



How To Choose and Use a Risk Management Consultant

A WHITE PAPER FOR ORGANIZATIONS CONSIDERING
THE SERVICES OF A RISK MANAGEMENT CONSULTANT

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As the economy takes its toll on risk-management-department budgets, more corporations and public entities are seeking help from consultants. “Outsourcing” has become a popular way to reduce long-term overhead, yet still obtain knowledgeable help. Risk management consultants can provide that kind of help in the insurance and risk area. This White Paper discusses how an organization should approach the selection and engagement of a risk management consultant.

WHAT IS A CONSULTANT?

A consultant is an expert who can be hired on a part-time basis to help solve specific problems. From this point of view, nearly everyone has used a consultant. For example, doctors are consultants in medicine, lawyers are consultants in law, and accountants are consultants in accounting. In fact, almost anyone can say he or she is a consultant. Even some insurance agents and brokers call themselves insurance consultants, although some people feel that ethically one cannot serve as an insurance consultant and at the same time place coverage for the client as an agent or broker.

In most states anyone can be a consultant in the field of risk management. Some states have licensing laws, but they usually are poorly drafted and specify educational requirements too low to have any real meaning. This situation is not surprising. There is such a wide variety of disciplines under the risk management consulting umbrella. It may never be possible to achieve a consensus on a common body of knowledge that consultants should have so that an adequate licensing test can be devised.

Some people who call themselves risk management consultants have excellent qualifications and adhere to a high standard of ethical conduct. Some are poorly qualified. Some have questionable ethics.

Forty or fifty years ago there were no risk management consultants, just insurance consultants. They sold advice to corporations and public entities on what insurance to buy and analyzed the fine print of insurance policies to see what coverage was provided. Then in the 1960s, risk management became more widely recognized and a number of risk management consulting firms began to appear, ready to sell advice not only on conventional insurance but also on topics like self-insurance, claim management, and loss prevention.

Although the size and number of risk management consulting firms has increased rapidly, no one knows exactly how many there are. Estimates of the number of “pure” risk management consulting firms (those whose income is derived entirely from client fees and who have no conflicts of interest) in the U.S. range from 50 to over 100. Many of these are one- or two-person shops; a few are large, multiple-office firms.

In addition to the pure consultants, there are others who call themselves risk management consultants even though much of their income is derived from sources other than client fees. These include (1) agents, brokers, and others who sell insurance and insurance-related services, (2) college professors and risk managers who “moonlight” by accepting consulting assignments, and (3) a host of specialists in risk management-related fields such as safety, environmental, fire-protection, and claims-management.

WHAT DO CONSULTANTS DO?

The work performed by risk management consultants can be divided into three general classes: audits, retainers, and special projects.

RISK MANAGEMENT AUDITS

Audits are used to assess the overall effectiveness of an organization’s risk management program. Their goal is to identify significant risks and to determine objectively the adequacy of protection, the reasonableness of costs, and the appropriateness of internal administrative functions, including services performed by outsiders such as brokers.

RETAINERS

The retainer, which usually is designed to provide the client with expertise on call, may be used by:

1. Large organizations having full-time risk-management departments, to obtain technical resources and objective viewpoints, or
2. Smaller firms without full-time risk management staff, to obtain professional skills tailored to the activity needed.

SPECIAL CONSULTING PROJECTS

Special consulting projects include a wide variety of assignments such as evaluation of risk-funding alternatives; design and audit of claim administration programs; administrative studies and personnel evaluations; pooling and captive-insurer feasibility studies; assistance in selection of insurance brokers, claim administrators, safety specialists, and other service providers; training; and development of bid specifications.

There are two main things to look for in an independent consultant's work.

1. **Objectivity.** A consultant must be truly independent in mind and outlook. The consultant's advice must be free from the direction or influence of others and detached from the risk of financial loss or gain as a result of the consultant's conclusions or recommendations.

To maintain complete independence, the consulting firm should not be owned by, nor own an interest in nor receive any fees or other compensation from insurance companies, brokers, or other entities whose services may be the subject of the consultant's evaluation.

