

# 360° Fleet Risk Survey Findings

A primer on risk  
management  
in the aid and  
development  
sector





Since 1947, Clements Worldwide has provided peace of mind to the international community by offering essential insurance solutions. Over the past 6 decades we have borne witness to the rapid rise of globalization and we now insure people, vehicles and assets in more than 180 countries. Among these, Clements Worldwide has established itself as the leading insurer of the aid and development vehicle fleet.

Along with this rise in globalization, firms and, in particular aid and development organizations, are increasingly operating in harsh, unpredictable and often perilous environments. The many risks and road safety challenges in this line of work have long been accepted as part of a trade off in carrying out vital missions at the world's frontiers. In a dynamic and continuously evolving world, new risks are constantly manifesting themselves, challenging organizational readiness and traditional risk mitigation approaches.

For example, much as we have seen in other industries, fleet managers' have acknowledged the ascendance of reputational risk as the single largest exposure they face in terms of likelihood and adverse impact. Similarly, our collaborative survey, Fleet Risk 360°, has also identified the exposure to catastrophic losses faced by so many fleet operators.

In the face of this new normal, which our survey sheds light on, Clements Worldwide is poised to adapt to this dynamic risk landscape. While insurance and risk management firms have largely focused on risk financing and transfer products, this report underscores the need for enterprise-level solutions that are as much concerned with financing losses, as with their prevention altogether.

We thank our partners, Fleet Forum, which boasts of the largest gathering of aid and development fleet managers and the many survey participants who have helped to inform our analysis. We hope this report serves to enhance organizational resilience and contributes to improving fleet risk management in the sector.





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Executive Summary

The foregoing report highlights, through the voice of aid and development fleet managers and logisticians, the need for increasing risk management capabilities in the sector. Similarly, the long-standing belief that vehicle fleets are mission critical is once again upheld in this research. Combined with the acknowledgement of low financial resilience, both in terms of free operating cash flow and financial reserves, alongside the real exposure to catastrophic losses, many in the sector are searching for new solutions to these challenges. None, however, is more amorphous and difficult to contain from a risk management vantage point than reputational exposures, which survey respondents identified as both the highest impact and highest likelihood risk.

The survey reveals that traditional risk transfer methods, such as physical damage and third party liability insurance remain prevalent, locally, regionally and internationally. While few agencies benefit from economies of scale by

centralizing fleet risk management, newer approaches, such as internally funded insurance reserves are gaining traction. Ongoing risk management based on loss history, proactive methods and risk reduction are nascent in the sector. The report concludes by identifying risk management approaches that can be implemented to address the many challenges identified in the Fleet Risk 360° survey. For example, risk classification methods are introduced, enabling not only the identification of risk factors, but the possible treatment approaches. Additionally, the 5 principal steps of classical risk management are identified, including risk identification, analysis, evaluation, treatment and monitoring. An operating framework is developed and offered to risk management practitioners as a tool to assist in developing an effective risk management strategy.

Reputation risk is acknowledged as the highest impact event with the highest likelihood.

Principal Survey Findings



70% of survey respondents indicate that the fleet is mission critical, therefore fleet risks need to be managed with greater care and professionalism.



58% of survey respondents indicate that risk management capabilities, structure and accountabilities needs to be overhauled in addition to a generally punitive risk culture.



The total cost of ownership (TCO) is not transparent – 58% of respondents indicate postponing necessary fleet investments and 58% have no reserve funds, yet 55% indicate high financial resilience.

78% of respondents indicate that their organizations do not have policies in place regarding concentration of risk, exposing fleets to tail/catastrophic losses.



Reputation risk is acknowledged as the highest impact event with the highest likelihood.



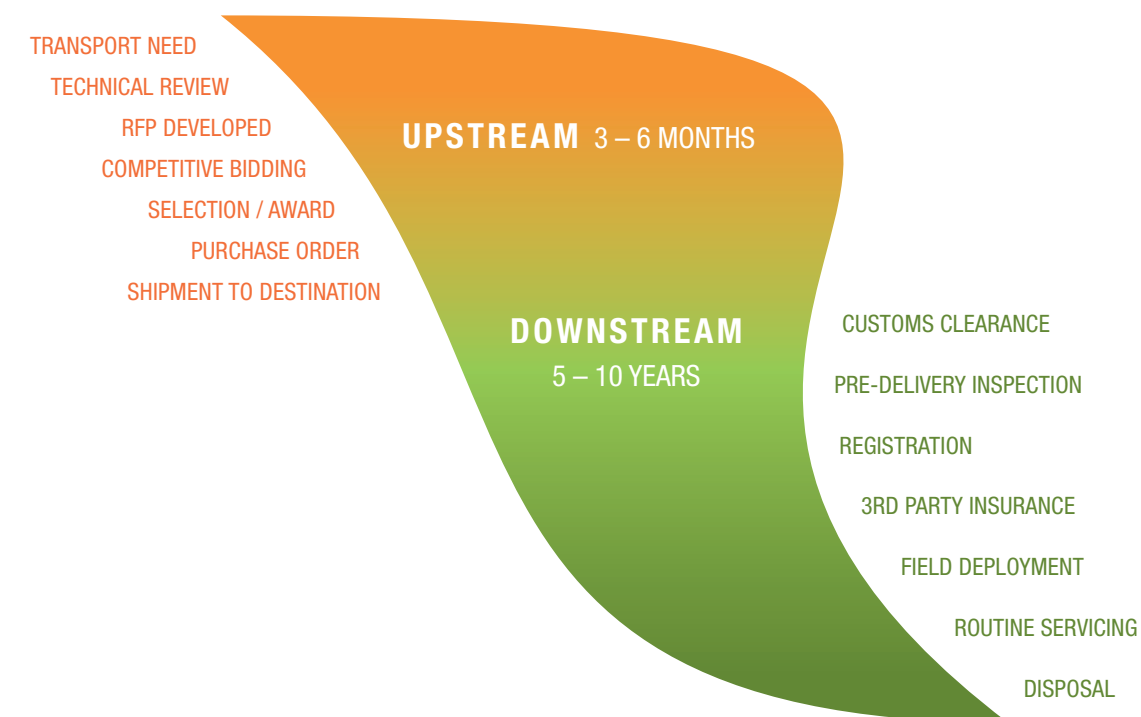
## Introduction

Globally the aid and development sector operates a vehicle fleet ranging between 80,000 and 100,000 vehicles.<sup>1</sup> This is principally composed of the iconic white SUV, which is typically a Toyota Land Cruiser as the workhorse of choice. Double cabin pickup trucks, saloon cars, 2 and 4-stroke engine motorcycles and large cargo trucks round out the average fleet. Vehicle fleets are the proverbial tip of the spear of the aid and development supply chain. No malaria net would be delivered, and food aid and other forms of intervention would be greatly impaired without a well-functioning fleet. For many agencies, vehicle fleets represent their second largest operating costs.<sup>2</sup> Combined with the global road safety epidemic that plagues many developing countries, behind the wheel, inside or near an aid vehicle is quite simply a dangerous place to be. This reality makes fleets a large contributor to the risks these organizations bear. This risk manifests itself as a financial and operational exposure, but perhaps most importantly, as something that can permanently tarnish an organization's reputation.

In terms of the global vehicle supply chain, agencies typically procure between 15,000 and 20,000 new light duty vehicles annually.<sup>3</sup> This procurement is largely driven by a fleet replenishment process, wherein unusable or obsolete vehicles are taken out of commission. Most agencies prefer international vehicle sourcing from stockpile holders, such as Toyota Gibraltar Stockholdings, Ltd. and others, while the largest agencies have negotiated framework procurement agreements directly with the leading vehicle manufacturers, bypassing intermediary sales channels. Over the past 50 years of international aid and development work, the sector's supply chain has geared itself for driving costs out of upstream supply chain activities. The industry has largely done this successfully, however, this negates the operating reality of a vehicle fleet, in which 80% of the operating costs are borne once the vehicle(s) clear customs and enter service.

Over the past 50 years of international aid and development work, the sector's supply chain has geared itself for driving costs out of upstream supply chain activities.

