

The Risk Control Imperative

National Catholic Officers & Directors

Rev. Jay C. Haskin
Chairman of the
Board
Diocese of
Burlington, VT

Brother William
Walz,
Vice Chairman
Christian Brothers

Mr. John M. Scholl
Vice President
Diocese of Buffalo,
NY

Mr. John J. Maxwell
Treasurer
Diocese of
Springfield, IL

Ms. Monica L.
Adams
Diocese of Kansas
City-St. Joseph, MO

Mr. Brian T.
Cosgrove
Diocese of Brooklyn,
NY

Mr. Joseph
McEnness
Archdiocese of
Boston

Rev. Jon J. Plavcan
Diocese of Gary, IN

My younger brother, Brian, used to enjoy relating a story derived from his Army career (during which he was an Advanced Infantry Training Sergeant and a Nuclear, Chemical, and Biological Warfare Specialist). He would speak of one of his best friends—a heavily-muscled, six-foot-six-inch tall fellow training sergeant with an often “booming” voice, who while clearly very physically imposing, was most often quiet, reserved, and soft-spoken and with a great sense of humor. A tactic of his, as witnessed by Brian, was to explain a critical concept, principle, or standard to his trainees in a very measured, composed and gentle tone; then he would repeat the concept, principle, or standard, specifically mentioning that he was doing so to emphasize what they absolutely were required to remember and practice. Finally, after a moment’s pause for effect, he would quietly state that they needed to adhere to this concept, principle, or standard and that if they did not (now shifting by posture and voice to his imposing mode) they WERE WRONG!!!! (shouted thunderously and drawn out for maximal impact).

My friends, let me state that if you (or at least someone within your diocese or religious institute or community) are not consistently, diligently, and enthusiastically engaged with and employing risk control concepts, principles, standards, and practices, you ARE WRONG!!!!

Let me further address this topic by stipulating several propositions. You needn’t agree with them, but I think you will find it extremely difficult to dispute them. They are:

A) Risk Control conceptually contains two logically connected elements:

1) Loss Prevention (which employs mechanisms to prevent losses and related claims before they can occur and do any damage); and 2) Loss Control (which recognizes that not every loss can be prevented, and therefore, mechanisms must be employed to mitigate the severity of those losses that simply could not be prevented).

B) Risk Control is the one risk management tool that best enhances our stewardship of the ecclesiastical goods (patrimony) and other resources (human, for instance) of the Church.

Note that an entity’s self-insured retention is always most exposed to loss in the absence of risk control, even assuming the existence and use of effective claims management and litigation management strategies and practices (which can mitigate, but not prevent, a loss). Further, even with placement of very excellent coverage and extremely high limits of coverage, it is a fact that: 1) some exposures to loss are simply not insurable; 2) not all losses, even when covered, may be fully insured; and 3) even when fully insured, loss experience will ultimately increase insurance premiums of even the best placed program. Clearly, it is much better just to not have the losses!

The Risk Control Imperative

Mr. David S. Stewart
Diocese of
Pittsburgh, PA

Deacon Jeff Trumps
Diocese of
Lafayette, LA

Ms. Barbara A.
Walsh
Archdiocese of
Cincinnati, OH

C) Risk Control is far more congruent with Christian doctrine and ethics than is any other risk management tool.

Ask yourself which is better: to pastorally, fairly, expeditiously, and with justice attend to the needs of victims that we have created (no matter how that was done); to prudently and cost effectively rebuild damaged or destroyed property; to quickly and effectively re-institute ministries that were interrupted by a loss of some type; or alternatively, to *not* kill, injure, disable, or disfigure people; to *not* allow damage or destruction of our own or others' property; and to *not* allow disruption of our own or others' activities... all by preventing any loss from occurring in the first place!

D) Risk Control is not “common sense” or “second nature.”

I first am reminded of the line—generally attributed to George Bernard Shaw—that “the least common of all senses is common sense.” I would next point out that we weren't born knowing such things as: not to cross the street without looking both ways; not to place our hands in an open flame; not to play around with electrical connections; not to talk to strangers; etc. Someone, or some bad experience, taught us these things and, as with all other acquired skills, we had to practice these things regularly until we finally became “safety conscious.” There is a reason the pros hit the blocking dummies every summer and that we have to get recertified to keep our CPR designations—and so on.

