  - Health Care reform changes and you miss out on Medicare, Medicaid or DSH payments
  - Loss of an essential building/service

- Important things
  - Natural disasters/Emergency Management
  - Workforce Issues
  - Opioid crisis/behavioral health
  - Population Health management
  - Terrorism

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Description</th>
<th>Risk Score</th>
<th>Identified in Executive Risk Survey</th>
<th>Risk Owner</th>
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<tr>
<td>Technology</td>
<td>Prolonged outage of the EMR</td>
<td>1930</td>
<td>11.11% of responses</td>
<td>Mark Lantzy</td>
</tr>
<tr>
<td>Technology</td>
<td>Data or Device Corruption (i.e. ability to maintain device and data integrity)</td>
<td>1080</td>
<td>11.11% of responses</td>
<td>Mark Lantzy</td>
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<tr>
<td>Operational</td>
<td>Safety, Security and Emergency Management of facilities, properties and leased premises (i.e. protection of patients, team members and visitors as well as organizational information and assets)</td>
<td>720</td>
<td></td>
<td>Al Gatmaitan</td>
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<tr>
<td>People</td>
<td>Ability to attract, retain and engage talented team members in sufficient numbers to reach sustainable levels and to provide and grow current services, as well as new and innovative services.</td>
<td>648</td>
<td>10.11% of responses</td>
<td>Liz Buske</td>
</tr>
<tr>
<td>Operational</td>
<td>Ability to implement change required to meet Long Range Plan</td>
<td>542.5</td>
<td></td>
<td>Al Gatmaitan/Anita Alway</td>
</tr>
<tr>
<td>Operational</td>
<td>The Ron Center</td>
<td>466</td>
<td></td>
<td>Tony Carter/Neil Pickett</td>
</tr>
<tr>
<td>Strategic</td>
<td>Competition and Market Share Compliance</td>
<td>400</td>
<td>9.19% of responses</td>
<td>Jay Adenwall</td>
</tr>
<tr>
<td>Operational</td>
<td>Prolonged unavailability of the Central Laboratory</td>
<td>412</td>
<td></td>
<td>Al Gatmaitan/ Joe Meyer</td>
</tr>
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<td>Financial</td>
<td>Appropriate development and sustainability of IU Health Plans and MDMwise</td>
<td>412.5</td>
<td>12.59% of responses</td>
<td>Ryan Kitchell/Mark Lantzy</td>
</tr>
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<td>Financial</td>
<td>Realization of continued unfavorable economic value of the Population Health Risk Management programs</td>
<td>405</td>
<td>4.45% of responses</td>
<td>Jonathan Gottlieb</td>
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Strategic Goals and Objectives

Big Picture Strategy

- ERM should be aligned with supporting your strategic goals and objectives.
- These change over time so you have to be nimble and flexible.
- For example, if a strategic goal is: **Supporting new knowledge to cure disease and improve care of chronic conditions**
  - Are the organization’s services and businesses geared toward supporting this objective? If they are not, why are you utilizing resources and time if the service/business is not aligned?
    - Alignment – recruiting top talent, partnering with third parties for technology and equipment, attracting patients for treatment
    - Not aligned – Getting into the property management business

Align with Core Strengths

Benefits of ERM

- Creation of a positive, risk focused organizational culture in which people understand their role in contributing to the achievement of objectives and goals.
  - Risk Owners that invite their team members (Risk Contributors) to participate in the risk identification and scoring raise risk awareness exponentially. More folks thinking about risk and its impact on the organization.
- Ability to prioritize the work and thoughtful allocation of resources
- Helps organization make risk informed decisions
- Protects organization from what may come - Venezuela
- Senior leaders appreciate risk scoring as they cannot possibly know everything going on in the organization
- Standardized risk reporting
Healthcare ERM – Top Strategic Risks

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Presented by:
Mike Salazar, ARM, VP Manager of Client Services

What keeps health system CEOs up at night?

- Preparing for potentially changing Medicaid reimbursement models and other policy issues
- Implementing population health and value-based care
- Maintaining or improving margins
- Recruiting and retaining top talent, including health care leaders
- Keeping up with evolving technology and cybersecurity risks
- Adapting to changing consumer demands and expectations
- Integrating business vertically
- Triaging patients to direct them to the appropriate level of care
- Reducing cost and inefficiencies across the system

Source: Deloitte’s 2017 Survey of US Health System CEOs
Strategic Issues Emerge over the past 10 years

Source: PwC Health Research Institute – Top health industry issues of 2017
HEALTHCARE REFORM – ACA??

Adapting to changing consumer demands and expectations
KEEPING UP WITH EVOLVING TECHNOLOGY AND CYBERSECURITY RISKS

INTEGRATING BUSINESS VERTICALLY

- Traditional sources of revenue are changing
- Potential new alliances with other health care stakeholders emerging
  - Third party payors
  - Post Acute Care Facilities
  - Home Health
  - Physician practices
- What are the risk implications of joint ventures, mergers?
REDUCING COST AND INEFFICIENCIES ACROSS THE SYSTEM

- Alternative revenue streams generated through acquisitions provide efficiency opportunities
- Health care systems may continue to operate in silos
- Triaging opportunities to direct patients to the most appropriate care setting
- Value based payment models of the future will drive physicians to work in teams as leaders to continuously measure and improve the VALUE, cost and quality of care

PART OF ERM – DON’T FORGET BASICS

- Block and tackle risk exposures all businesses must manage include many of the strategic concerns that keep healthcare CEOs up at night.
  - Ageing workforce
  - Attracting and retaining talent
  - Consumerism
  - Alternate revenue streams
  - Expense management
- Be mindful of operational and hazard risk, but don’t let them bog down the ERM process
  - Contracts – Indemnification
  - Employee Injuries & Illnesses
  - Professional Liability “malpractice”
  - General Liability – Premises risk
  - Property Conservation
  - Products Liability
  - Automobile exposure – MVRs
  - Disaster Management
Questions?

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