### Generic Supply Chain Activities



Until the advent of modern financial accounting standards in the aid and development sector, most vehicle procurement “disappeared” from the financial radar, as most agencies expensed 100% of a new vehicle's value at the moment of purchase. 5-year straight line depreciation of vehicle assets is finally taking hold in the industry, creating a rudimentary form of fleet management and the traceability of both assets and some operating costs. Many agencies report a 5% to 20% margin of error on the number of vehicles in their global fleets. This is, in part, a legacy issue due to the expansive physical

footprint of aid and development work, operational fragmentation, and in part a pernicious side effect of the balance sheet treatment cited earlier. Notwithstanding some of these challenges, the industry and its corps of fleet management practitioners have demonstrated their commitment to not only modernizing fleet operation, but to demonstrably improving the cost, environmental impact and efficiency. The next frontier of this process is to address the very real challenges that have been identified in risk management.

<sup>1</sup> According to Fleet Forum research and estimates on the total number of vehicles in operation on the sector.

<sup>2</sup> Fleet Forum and industry estimates on the largest cost drivers in aid and development operations.

<sup>3</sup> Various industry trade groups and supply chain expert estimates of annual vehicle procurement in the sector.



## Survey Methodology

The Fleet Risk 360° survey was designed to capture a holistic picture of fleet-related risks, irrespective of whether they were insurable or not. The survey was designed around an enterprise risk management approach, which encompassed 88 questions across 5 distinct sections. As vehicle fleets are merely an instrument of an organization's mission, the first section of the survey, Organizational Information, sought background information with regards to individual respondents and the organizations they work for. This includes a view on the mission, legal structure, the importance of vehicle fleets, and the centralization of fleet management among other areas.

The second section of the survey delves into Fleet Composition, which is the broad tangible footprint of the fleet, including its adequacy and reliability in meeting transport needs. This section also addresses the physical composition of the fleet, its geographic dispersion, as well as vehicle makeup. The worst thing that can occur to stationary vehicles is a total loss of the physical asset. While fleets are being driven however, a much more complex series of risks and exposures emerge. To this end, the third section of the survey, Fleet Operation, covers every facet of vehicle use, driver standards and access. Additionally, questions regarding fleet lifecycle management and disposal provisions are asked.

As risk thrives on financial losses, the next section of the survey gauges Financial Resilience. In this section, funding sources are explored in addition to the financial treatment of fleet expenditures and an organization's ability to weather fleet-related losses. Additionally, fleet balance sheet treatment, total cost of ownership and other financial variables are explored. Finally, the Risk Management section, gauges not only the likelihood, severity and impact of fleet-related risks, it assesses organizational capabilities with regards to risk mitigation.

Fleet Risk 360° was conducted in partnership with Fleet Forum, the largest gathering of fleet managers in the aid and development sector. Survey responses were gathered from bellwether aid and development organizations, including UN agencies and NGOs, among others. Fleet sizes cover the operating spectrum in the sector, including small, medium and large fleets in excess of 5,000 vehicles. In addition to this extensive body of knowledge, Clements has active auto and fleet insurance policies in more than 170 countries, which helped to inform many aspects of our analysis.

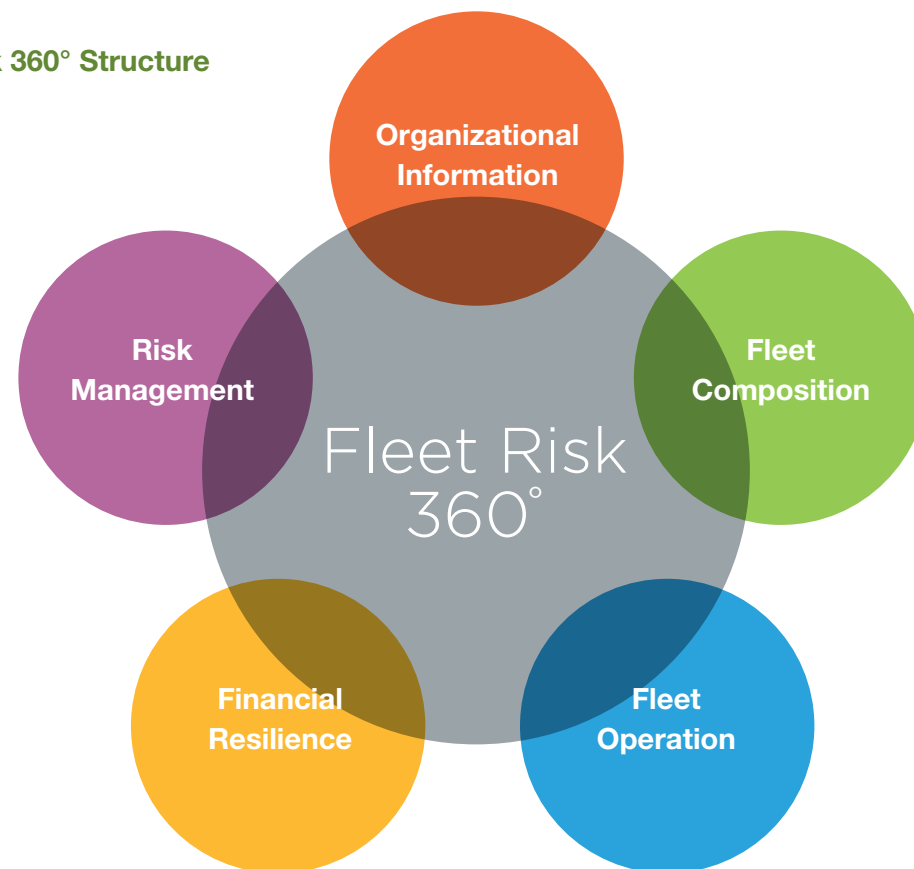
The Risk and Insurance Management Society, defines Enterprise Risk Management as:

**Enterprise Risk Management** ("ERM") is a strategic business discipline that supports the achievement of an organization's objectives by addressing the full spectrum of its risks and managing the combined impact of those risks as an interrelated risk portfolio.

ERM represents a significant evolution beyond previous approaches to risk management in that it:

1. Encompasses all areas of organizational exposure to risk (financial, operational, reporting, compliance, governance, strategic, reputational, etc.);
2. Prioritizes and manages those exposures as an interrelated risk portfolio rather than as individual "silos";
3. Evaluates the risk portfolio in the context of all significant internal and external environments, systems, circumstances, and stakeholders;
4. Recognizes that individual risks across the organization are interrelated and can create a combined exposure that differs from the sum of the individual risks;
5. Provides a structured process for the management of all risks, whether those risks are primarily quantitative or qualitative in nature;
6. Views the effective management of risk as a competitive advantage; and
7. Seeks to embed risk management as a component in all critical decisions throughout the organization.

## Fleet Risk 360° Structure





### Organizational Information

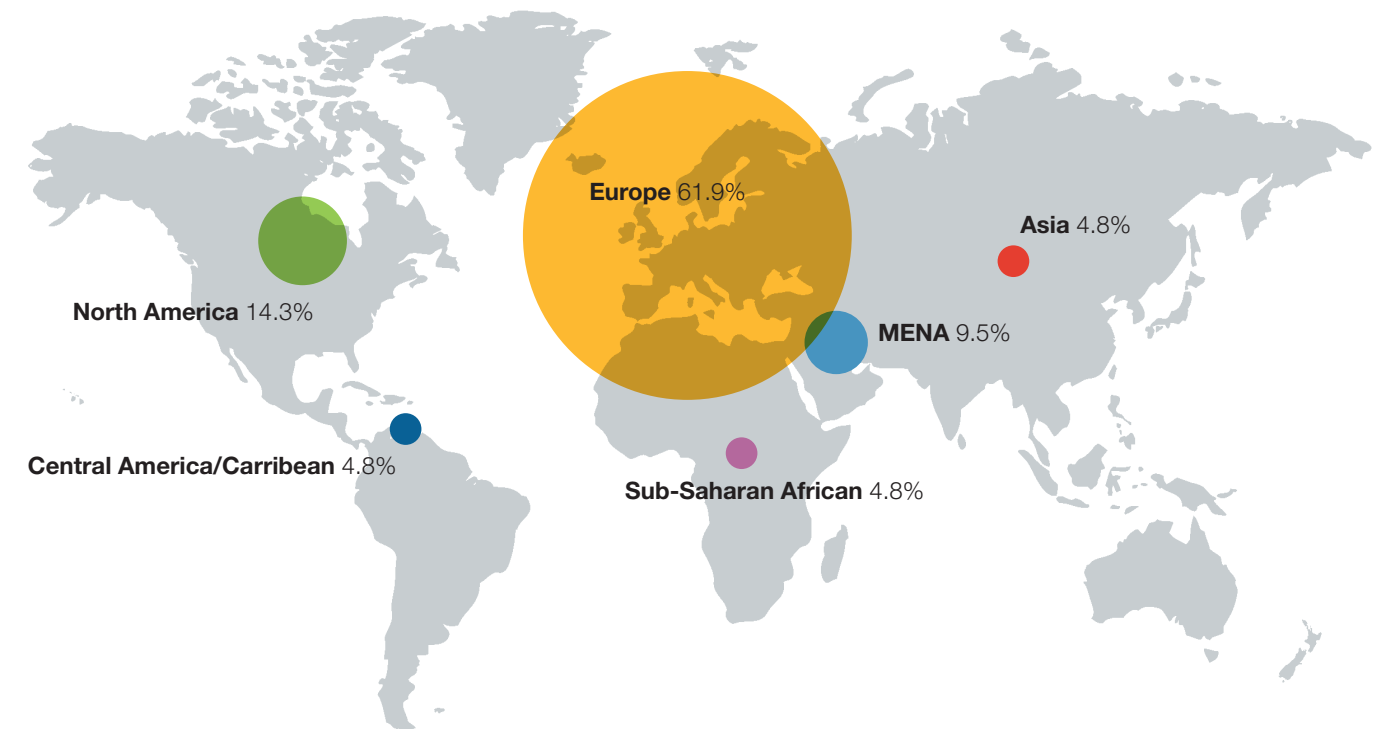
Due to the nature of aid and development organizations' missions and goals, from protecting refugees to delivering food and other vital items to those in need, a greater focus on risk management and risk mitigation is needed. As crises or threats arise in emerging areas across the world, the agencies in this sector are likely following close behind, while others are running for the border. While deploying international and local staff to often high-risk locations, agencies have a special duty of care to protect not only those sent to carry out these missions, but the very people they were sent to serve. Increased caution, operational diligence and well-trained drivers are a necessity.

