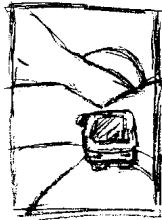


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*RTAP: A Rural Transit Assistance Program of the Federal Transit Administration*

# RISK MANAGEMENT FOR RURAL TRANSIT SYSTEMS



## INTRODUCTION

The responsibilities of operating a rural transit system demand constant vigilance in managing dispatchers, schedules, vehicles and drivers, and coordinating the entire operation. Boards of directors, budgets and passengers also require attention. Seldom will the system function as smoothly as desired, and just when it looks like it might, a driver calls in sick. Or a vehicle breaks down. Or there are new regulations that impact your system.

As a result, concepts like “risk management” may be forgotten due to lack of time. But it is important that your system find the time to consider this topic. Because learning about risk management can make you a better manager. It can help you run a safer and more efficient operation - and it can help make your system more fiscally sound.

## WHAT IS RISK MANAGEMENT?

Risk management is the process of controlling the chance or possibility of financial loss. It is a proactive course of action protecting your system’s assets and income by identifying all the possible causes of accidents or losses, then taking deliberate, planned steps to either prevent or absorb the losses.

Transit systems, like other service providers, face some kind of risk every day, whether from employee injury, vehicle damage or passenger liability. Sensible risk management starts by accepting that your system may eventually suffer an accidental loss, even if no one has slipped on that banana peel - yet.

Risk management means thinking strategically about your system, so that everything you do - from driver training to disposing of toxic materials to purchasing insurance - is done from the point of view of improving your system’s safety and reducing its liability. It’s a way of looking at your system from a new perspective - one that helps you see the big picture of how your system operates today so you can reduce the risk of things going wrong tomorrow. Some people call it “structured common sense.” The goal is to help you exercise more control over the likelihood of losses and reduce the impact to your system.

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**Community  
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## WHAT DOES A RISK MANAGEMENT PROGRAM LOOK LIKE?

There is no one risk management program or approach that is right for every transit system. Each system needs to assess its own operations and then design a program that takes into account its own particular needs. Every system needs to protect its people, equipment and facilities. Sometimes that means trying new approaches: new policies, programs and/or procedures that promote safety. It also means finding the right and best insurance coverage to protect your transit system if accidents or losses do occur (and they will).

Some risk management activities that have proven effective for a variety of transit systems include:

- Developing system safety programs and policies
- Using new approaches for hiring and screening employees
- Providing basic and follow-up driver training
- Conducting job performance reviews for employees
- Offering employee incentives for safe job performance
- Creating passenger safety messages
- Developing and implementing procedures for:
  - vehicle maintenance
  - reporting accidents
  - dumping toxic wastes
- Using security systems to protect property
- Obtaining liability insurance for the Board
- Forming insurance pools

Only you can determine what will work for your system and what practices are most important and feasible for your system to implement.

## HOW CAN RISK MANAGEMENT HELP YOUR SYSTEM?

### Risk management can benefit your system in several ways:

*Risk Management can help you prevent injuries and losses before they occur.* Imagine what it would mean for your system if an untrained driver with a previous history of traffic violations contributed to a fatal accident. The effects would be devastating. But if a system includes background checks in the hiring process and trains drivers in safe practices, it can minimize or prevent needless losses.

*Risk Management can help to educate employees, Board members and passengers about safety and increase public confidence in your system.* A system that implements safety programs,

screens its staff and actively undertakes measures to avoid loss undoubtedly will gain public confidence.

*Risk Management can lower the "cost of risk" your system faces by helping you identify which risks you can avoid or reduce and which you should finance.* Uncertainty about risk or haphazard ways of dealing with risk can be extremely expensive and can prevent a system from performing its mission effectively. Systems with limited budgets will find that any process that ensures intelligent allocation of scarce funds is well worthwhile.

*Risk Management may help you qualify for insurance on more favorable terms.* Although even the best risk management program cannot guarantee that insurance coverage will be offered, its presence may enable you to negotiate better policy terms when coverage is available. In addition, risk management can help a transit system reduce its losses and improve its claims history - always a plus when negotiating terms of insurance. Full awareness of the need to reduce losses can be a valuable tool in negotiations with an insurer.