2. **Expertise.** In addition to his or her education and background, the good consultant brings the knowledge and experience gained from working with many different types of clients and problems, with most of his or her time spent in analysis rather than in sales or routine administration. COW MUontinuing education should be part of every consultant's annual plan.

HOW MUCH WILL A CONSULTANT COST?

Most consultants will discuss the proposed scope of work with the prospective client and prepare a written proposal at no charge. The proposal should define the objectives of the study, the scope of work, the plan of action, and the personnel to be assigned to the project. Billing rates should be quoted for each consultant, along with a probable range of costs. If the project can be clearly defined, a maximum cost may be quoted. Occasionally a flat fee will be quoted for small assignments.

Most risk management consultants establish their billing rates in the same way as lawyers, CPAs, and other fee-for-service contractors. Hourly rates typically are based on (1) the consultant's annual base salary, (2) the fringe benefits, office overhead, promotional costs, and profits that must be loaded into the billing rate to enable the consulting firm to stay in business, and (3) the number of hours available in a year for billing. Because the income of consultants varies considerably, depending on their knowledge and experience, their billing rates usually range from \$100 for junior risk management consultants to \$250 or more for the most experienced senior consultants. Usually you should avoid consultants who charge for work on a percentage of savings. This approach is considered unprofessional by many because it places greatest emphasis on apparent short-term cost reductions rather than on long-term benefits.

HOW TO SELECT A CONSULTANT

If you decide you need a consultant, there are several steps you should take to get your money's worth.

1. **Define the scope of work.** The first step is to define clearly the scope of work and what problems you expect to be solved. You may want a complete audit of your organization's overall risk management program, or you may want the consultant to look at only certain facets of your program. Be specific so that the consultant can focus on your needs.
2. **Assemble pertinent information.** The next step is to assemble sufficient information about your organization to enable the consultant to prepare a responsive proposal. Such information may include:

- :: An annual report, SEC form 10K, or other descriptions of the organization's activities.
 - :: Summary of loss information, insurance coverages and any special funding arrangements.
 - :: List of major facilities, organizational charts, product brochures, etc.
3. **Create a request for proposal.** A written request for proposal (RFP) then should be created and sent to one or several reputable consultants. Assistance may be obtained from trade organizations, RIMS (Risk & Insurance Management Society), SRMC (Society of Risk Management Consultants), or experienced risk managers. Also, *Business Insurance* (740 Rush Street, Chicago, IL 60611, www.businessinsurance.com) publishes an annual listing of consultants.
- :: Your RFP should ask the consultants for a general list of clients plus the names of contacts at five or more organizations familiar with the proposed consulting project team. In addition to speaking with these references, call other clients on the consultant's general client list, particularly those in the same business as your organization. Be sure to find out who actually performed the work, as well as the client's opinion of its quality, practicality, and timeliness.
 - :: Request copies of articles and papers written by the consultants. Copies of a consultant's actual work provide the best indication of creativity and communications skill, but remember that many clients are reluctant to release studies to outsiders and a good consultant will respect the client's desire for confidentiality. Therefore, you may not get to see the consultant's best work.
 - :: Ask if the consultant performs work for or receives income from insurers, brokers, third-party claim administrators, or other entities that provide insurance or risk management services. This question's purpose is to find out whether the consultant has any conflicts of interest that may affect objectivity in performing the proposed work.

4. **Compare the consultant's written proposals.**

- :: Do you agree with the consultant's perception of the problem? Are the study's objectives, scope of work, plan of action, and personnel clearly defined?
- :: Be sure you understand exactly how the fees will be charged. An estimated fee, not to be exceeded without your prior approval, lends itself to many situations.
- :: Read carefully the sample articles, papers, and reports submitted. They should be clear, easy-to-understand, and free of "boilerplate." Ability to communicate clearly is often as important as technical expertise.
- :: You should ask for a breakdown of estimated time to be spent on the project by each member of the consulting team.
- :: Interim billings should be submitted on a regular basis so that you have a record of work as it is done.
- :: Travel plans should be well-defined to avoid unnecessary consulting time and expenses. Some consultants bill for travel time, some do not.
- :: The number and types of reports and presentations should be clearly stated.