Often in these fluid situations, vehicle fleets are the only means of providing the necessary assistance to those on the ground. As a result, unsurprisingly, fleet managers acknowledge that their fleets are of mission-critical importance. Road conditions as well as deteriorating security make managing and mitigating fleet-related risk especially challenging. This leads to the need for proactive care and maintenance of vehicle fleets, in order to limit any hindrance to the delivery of aid and development efforts. However, in the current decentralized state of fleet management in the sector, it is becoming increasingly complex to implement risk mitigation procedures on an enterprise-wide scale. In this structure a large amount of decision making power is delegated to individual countries or field offices, yet, as we will see later in this report, risk knows no boundaries. Compounding this challenge, survey respondents and fleet managers indicate diffuse responsibility and limited control of fleets, locally, regionally and globally, across the board.

In addition to the increasingly unstable political and security environments in many of these areas, the 24-hour media cycle coupled with the court of public opinion makes it so consequences of any missteps or vehicle-related incidents can be exacerbated almost instantly. It is understandably impossible to tread lightly in a convoy of powerful 4x4 SUVs, however, it is imperative for the sector to look at this like a zero-failure mission. With the majority of aid and development agencies headquartered in increasingly litigious advanced economies, an organization's reputation can be severely impaired not only by their direct action, but by the mere intimation of their involvement from implementing partners – a creeping risk known as vicariously liability. Reputational and liability issues can and often do follow these organizations across borders, with the backlash eventually reaching their headquarters.

Liability and reputational risks are both highly fluid, following a path of least resistance when a real or perceived injustice has been committed. Increasingly, the aggrieved parties have not only the legal wherewithal and resources to seek redress globally, they can often confound and halt operations locally. An extreme example of this risk occurred in South Sudan, when a UN convoy was found transporting arms to its peace keeping mission. This perceived affront and breach of humanitarian neutrality saw the South Sudanese administration calling for the ouster of the UN.<sup>4</sup> Thus, a seemingly innocuous logistical decision, militated against the very viability of the UN in the country.

### Survey Respondent Headquarters



### Fleet Composition

The primary vehicle types used to carry out these vital missions, are the aforementioned Toyota Land Cruiser and other soft bodied SUVs, as well as double cabin pickup trucks. While there have been nascent attempts at leasing and rental alternatives throughout the sector, the majority of organizations still own their vehicles outright. As a result, as vehicles become damaged or suffer total losses, the financial impact largely stays with the organization rather than being transferred to a third party. Additionally, leasing and rental options, in exchange for a premium, offer cost predictability. Naturally, given the specialized vehicles that are used and the remoteness of aid and development operations, viable leasing alternatives have not been developed in the private sector in any large scale. Rather, larger fleet operators, such as IFRC and UNHCR among others, have

been pioneers in developing internal, centrally-managed fleet leasing solutions. In the locations in which these vehicles operate, it is not a question of whether the vehicles will be damaged, but rather when and to what extent the damage will occur.

While aid and development operations are spread out geographically to the four corners of the world, the majority of this work is being carried out in Sub-Saharan Africa, where the majority of the fleet is deployed. With this vast operational spectrum comes poor road conditions and increasingly unpredictable security environments. As previously mentioned, it is largely known that these organizations are headquartered in advanced economies. This creates not only reputational exposures but also leads to a belief on the ground that many agencies are funded by “deep pockets,” thus exacerbating monetary demands and expecta-

<sup>4</sup> <http://www.bbc.com/news/world-africa-26520091>



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tions. In addition, in many countries the local insurance market largely functions as more of a form of taxation, as opposed to providing any real financial protection. Currency volatility coupled with low liability limits, and restrictive territorial coverage, often reduces locally-issued insurance policies to nothing more than a “license to operate” as valuable as the paper they are printed on.

As these vehicles are so vital to missions, ensuring their proper care and maintenance is of utmost importance. The vicious cycle of overutilizing newer vehicles and the lack of adherence to proper disposal procedures increases not only the already heightened danger of driving in developing regions, it increases operat-

ing costs and accelerates vehicle deterioration. With the current fragmented operational structure, fleet managers are largely unaware of the conditions of many vehicles within the fleets they oversee. With this, surveyed fleet managers report that their fleets are adequate in terms of size, vehicle types and their overall reliability. However, when visiting field operations the vast vehicle graveyards or large lots of unusable and damaged vehicles, as well as countless vehicles exceeding the standard 5 year 150,000 km disposal criteria reveal some excessive optimism on the part of survey respondents. Additionally there is a large scale opportunity to right-size the aid and development fleet without impacting program delivery, as many orga-

Allow for Personal Use of Vehicles



nizations report having many more vehicles in operation than are needed to carry out their missions. While there is an understandable need to localize many aspects of fleet management, after all fleets are on a one-way trip to the field, risk management on the other hand, necessitates subtler adherence to global standards of practice.

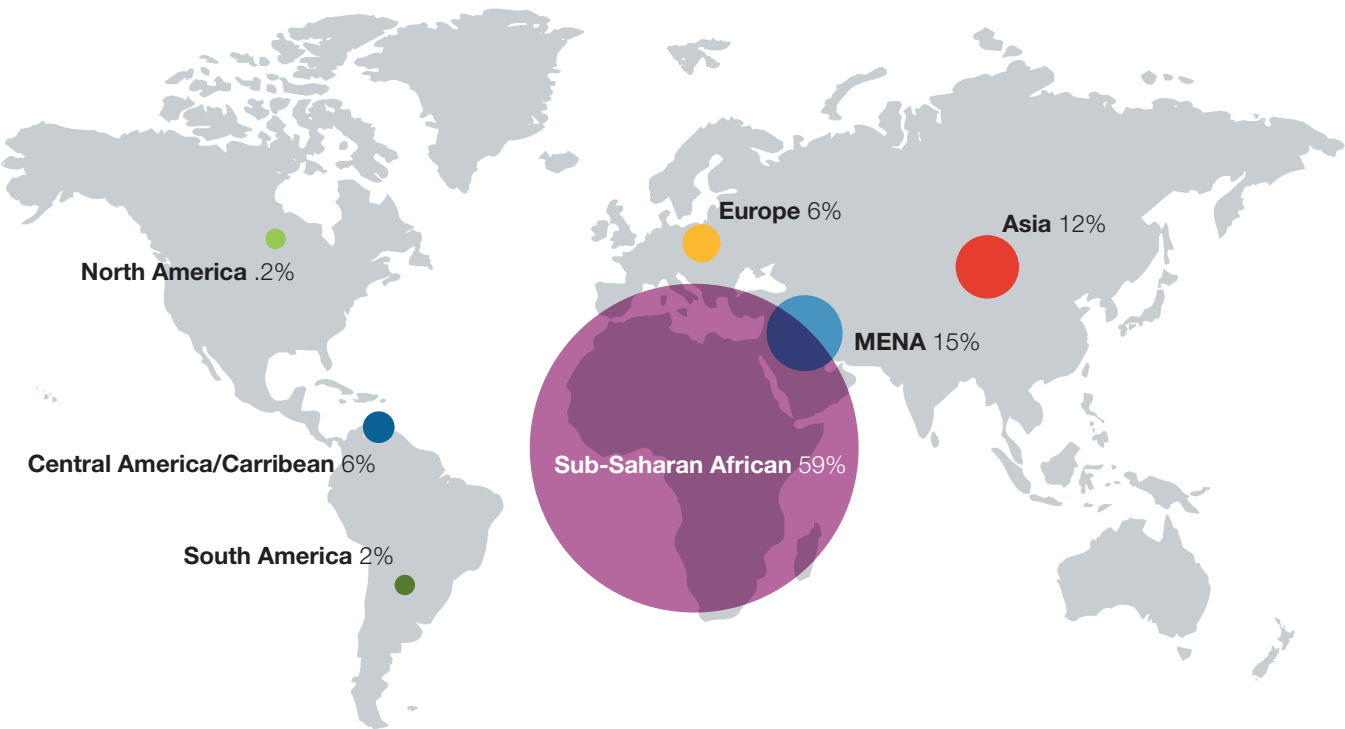
zones have fallen prey to improvised explosive devices (IEDs) and deliberate attacks, as seen by the bombing of the UN’s compound in Nigeria in August of 2011. Further exacerbating this operating reality, the road safety epidemic that is unfairly targeting developing countries, reaps an incalculable human toll and increases the dangers of fleet operation.