E) Risk Control does not necessarily have to be expensive, time-consuming, or energy intensive.

We at National Catholic go to great extents to protect the confidentiality of our shareholders in relation to their claim experience. I can tell you, however, that in the seven operational years from 2002 through 2008, TNCRRG has paid (largely), or is reserved to pay \$54,724,641 of losses to our shareholders. Of that amount, \$39,780,043 (72.7%) was generated essentially by six claims (from multiple shareholders). In each instance, these losses could have been totally prevented—or at minimum very substantially reduced if long-established, well-distributed and excellent quality risk control protocols at the entities involved had simply been adhered to. In other words (and quite literally), death, permanent disability, disfigurement, agonizing pain, related psychological and emotional trauma experienced by many, and ultimate catastrophic outlay of Church finances (via TNCRRG and the underlying SIRs) need never have occurred.

So, here are some essentially cost-free, low energy and minimally time-consuming risk control recommendations that you can begin to employ immediately. [N.B. I know that some of our shareholders have excellent risk control programs that are regularly communicated—kudos to you, but don't “rest on your laurels!”]

1) Many of TNCRRG's shareholders have very fine property and workers' compensation oriented risk control programs that overlook entirely—or only marginally address—liability prevention. If this describes your efforts, you need to begin thinking about, reviewing, and recording the liability risks inherent in your ministries, as a first step.

2) It is not good enough to develop and implement excellent risk control protocols and programs, without also regularly reviewing them for adequacy and efficacy, and also, regularly communicating them throughout your ministries. Excellent work left to collect dust on the shelf is of little value.

3) Insist that your drivers at all times abide by any restriction on their driving privileges: nature of vehicle, corrective lenses, required special training, etc.

4) Establish a rule that drivers walk to the rear of their vehicles before backing them up, to ensure that no obstacle, human or otherwise, is in their rear “blind spot.”

The Risk Control Imperative

5) Insist that your locations and ministries absolutely do not sign any contract without first submitting it to some qualified individual within your diocese or religious institute for review of the Insurance, Hold Harmless/Defense/Indemnification and Additional Insured provisions. Note that many contracts “bury” liability transferring provisions in clauses that have nothing to do with those just identified, so the contract must be reviewed in its entirety. Further, more often than not, the diocese or religious institute should be designated as Additional Insured by the counter-party; and not the other way around (though this is possible and sometimes appropriate).

6) When you have been made an Additional Insured, demand a current Certificate of Insurance to verify that in-force coverage, fully consistent with the requirements of the contract, is being provided by a quality insurer, so as to ensure that the financial obligations imposed by the contract can be fulfilled if necessary.

7) Don't establish and promulgate protocols and standards without regularly demanding of your locations and ministries that they scrupulously abide by these same protocols and standards. Sometimes conveying real-life “horror stories” of what happens when protocols and standards are disregarded, can help get people's attention and encourage them to implement and abide by what they have been taught. [N.B. If you need some genuinely horrific true loss scenarios, let me assure you that we can help you out.]

8) This suggestion won't be a popular one, but demand that your drivers refrain from using cell phones (including “hands-free”) while their vehicle is in motion. Every related study validates the increased accident frequency and severity that accompanies cell phone use in moving vehicles.

9) Document all your excellent risk control efforts and results in writing. This will help you if you get embroiled in any liability action. As an old industry practitioner and acquaintance of mine used to say, “If it's not in writing, it doesn't exist in the real world.”

10) Do not be afraid to consistently and regularly repeat your risk control recommendations and requirements to your constituency. Recall the old saying that “repetition is the mother of all learning.”

Note that there are many, many more suggestions I could make, but I have tried to provide a few that meet the test of minimal cost, time and personal energy consumption.

In any event, don't BE WRONG!!!! Consistently, diligently and enthusiastically develop, implement, preach and practice Risk Control!

