IMPLEMENTING ERM IN WASHINGTON STATE

By Russ Banham

Drew Zavatsky, Loss Prevention Section Manager, Office of Risk Management, Department of Enterprise Services, State of Washington

RIMS: How did you flatten your learning curve when tasked to implement ERM across state government?

Zavatsky: I started with RIMS, going to some seminars, taking classes, reading books and talking to risk managers, that sort of thing. Then, I looked around for a model, another state that had gone in this direction. Unfortunately, I couldn’t find any. But, I did learn that right to the north of us in British Columbia, the province was considered the best practitioner of ERM in Canada. Vancouver is a few hours drive from Olympia (the state’s capital) so I got on the phone, charted with them, and did some research. I learned a company called 3e Training Inc. had helped the BC government with its ERM project, so I hired a few of their people to train all of the largest state agencies’ assistant directors, and in some cases the directors. The 32 largest agencies in the state account for 95 percent of our tort liability.

RIMS: So Washington State can be sued? I thought states were protected from liability through sovereign immunity.

Zavatsky: We actually eliminated sovereign immunity here in 1961, so we can be sued like any private person. Obviously, because we have thousands of employees, we confront potentially significant litigation. While systems have grown up to mitigate many of these exposures, they were not coordinated to the degree that they are starting to be.

RIMS: By that you mean the ERM project implementation beginning in 2006?

Zavatsky: Correct. ERM is designed to empower state agencies to surface their risk assessments in a coordinated way. This way we can make better dollar decisions on managing the risks. If we spend too much money on risks that are not the most important for us to address, we are not appropriately allocating our risk management resources.

RIMS: Is ERM centralized or decentralized?

Zavatsky: It’s decentralized. Although by statute we must have a state risk manager, the way the law is laid out we just advise the agencies on how to improve their risk management practices and enhance loss prevention resources.
RIMS: How did you begin?

Zavatsky: When we began the implementation, I looked at the 162 agencies, commissions and boards to figure out where to start. Since the largest 32 agencies were where 95 percent of the liability was occurring, obviously that’s where we initially decided to focus. You address the things that are going wrong first. It was very easy to count the dollars going out.

RIMS: What did those dollars tell you?

Zavatsky: One thing I learned is that one of the biggest risks a state faces is reputational risk. If it looks like you have a litigation problem that you aren’t managing well, your reputation can suffer overnight. Citizens want to feel confident their tax dollars are being used wisely.

RIMS: Tell us about the role of ERM in privatizing the state’s liquor business.

Zavatsky: Prior to the change, the Liquor Control Board was in charge of sales and distribution of hard alcohol throughout the state, via state-licensed liquor stores. The stores were a significant source of injuries, with a certain number of slips and falls, which are to be expected when serving some individuals who may have a problem with alcohol. With all these stores distributed across the state, there was a need for warehouses, another source of liability from injured workers moving heavy palettes around. At the time (in 2006), the Liquor Control Board did not have a consolidated view of what all this was costing the state.

RIMS: What did you discover?

Zavatsky: When we consolidated the risk-related data, it was eye opening to say the least. But, the Board realized that it hadn’t specifically looked at one of the biggest risks of all, which was privatization itself. They immediately started planning for this possibility, undertaking all these analyses and planning a whole series of mitigations in the event that liquor was privatized. It would require the dismantling of a very large and complex structure.

RIMS: Where are we at now with regard to the ERM implementation?

Zavatsky: We’ve taken care of the first phase, the largest 32 state agencies, which span from the State Patrol to the Department of Transportation to the Department of Corrections. Not an easy task, mind you, as each agency is vastly different in terms of processes and systems and ways of conducting risk management. But, they have elements they share, and this is what I consult on. I also assist them to discern gaps (in risk management practices) and how to fill them. The second phase is our higher education systems, which include all the universities and colleges, representing 4 percent of our tort liability. Since we are training and protecting students, there are related reputational risks to consider. The third phase is every other agency that is left.

RIMS: Can you document that the ERM project has indeed been worth it? Has there been a return on investment?

Zavatsky: We purchased an actuarial study this summer (2013), and it indicates that since the prior study in 2010, we’ve reduced our outstanding retained losses by $204 million over the previous three-year period. Most agencies in the state are protected through our self-insurance program, so this is a pretty remarkable figure. The ERM project is the only real thing directly linked to risk management that has changed during this period. That tells me it has been the key factor.

RIMS: Any other proof of its merit?

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