Fleet Operation

The reality of operating in regions with sub-optimal conditions as well as operating vehicles beyond their target lifecycle further solidifies the notion that the best ‘safety device’ in a vehicle is a well-trained driver. While the value of driver training is widely accepted in the sector, most organizations are training their drivers infrequently or on an ad hoc basis at best. Others report, perhaps conveniently, that they only hire trained drivers. This is critically important because the act of putting a key in the ignition of a vehicle immediately changes the risk profile of that asset from a static tangible exposure, to a dynamic risk factor. The worst thing that can happen to a stationary vehicle or fleet is the total loss of the tangible asset. Contending with a driver behind the wheel, occupants in the vehicle, vulnerable road users and oncoming traffic suddenly creates a veritable mine field of risks. In fact, countless operations in conflict

Recognizing that keys in the ignition may be tantamount to lighting a fuse potentially creating a series of undesirable outcomes, strengthening vehicle access and utilization controls is a vital risk mitigation step. For example, drivers are predominantly allowed to access fleet vehicles for their personal use, in addition to using them to carry out their missions. Additionally, most organizations allow for the transport of third parties, the majority of which do so without implementing waivers or other risk mitigating/transferring approaches. Driver fatigue and poor journey management, wherein vehicles and drivers are driven great distances to the very edge of their tolerance, serve to compound the likelihood and severity of entirely preventable losses. The general absence of vehicle tracking technology in the sector, makes geofencing (the cordoning off of dangerous, no-go areas) unlikely, forcing agencies to rely on drivers to adhere to agreed upon routes, trav-

Global Vehicle Location





el times, speeds and driving conditions. Successfully implementing vehicle telematics has as much to do with fleet management, as it has to do with change management, as most efforts have met stiff resistance from drivers who fear a “big brother” phenomenon. Ironically, the absence of telematics increases driver risk, as their last known location and the ability to send help will be greatly impaired.

While fleet management software and tracking capabilities are coming of age in the sector, archaic paper-based approaches remain entrenched throughout the industry. Many organizations still rely on vehicle log books and have hand written vehicle requisition forms, to track both the access and operation of their fleets. This coupled with the decentralized management structure dominant in the industry, hinders effective enterprise-wide fleet management. In an increasingly digital world, opportunities to streamline cross-border fleet management are abundant, however, many fleet managers are having difficulties in defending the cost-benefits analysis to senior management. Further harnessing the power of technology in aid and development fleet management will not only improve the transparency and total cost of ownership, it will greatly enhance risk management capabilities.

### Financial Resilience

As the majority of aid and development agencies are non-profit and often enjoy duty-free status, cost control and operating efficiency are commonly given lower priority than the higher purpose of their missions and in the spirit of serving humanity. This is further compound-

ed by the general dearth of business talent in the sector and the late adoption of commonly accepted practices coming from financial accounting, risk management and other operational standards. As a result, many agencies are laboring under a limited understanding of the total cost of ownership (TCO) of their fleet. Even fleet managers report many obstacles in their line of sight on fleet-related operating costs, including organizational fragmentation, far-field operations and, perhaps most insidiously, the lack of willingness from field operations to report upwards. Some of the blockages of this agency-wide reporting hint at numerous organizational effectiveness opportunities requiring a deep commitment to change management. Field offices cite a punitive culture in reporting bad news upwards, including fines imposed for accidents, the perceived loss of authority and the general culture of audit, whereby the preponderance of reporting, serves no clear managerial or decision making purpose.

As risk thrives on eating away at a firm’s financial resilience, aid and development agencies are particularly vulnerable in that they do not typically generate operating income, which for profit-driven institutions can have a restorative effect. Funding sources for agencies in the sector are often tied to specific appeals and allocated for ring-fenced projects. From a risk-tolerance vantage point not being able to leverage a general account as a buffer against losses either locally, regionally or internationally makes many in the sector fall prey to unforeseen events or postpone necessary expenditures. Fleet managers report an inability to adhere to a 5 year, 150,000 km vehicle replace-



ment lifecycle because of financial restraints. In addition, most organizations are not setting aside excess funds to cover unexpected losses or to shore up organizational resilience. Surprisingly, a clear bias is evident in that fleet managers report high organizational resilience, while acknowledging their inability to absorb large losses and adhere to a necessary pattern of fleet investment.

In recent years, many agencies have moved to generally accepted accounting principles (GAAP), international public sector accounting standards (IPSAS) and international financial reporting standards (IFRS). This implies that vehicles are being held and depreciated on balance sheets greatly improving transparency and managerial control. Although this balance sheet treatment is a rudimentary form of fleet management, it is no substitute for the proactive steps called for in this report. As many agencies contemplate so-called self-insured modalities as a means of cost savings and internalizing risk control, the reality of not setting aside reserve funds to cover large losses, narrowing the scope of risk diversification and the general lack of fiscal discipline violates the central tenants of sound risk management. These tenants include the law of large numbers<sup>5</sup>, the principle of spreading risk as broadly as possible across homogenous classes (e.g. vehicles in emerging markets), and, vitally, the depth of liquidity to absorb catastrophic events. Absent

these principles, self-insurance would merely create the placebo effect of risk management, but would not successfully transfer risk.

### Risk Management

Risk management has more to do with loss prevention than loss financing, which is fundamentally a reactive process. By contrast risk management is proactive, forward-looking and dynamic. As a goal, agencies must make risk management nothing less than a zero-failure mission. Much like the world would frown on an aircraft engine manufacturer having a high failure threshold, operating an aid and development fleet, while rife with risks, should target a low margin for error. While the goal may be lofty, failure to aim high in risk management, leaves far too many preventable losses within the span of acceptance and subjects agencies to catastrophic events. Against this backdrop, fleet managers across the industry are showing a general commitment to improving the weak state of fleet risk management. While in the end, improving the state of risk management is not singularly the fleet manager’s responsibility, they will clearly be at the forefront in driving this change.

An overhaul is needed to move toward a more proactive approach to risk management. One critical step in this direction is to combat the longstanding punitive culture that frowns upon loss reporting and vehicle damage by exact-

<sup>5</sup> The International Risk Management Institute (IRMI) defines the law of large numbers as a statistical axiom that states that the larger the number of exposure units independently exposed to loss, the greater the probability that actual loss experience will equal expected loss experience. In other words, the credibility of data increases with the size of the data pool under consideration.



Survey Findings

ing heavy fines, often leading to the termination of employment of drivers involved in vehicle-related incidents. Changing this culture is paramount to being able to properly manage risks as they arise by improving the so-called signal to noise ratio, as any fleet-related event should be reported and captured in as near to real-time as possible and analyzed over time. Risk management as a process thrives on data, trends, and subtleties and relies as much on art as on science. Claims and insurance payment by contrast is merely a linear, cause and effect process that provides little managerial value on its own.