By Michael J. Bemis, President & CEO -- TNCRRG

TNCRRG Financial Performance Update – Through May 2009

In both my President's Report at the TNCRRG Annual Winter Meeting and in my President's Message contained within our recently distributed TNCRRG 2008 Annual Report, I recounted the unprecedented "confluence" of extraordinarily negative events that have confronted TNCRRG in the last 18 months. These include: 1) the \$13.6M net IBNR adjustment suggested by our actuaries in January 2008, then applied to our year-end 2007 figures/results; 2) the horrendous collapse of the investment markets that led to a year-end 2008 net unrealized capital loss for TNCRRG of \$6.803M; and 3) the continuing significant loss reserve adjustments throughout 2008 and earlier in 2009, in relation to catastrophic claim/loss experience that has beset TNCRRG in seven of the last eight operational years.

I also described in my President's Report and President's Message the very detailed, comprehensive, and multi-faceted Remediation Plan that TNCRRG has been operating within, which was approved in its entirety by our regulators on the very day that we submitted it to them.

Finally, in various communications I have consistently asserted that, even with our confidence in the Remediation Plan and the loyalty of our shareholders, it will be a long, slow "slog" back to the substantial financial vitality that TNCRRG reflected as recently as two years ago.

In light of all this, I am very pleased to report that TNCRRG's results through May 2009 clearly evidence that our Remediation Plan is, thus far, working precisely as we intended it to.

Financial Position

Much of TNCRRG's financial situation as of May 31, 2009 is very positive. More specifically: 1) TNCRRG assets increased year-over-year from \$88,880,323 to \$89,716,655; 2) TNCRRG's cash position and liquidity is excellent, increasing year-over-year from \$2,726,554 to \$4,909,589, and with **no** debt whatsoever, **no** delinquent or uncollectible receivables and **no** payables that are not fully accrued for or already paid in full; 3) TNCRRG gross IBNR reserves declined year-over-year from \$44,431,758 to \$43,432,307; 4) TNCRRG earned premium year-over-year increased 6% from \$3,663,034 to \$3,869,869; 5) TNCRRG losses declined 23% year-over-year from \$6,081,221 to \$4,709,878; 6) TNCRRG net underwriting loss declined 74% year-over-year from (\$2,384,530) to (\$630,401); 7) TNCRRG expenses through May are 16% under the approved/authorized 2009 budget and 3% under last year at this time; 8) all 21 TNCRRG shareholders with anniversary dates between January 1st and June 30th have already renewed or have formally conveyed their intent to do so; 9) TNCRRG has written new excess business so far this year and has been presented with many opportunities to write new excess business effective July 1st; 10) TNCRRG's net operating loss through May is (\$815,530), while May 2008's net operating loss, once adjusted for an extraordinary, nonrecurring net realized capital gain of \$1,891,755 on the sale of investments (that we took in March 2008 to generate cash for claim payments) would have been (\$2,566, 629). [N.B. TNCRRG has so far in 2009 only had \$49,848 of net realized gain on the sale of investments.] Also, 11) TNCRRG's year-over-year comprehensive operating loss has declined from (\$4,232,197) to (\$116,226). Meanwhile, TNCRRG's surplus has stabilized—even in light of the extremely poor and challenging January and February 2009 investment market downturns—with TNCRRG's May surplus \$116,226 less than its December 31, 2008 total.

All of this supports our assertion regarding the "long, slow slog," but also, our position regarding the value and efficacy of the TNCRRG Remediation Plan.

Michael J. Bemis
President & CEO

National Catholic Report

Copyright © 2009 by The National Catholic Risk Retention Group, Inc. (National Catholic), 801 Warrenville Road, Suite 175, Lisle, IL 60532, 1-630-725-0986.

All rights reserved. National Catholic Report is published two times per year. Photocopying or transferring this document in whole or in part is a violation of federal copyright law and is strictly prohibited without the express written consent of National Catholic. National Catholic provides neither spiritual solutions to individual problems nor legal advice to its clients. Readers should seek the advice of a spiritual director or attorney regarding individual questions or legal advice. 09/08

Contact us with comments, questions or other feedback:

Phone (toll-free): 1-877-486-2774

Email: mbemi@ncrgr.org

Fax: 1-630-725-1374

To learn more about National Catholic, view our annual report or see our latest financials, visit our company website:

www.nationalcatholic.org

To learn more about child sexual abuse prevention programs and other risk control programs, visit the VIRTUS® program website:

www.virtus.org