MAKING ERM SUCCESSFUL

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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
KEYS TO SUCCESS

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

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

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
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 burned
  - 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
  • Identified and embedded Executive Risk Owners and Risk Owners in Organization
  • Taught ERM in acquiring session with opening by CEO
• Governance
  • Executive 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
    • Utilization review and feedback is to be regularly identified and reviewed
    • Reports reviewed by ERM and ERMSC, reported to Board of Directors
• Governance
  • All debated, approved and blessed by ERMSC
• The Risk Scoring Equation
  • The Equation
    • After assessing each category, the following equation quantifies the total score for each risk:

\[
\text{Total Score} = \text{Impact} \times \text{Likelihood} \times \text{Velocity}
\]

The Risk Scoring Equation

The Risk Scoring Matrix
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

Top Enterprise Risks

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Description</th>
<th>Risk Matrix Score</th>
<th>Identified on Executive Risk Survey</th>
<th>Risk Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology or related clinical systems</td>
<td>Prolonged outage of the EMR</td>
<td>1350</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>
</tr>
<tr>
<td>Operational 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>Al Gatmaitan</td>
<td></td>
<td></td>
</tr>
<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>23.15% of responses</td>
<td>Liz Dunlap</td>
</tr>
<tr>
<td>Operational</td>
<td>Ability to implement change required to meet Long Range Plan</td>
<td>562.5</td>
<td>Al Gatmaitan/ Jennis Alvey</td>
<td></td>
</tr>
<tr>
<td>The Ryan Center</td>
<td>486</td>
<td>Tory Castor/Neil Pickett</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic</td>
<td>Competition and Market Share: Complacency</td>
<td>450</td>
<td>9.26% of responses</td>
<td>Joy Kleinmaier</td>
</tr>
<tr>
<td>Operational</td>
<td>Prolonged unavailability of the Central Laboratory</td>
<td>432</td>
<td>Al Gatmaitan/ Joe Meyer</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>Appropriate development and sustainability of IU Health Plans and MDWise</td>
<td>412.5</td>
<td>17.59% of responses</td>
<td>Ryan Kitchell/Mark Lantzy</td>
</tr>
<tr>
<td>Financial</td>
<td>Realization of continued unfavorable economic value of the Population Health Risk Management programs</td>
<td>405</td>
<td>4.63% of responses</td>
<td>Jonathan Gottlieb</td>
</tr>
</tbody>
</table>

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 care 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 this service/business is not aligned?
  - Alignment – recruiting top talent, partnering with third parties for technology and equipment, attracting patients for treatment
  - Not aligned – Selling 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

Presented to:
Health Care Compliance Association
Regional Conference Indianapolis

Presented on:
September 29, 2017
Presented by:
Mike Sarac, 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

Top health industry issues of 2007

- Obesity is the new smoking, with employer incentives considered to push employees to lose weight.

Top health industry issues of 2017

- Diet related health issues, including obesity, are addressed by health organizations and employers focusing on nutrition.

Healthcare Reform – ACA??

- Millions of Americans are in high-deductible health plans, leading providers to reevaluate their payment models to address the surge in consumer credit card charges.

- Health care costs are in the tens of billions. In the U.S., 20% of the population is in the top 1% of consumer credit card charges.

- Drug prices are soaring as IC manufacturers increase their prices by 20% to 30%, representing billions in savings.

Healthcare Reform – ACA??

- Drug prices again are facing public and political attention, leading some U.S. health insurance companies to negotiate their way to lower drug prices.

Source: PwC Health Research Institute – Top health industry issues of 2017

Source: PwC Health Research Institute – Top health industry issues of 2017

Source: PwC Health Research Institute – 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 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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