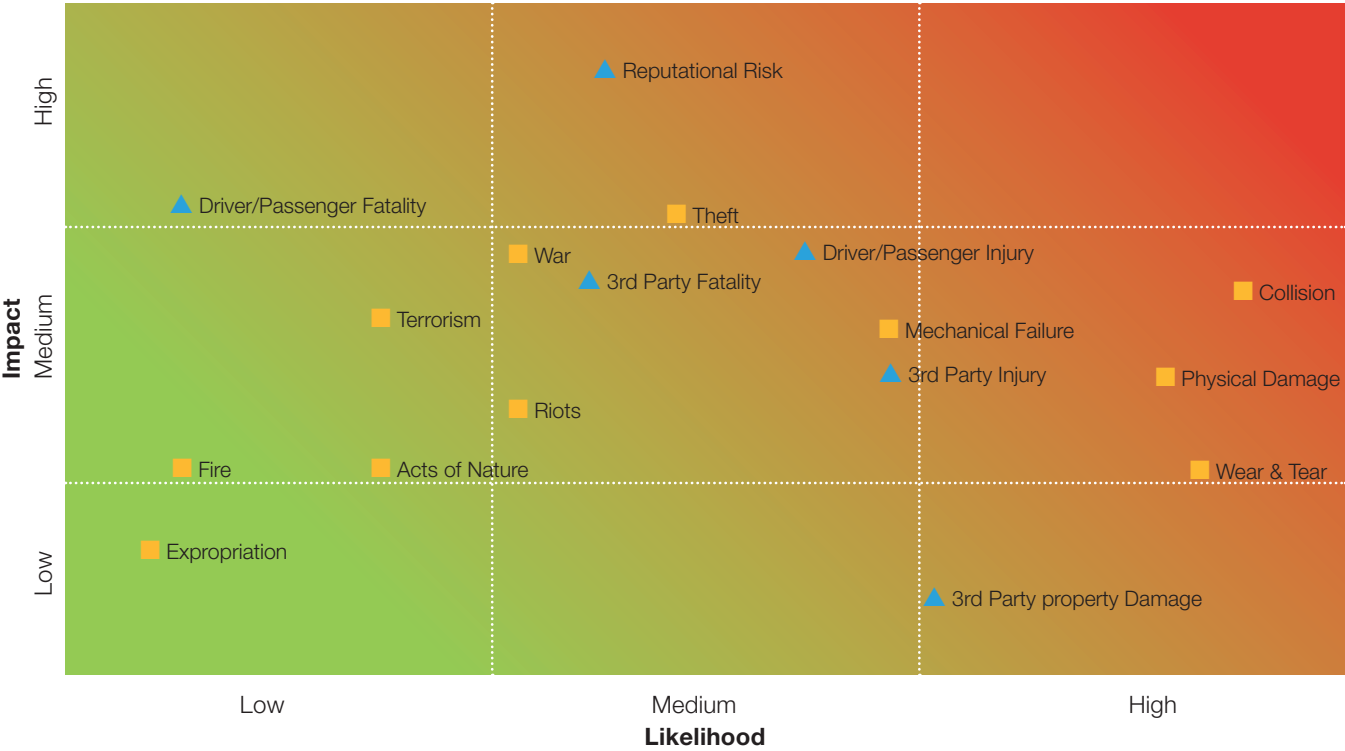
Additionally, organizations are exposed to catastrophic losses due to risk management policies either not being enforced, or not existing altogether. Few organizations have policies in place limiting both the value and number of vehicles that can be in one location or operate in a convoy representing a potentially catastrophic exposure. As so-called black swan events occur, they can wipe out entire areas causing widespread property damage and loss of life. Once again the UN bombing in Nigeria, the U.S. Embassy attacks in East Africa and the rising risk of acts of nature are stark examples that the impact and frequency of hitherto rare events is on the rise. New risk management approaches are called for in the face of these rising threats.

As has been the case in the corporate world, fleet managers are becoming more aware that reputational risks can be devastating to their organizations. As such, reputational risk is rated as the highest in terms of likelihood and severity by fleet managers across the sector. While awareness of reputational issues and the damage they can cause is a positive sign, a great disparity in terms of perception and reality still exists. In looking at the impact risks and exposures have caused organizations in the past, from war and terrorism to physical damage and wear and tear, fleet managers' view these exposures as much less likely and less severe than reality would hold. In the era of battling for the hearts and minds of nations, consumers and host country populations, how one acts can create profound and lasting effects that with unprecedented speed can switch from positive to negative. Factoring people's perception, in one minute the liberator becomes the occupier. The peace keeper's blue helmet moves from neutrality to being a target and humanitarian assistance becomes an unwelcome intervention. Against this backdrop constant vigil on operating conditions, risk management and persistent bottom-up reporting may be the only tools to becoming resilient in this new era.

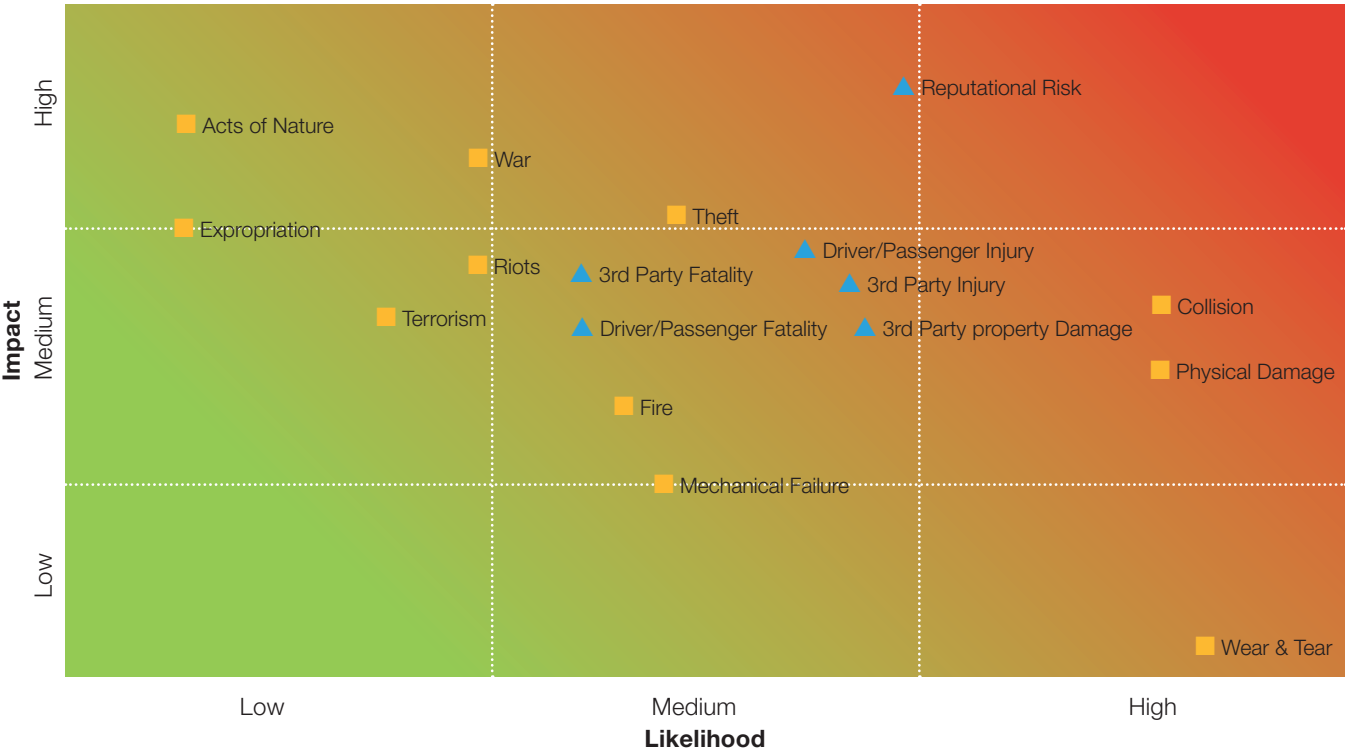
“Some staff are not reporting accidents/incidents in fear of the \$500 charge imposed by the agency; they end up trying to repair the damage unnoticed, hence we cannot track the number of accidents for a certain period of time.” – Survey Respondent

Risk Matrix - Respondent Perception

Physical Loss   Reputation/Liability Exposures



Risk Matrix - Trend Adjusted





## Risk Redux

Before moving on to how to address the many risk management challenges outlined above, a small departure to describe the nature of risk, the domains in which it thrives and the classical risk management framework are called for. First, when thinking about risk, it is important to understand probability and economic impact at a basic level. As a stylized example, trees fall in the forest every day. No financial losses are caused by this natural process, per se, unless of course an object of economic value was in the tree's path. It is the confluence of an object of value being adversely impacted by an unforeseen event where economic risk arises. In the above example, imagine that the object of value is a quaint log cabin. Building this cabin in an open field does not directly expose the property to falling trees. Building the cabin among tall sequoia trees, however, creates a direct exposure to property damage due to this risk.