5. **Conduct personal interviews.** Arrange to meet the consultants who submit the best proposals. During the interview process, try to reach conclusions about the consultants, using the following questions as guidelines:

- :: Is the consultant energetic and enthusiastic?
- :: Does the consultant talk in a way that commands your attention and projects confidence in posture, eye contact, and overall appearance?
- :: Does the consultant speak clearly and strongly, in language that your organization's employees and officers will understand? Can the consultant explain complex concepts in a simple manner?

- :: Does the consultant exhibit the assertiveness *and* diplomacy necessary to work effectively with your organization's people?
- :: Does the consultant appear to be committed to excellence and honesty in all dealings?
- :: Does the consultant demonstrate the knowledge needed to effectively handle the project? Does the consultant understand your problems and propose a reasonable approach to find answers?

The above questions are not easily nor quickly answered. The written proposals and personal interviews alone won't give you all the information you need. In your investigation of various consultants, pay special attention to their reputations for quality and integrity, and carefully check references. Their track record is probably the best indication of how they might perform for you. Also ask the consultant to identify areas of greatest expertise and greatest weakness. You may learn much about the consultant from the way this question is answered.

HOW TO GET THE BEST RESULTS FROM YOUR CONSULTANT

Once you have decided on a consulting firm, there are several things you should do to get the most from their work and your money.

1. **Schedule adequate time to meet with the consultant.** Be certain you are available when the consultant is in your office.
2. **Do not leave the consultant in a vacuum.** Promptly provide the consultant with all the information needed to complete the study.
3. **Arrange interviews and travel schedules to most effectively use the consultant's time.** Make sure all individuals to be interviewed by the consultant will be available when the consultant is on site.
4. **Impose reasonable time constraints.** Be sure your firm can hold up its end of the assignment (and deadlines) as well. Remember that the consultant's information needs must be met before the work can proceed.

5. **Know and communicate to the consultant how much documentation you need in their reports.** Must every recommendation be supported with the exact logic used to reach it or is the “bottom line” adequate? Will you require a personal presentation of study results? A clear understanding of the number and kind of reports and presentations needed will avoid wasted time and unnecessary consulting fees.

6. **Determine in advance whether the consultant’s work may require access to confidential material.** You may wish to have the consultant sign a confidentiality agreement in which the consultant agrees not to release to third parties any information obtained during the consulting assignment. Also you may wish to require that the consultant return to you at the conclusion of the study all information and work generated during the course of the project.

For particularly sensitive studies involving such things as environmental or hazardous-products liability risk assessments, you should consider going a step further by having the proposed consulting assignment contracted through your attorney. This might provide some protection in the event of subsequent litigation. While this technique is not fool-proof, it should be discussed with your legal counsel. ::

WARREN, McVEIGH & GRIFFIN, INC.

Warren, McVeigh & Griffin, Inc. (WMG) is a highly experienced, nationally recognized, management consulting firm specializing in insurance and risk management. Founded in 1968, we are one of the oldest and most respected risk management consulting firms in the United States. We have served Fortune 500 corporations, nonprofit agencies, and major governmental entities throughout the United States, as well as hundreds of medium and small firms and political subdivisions.

WMG's value-added service is to provide technical resources and objective independent viewpoints to supplement internal staff skills. As experienced consultants and problem-solvers, our people know how to find practical, expedient solutions to client risk problems. As publishers, lecturers, and expert witnesses, we keep our technical skills sharp and current.

To maintain complete independence and objectivity, and to avoid actual or perceived conflicts of interest WMG is compensated by and has direct responsibility only to the clients for whom work is performed. No assignments are undertaken that would impair our independence and objectivity. We neither sell insurance nor participate in commissions or receive income from the sale of insurance. We are not owned by, nor do we own any interest in, any insurance company, agent, broker, claim administrator, or other entity whose services may be the subject of our analysis.

Contact us today to discuss how we can assist you with your risk management consulting needs.

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