Q&A

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IMPLEMENTING ERM IN WASHINGTON STATE

By Russ Banham

Drew Zavatsky

RIMS

When first tasked in 2006 by then-Washington State Governor Christine Gregoire about implementing Enterprise Risk Management statewide, Drew Zavatsky was a brand new hire in the state's Office of Risk Management. A trial lawyer by background, Zavatsky recalls joking to himself "Gee, this should be easy." No wonder why—the state at the time was comprised of 162 agencies, commissions and boards, and Zavatsky knew very little about ERM. "I had only experienced one form of risk management—legal, or more to the point, litigation," he says. "I hadn't studied formal risk management at all."

Today, he is closer to an expert, having navigated the 13th biggest state in the country through the shoals and eddies of the ERM project, a wide-ranging effort that included such events as privatizing the state's liquor business. Through 2012, Washington State stores were the only locales to buy liquor, until citizens voted in Initiative 1183 to privatize the business. Not only has the new law increased state revenues, it also eliminated the various liabilities that the liquor stores encountered—a win-win. RIMS sat down with Zavatsky to discuss his journey from ERM neophyte to conversant veteran.

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, chatted 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: Was the ERM system in place by now?

Zavatsky: Yes. It resided in the Board's Finance Office, where it still resides. The Board realized it needed to develop contingency plans in the event of privatization. For instance, there were more than 1,000 state employees who would become unemployed. What do we do about this? They entered into some preliminary discussions with different private industry entities that, if privatization happened, they could approach about the former state workers needing employment. Then, the issue came before the electorate (in 2006) and failed. Nevertheless, it served as a dry run for when the law ultimately changed.

RIMS: How did the ERM implementation assist the transition to privatization?

Zavatsky: ERM made the transformation seamless—nothing bad happened when the law changed. It was a very smooth transition because we had analyzed the potential impact well beforehand and had in place mitigating strategies. Today, for the most part, people like the convenience that private liquor sales provide. Consumers can buy liquor at more than 1,600 retail stores now, compared to 329 state-run stores before. And state tax coffers are higher. (A recent report indicates that Washington will reap $425 million in revenue from liquor taxes in 2013, compared to $309 million the last year of state control).

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?

Zavatsky: Over that same time period, we radically decreased the number of claims, from about 1,100 claims in 2008 to about 700 claims in 2012. With regard to general liability claims alone, they dropped from 698 claims in 2008 to 465 in 2012. That says it all.