Had the owner of this cabin attempted to rebuild the property using modern materials of higher value, this would be known as a speculative risk. In speculative risks, there is a probability of either an upside or a downside, much like the stock market. If, on the other hand, the owner's motive was to rebuild the property of like kind and value, then this would be known as a pure risk. In a pure risk, the principle of indemnification holds that one cannot profit from a loss and can merely be made whole financially. The worst thing that can happen to the unoccupied cabin is the total economic loss of the property. If the owner and their family were in the cabin,

however, the exposure goes beyond the economic loss of the property and now includes the risk of personal injury or death. Inviting their friends from the city to the cabin, introduces a complex area of risk, known as third party liability and potential reputational exposures.

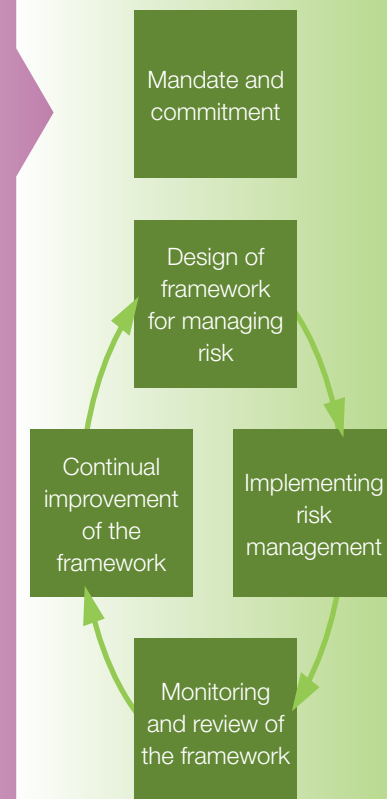
While the above example focuses on physical, economic and legal risks, a number of risk classifications exist enabling risk managers to determine the best risk mitigation strategy. Risk classifications traditionally include *economic, legal, political, social, physical, juridical, environmental* and *technological*. An alternate approach is to conduct a PESTLE analysis, which uses the mnemonic device to cover *political, economic, social, technological, legal* and *environmental*. Whichever risk classification method is used, the process of risk classification is important as it helps identify possible causes of loss and the context in which it can occur. Classical risk management frameworks, such as ISO 31000, call for 5 basic steps, including, risk identification, analysis, evaluation, treatment and monitoring. Once the risk factors have been identified, risk managers have a range of mitigation options, including *avoidance, prevention, reduction, segregation, transfer, retention* and *redundancy*. What follows are specific risk management strategies that can be employed to reduce the risks associated with humanitarian fleet operation.

### ISO 31000 Risk Management Standard

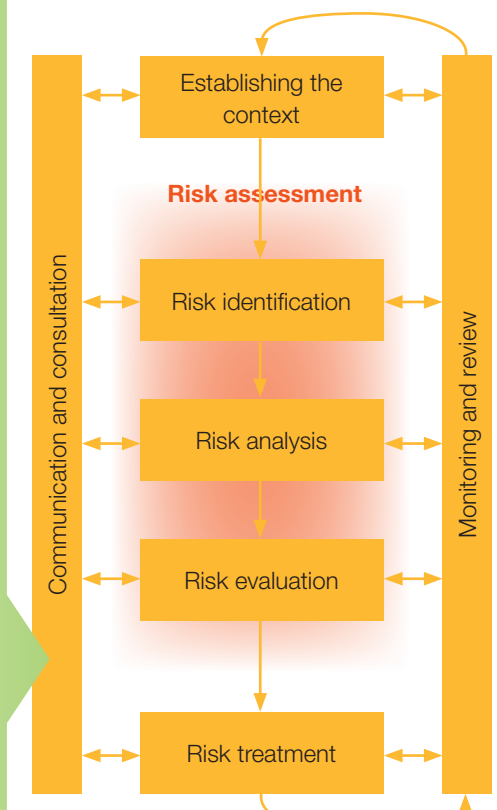
#### Principles (Clause 3)

- Creates value
- Integral part of organizational processes
- Part of decision making
- Explicitly addresses uncertainty
- Systematic, structured and timely
- Based on the best available information
- Tailored
- Takes human and cultural factors into account
- Transparent and inclusive
- Dynamic, iterative and responsive to change
- Facilitates continual improvement framework and enhancement of the organization

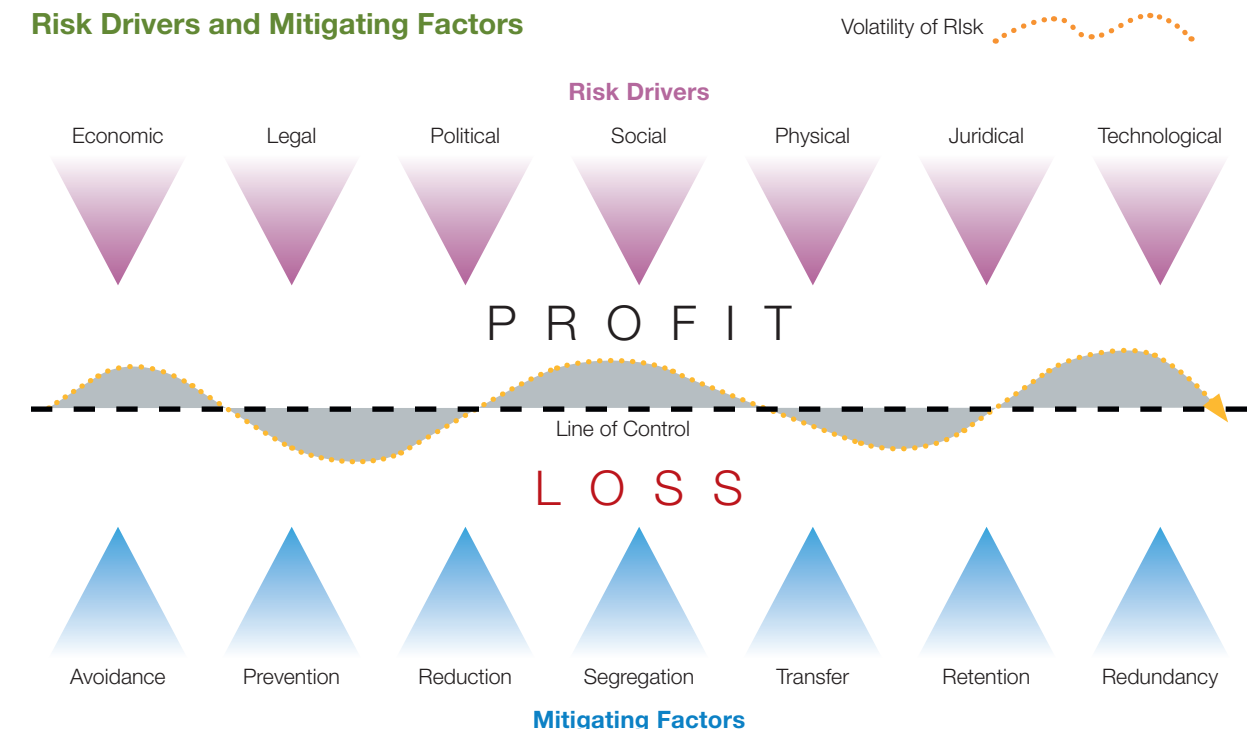
#### Framework (Clause 4)



#### Framework (Clause 5)



### Risk Drivers and Mitigating Factors





The Way Forward

Throughout this report, largely following the outline of the 5 classical risk management steps, we have identified a range of risk factors affecting fleet operation in the aid and development sector. In this final section, we conclude by presenting some principle risk factors, analyze their expected likelihood and impact and offer guidance on how these risks can be addressed. In practice, the framework below can be expanded to include a range of risk dimensions and classifications, many of which may be risks that have to be borne by the fleet operator without a transfer option. An example of this is the attritional effect of vehicle wear and tear. The

table below offers a brief outline of what this process might look like for a limited set of risk factors identified in the Fleet Risk 360° survey. A series of guiding questions are raised in each column that will aid the risk manager in understanding multiple dimensions of risk. Under the Risk Treatment section, a variety of options are available to either transfer, retain or mitigate the specific risk that is being addressed.

Another useful framework that risk managers employ is to create a matrix wherein the likelihood and impact of specific risk drivers or factors are plotted. An example of this is

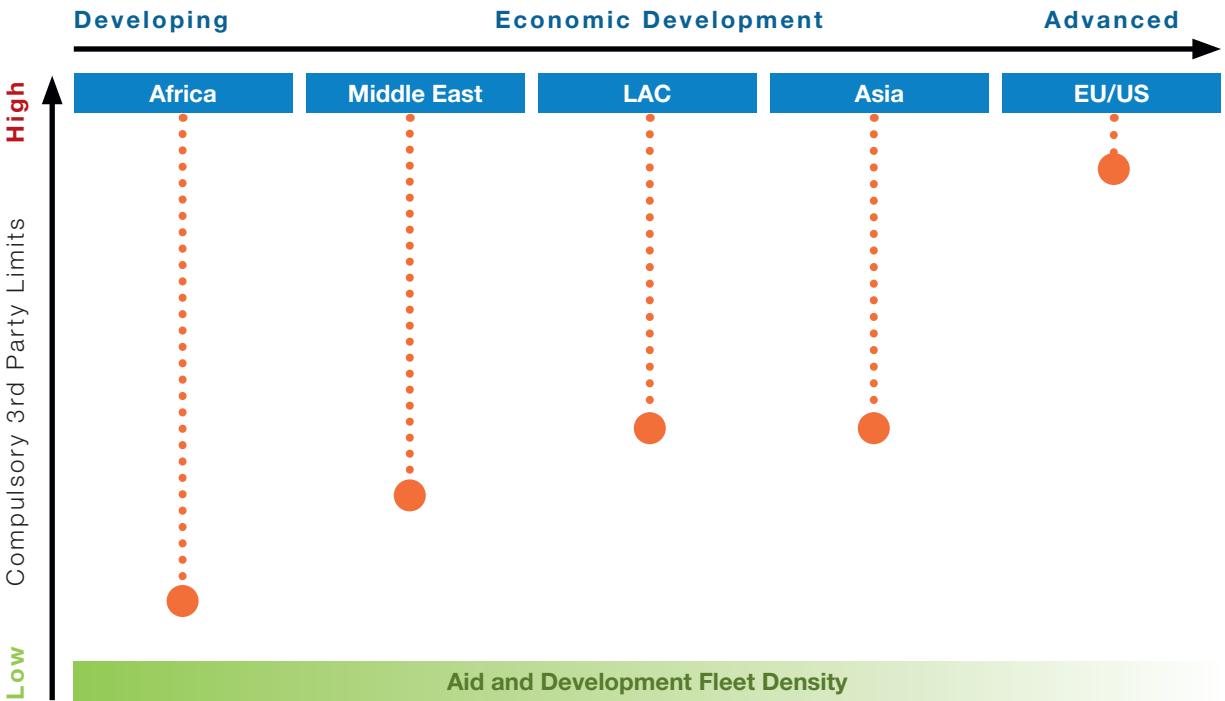
described earlier in the *Risk Management* section. This process is as much qualitative as it is quantitative and it offers a useful guide for not only identifying specific risks, but for determining the best treatment option. Using this type of approach, risk treatment options should range from absorption of items in the lowest left hand quadrant, whereas items in the top-most right hand quadrant would be categorized as catastrophic. The risk matrix can also be analyzed in a cross-sectional direction taking for example all of the factors identified in the high impact section. The advisable treatment for this high impact cross-section, irrespective of likelihood, is to transfer risk via stop-loss or catastrophic solutions. What is at stake at this level of risk impact is the very survival of the organization. The middle cross-section is usually the domain for traditional insurance and risk retention options, such as the internally funded

insurance reserves that are gaining favor in the sector among large fleet operators. Additionally, these risk factors will often carry at times unnecessary costs, such as adhering to local third party liability insurance requirements. As mentioned previously, this form of coverage, in particular in developing countries, is more a form of taxation than it is a true risk transfer mechanism. Nevertheless, failure to adhere to these standards can present risks of their own, such as local fines or encumbrances. It is highly advisable to adhere to any prevailing local liability requirements, which are often satisfied in the vehicle registration process, while at the same time adopting global umbrella solutions covering the difference in conditions between local policies and global standards. The table below offers a stylized outline of local third party liability limits and the interplay with umbrella solutions.

Dimensions of Risk

RISK DOMAIN	RISK FACTOR	LIKELIHOOD	IMPACT	RISK TREATMENT
"Where is the risk likely to arise?"	"What is the likely cause of loss?"	"What is the probability the loss will occur?"	"What is the organizational impact if the loss occurs?"	"What steps can be taken to mitigate this risk?"
I. PHYSICAL RISK	1. Theft 2. Collision 3. Political risk	High	Medium	Retain/transfer or establish reserve funds, adhere to vehicle maintenance standards, adopt catastrophic backstops – e.g. limited vehicle pooling, etc.
II. LIABILITY RISK	1. 3rd party property damage 2. 3rd party injury/death 3. 3rd party occupancy	Medium	High	Transfer, adhere to local operating/regulatory requirements, and adopt global backstops – e.g. liability umbrella.
III. REPUTATION RISK	1. Driver conduct 2. Collision 3. Appearance	High	High	Avoidance through proactive risk controls, such as driver's training, remediation, clear operating standards and codes of conduct.

Global Third Party Liability Limits





The Way Forward

Above all else, the most important dimension of risk management is to establish a proactive risk culture. In effect, staying in business is everybody’s business. The aid and development sector, as cited previously, has a punitive, arm’s length risk culture that often puts a burden on the very people that can help reduce risk and potentially damaging reputational harm – namely drivers. Drivers are very much the first line of defense and they should be encouraged to adhere to the highest duty of care behind the wheel of a vehicle and incented to report any and all road-related incidents. This data should

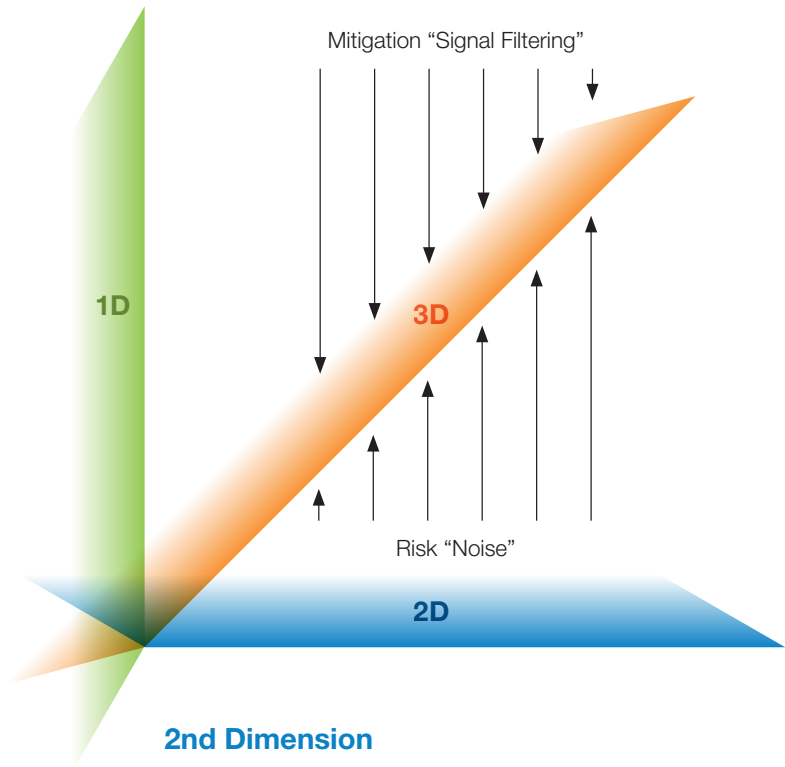
then be recorded over time, wherein patterns can be identified and proactive steps can be taken to not only address losses that may have occurred, but to reduce their incidence and severity altogether. We call this approach 3D risk management bringing to bear the best of quantitative and qualitative approaches. With the adoption of higher standards of risk management and the steps outlined above, the aid and development sector has an opportunity to improve its risk-awareness, operational effectiveness and its overall programmatic impact.

3D Risk Management Framework

1st Dimension

Vertical, top-down structure, creates ‘placebo’ effect that risks are being managed, risk managers are isolated and part of the “business prevention” team. This framework is typical of financial firms.

**Risk management is mostly quantitative.**



2nd Dimension

Horizontal structure mirroring assembly line ‘defects’ management. Typically seen in the manufacturing context – the entire line is empowered to halt the system. The signal to noise ratio is a potential downside. May lead to “McCarthyism” and false positives.

**Risk management is mostly qualitative.**

3rd Dimension

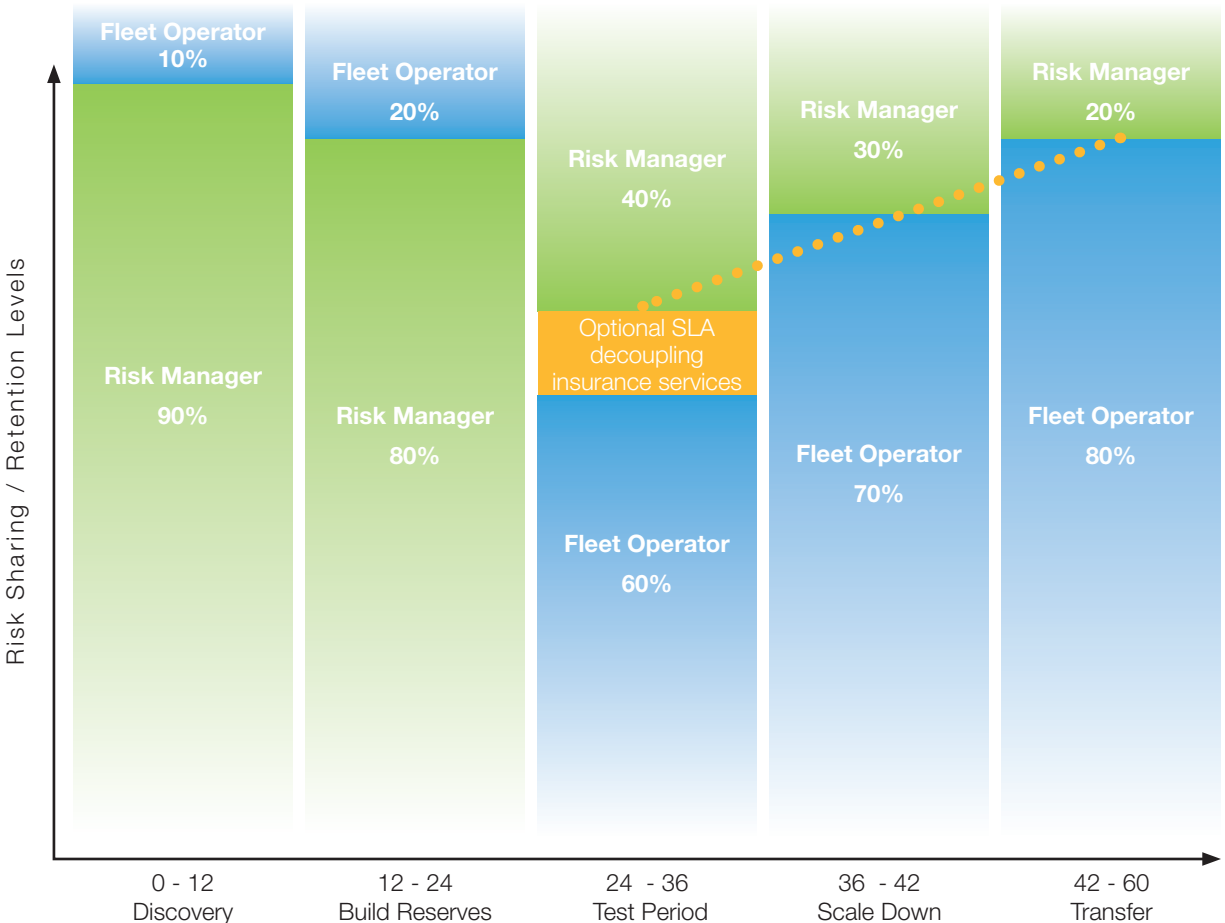
Diagonal hybrid structure borrows from flat manufacturing process risk management, but filters signal to noise ratio – RMs embedded at all organizational levels as part of decision making framework, not prevention framework.

**Risk management is 50:50.**

New approaches to risk management in the aid and development sector are emerging, spurred by cross-sector collaboration. In these approaches, agencies such as UNHCR, are establishing internal shared services for all facets of fleet management for their field operations, including chartering innovative solutions to fleet related risk. Specifically, UNHCR has developed internal reserving funds for predictable physical damage losses up to a certain threshold. Thereafter, the organization has the option, by way of a catastrophic back-stop, of transferring large losses to the private insur-

ance market, whose depth and liquidity are important for shoring up financial resilience. The agency is adhering to minimally required local third party liability, while a global umbrella solution covers the agency’s owned, hired and non-owned vehicles for any difference in conditions and potential disputes. This model blends new approaches and goes beyond merely financing insured losses and aims to capture data over the long term facilitating proactive approaches minimizing risk.

Hybrid Risk Transfer Approach



Epilogue





#### Dante Disparte

Dante Disparte is the U.S. Managing Director for Clements Worldwide, a leading risk management firm and insurance brokerage serving customers in more than 180 countries.

Mr. Disparte is a specialist in risk reduction through the design and delivery of comprehensive risk solutions of worldwide scope. He is credited with designing the world's first card-based life insurance program for the United Nations, a plan that has placed more than a half billion USD of risk with the markets in more than 150 countries. This innovation was heralded as one of the top product innovations of 2011 by the MENA Insurance Review. Mr. Disparte serves as the Chairman of the board of the Harvard Business School Club of Washington, D.C., where he provides strategic oversight delivering value to more than 3,500 HBS alumni in D.C., Maryland and Virginia.

He was formerly the Managing Director of Land Rover's activities in 32 Sub Saharan African markets and held numerous general management roles in Denmark, where he developed applied skills in social entrepreneurship. Mr. Disparte is credited with developing a humanitarian fleet management solution that is proven to reduce the economic, environmental and social impact of humanitarian operations. This body of work is profiled in a business case published by INSEAD's Social Innovation Centre. He served on the board of directors of Kjaer Group A/S, one of the top 10 workplaces in Europe and the top workplace in Denmark for 4 years and currently serves on the board of Communities in Schools Nation's Capital. He is conversant in 6 languages and has published numerous articles on the subject of risk, strategy and business effectiveness. A graduate of Harvard Business School's Program for Leadership Development, Mr. Disparte holds a degree in International and Intercultural Studies from Goucher College and a MSc. in risk Management from NYU's Stern School of Business.



#### Noah Skillin, CRM

Noah Skillin serves as the Product Manager for Clements Worldwide, a leading risk management firm and insurance brokerage serving customers in more than 180 countries. In his role, he is responsible for global product launch and development activities across international insurance product lines. Mr. Skillin specializes in developing a broad spectrum of insurance products for expatriates and firms working around the world. Mr. Skillin has more than seven years of professional risk management experience. He is a dual-licensed insurance and risk management professional and carries the prestigious Certified Risk Manager (CRM) designation. He has an in-depth understanding of international and U.S. insurance, rules and regulations, and ethical practices.

Prior to joining Clements, Mr. Skillin served as an account manager for Nolan Financial, a specialized executive compensation and benefits firm. Mr. Skillin managed the firm's work with high net worth individuals and executives to invest in deferred compensation plans. Throughout his career, he has obtained Series 6 and 63 securities licenses, as well as licenses in property and casualty and life and health insurance. Mr. Skillin has a degree in business administration from James Madison University.

#### Acknowledgements

Fleet management, in any industry, is often an inglorious task relegated to people with 'grease under their nails.' The Fleet Forum, over the past decade has not only improved the standards of practice, it has also elevated fleet management in the aid and development sector to a domain worthy of management attention. Similarly, this project would not have been possible without Fleet Forum's support and that of its member organizations who have lent not only their time, but, critically, their voice to this project. We also acknowledge Vicente Escribano, Ketil Hov and Rob McConnell of UNHCR, who have proven to be pioneers in implementing innovative risk management solutions in the sector.

“An insured claim is no more a sign of risk management than incarceration is a sign of crime fighting.”





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