## WHAT ARE THE SIX STEPS OF RISK MANAGEMENT?

All transit systems, regardless of size, can follow the same six-step process in developing a risk management program. Each step involves two or three major tasks.

### Step 1 - Identify the risks.

Be aware of the different types of risk exposures your transit system may face. Maintain an inventory of actual system risks. Look for exposures affecting your system as a result of new contracts and agreements, new regulations and legislation, and any changes in your operations.

### Step 2 - Measure the potential impact of your system's risks.

Estimate the possible frequency and severity of losses resulting from the risks and hazards you have identified in Step 1. For each risk, ask yourself how much you could lose and how often it could happen. Do the same whenever you recognize a potential new risk.

### Step 3 - Analyze alternative strategies for managing the risks.

Look carefully at the costs and benefits of different options for managing risk, including risk control, risk transfer and risk retention. Take into account your system's financial and administrative capacity for handling risk.

### Step 4 - Select the best alternatives.

Select and implement the combination of techniques that best serves your system's needs and goals. Develop a plan for phasing in risk management practices that you don't already have in place.

## Step 5 - Monitor your progress in reducing risks and losses.

Keep track of any losses your system incurs. Look carefully at your insurance costs. Review how well your system safety program is working. If it is not as effective as you would like it to be look at the reasons for any shortfalls and make changes where needed.

## Step 6 - Reporting and follow-up.

Whenever there is an accident a complete and accurate report should be prepared identifying the causes and any corrections that were subsequently implemented.

It is important to note that the five Steps are part of an ongoing process. That is, Step 1 leads to Step 2 and so forth right up to Step 5, which contains evaluation tasks. Step 5 is not the final Step but rather leads directly back to Step 1 for further risk identification.

## WHAT ARE THE STRATEGIES FOR MANAGING RISK?

There are four basic risk management strategies: controlling risk, transferring risk, removing risk and retaining risk. Most rural transit managers will use a combination of all four techniques in their risk management programs.

**Risk control** involves avoiding particularly hazardous conditions or situations, or taking special measures such as driver screening and training, preventive maintenance, and safety programs to reduce the frequency and severity of potential losses.

**Risk transfer** means shifting the burden of financial responsibility for potential losses to a third party, such as an insurer. Contractual phrases such as "hold-harmless" clauses, which specify responsibility for liability, are another form of risk transfer.

**Risk removal** by eliminating those situations that involve a higher than acceptable level of potential risk.

**Risk retention** refers to a transit system's decision to take financial responsibility for all or some portion of a potential loss. For instance, the deductible level set on vehicle collision insurance represents a conscious decision on your part to retain a certain level of risk. You also retain risks when you fail to know your system's risks, or fail to have adequate insurance. A good risk management program should help you avoid this kind of situation.

## CONCLUSION

As a manager your role in risk management is central. You probably will be working closely with your Board to identify goals and develop policies for managing risk in your system.

It is also your responsibility to see that your risk management program is implemented and to make sure that every-

one understands and follows the risk control and safety procedures you have established. Everybody in your system, from Board members to passengers, must become involved in risk management to make it work.

Remember, risk management is a continual process that helps you build on past experience to ensure a safe and successful future for your rural transit system.

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*The original Technical Brief was prepared by University Research Corporation; it was revised by APWA staff in May 1999.*

## RESOURCES

The National Transit Resource Center maintains a peer-to-peer technical assistance network, tapping into a wealth of experience from professionals in the community transportation field. For more information, visit the CTAA website at [www.ctaa.org/ntrc/services](http://www.ctaa.org/ntrc/services), or contact the National Transit Resource Center at 800.527.8279.

### Other Resources:

Burton, David, *Risk Management Made Easy* Community Transportation Reporter, December 1988.

Ellis, David, *Maximizing Insurance Budgets* Community Transportation Reporter, December 1988.

Henderson, William, *Evacuating Elderly and Disabled Passengers from Public Transportation*, Senior Services of Snohomish County, 1991.

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*Liability Cost and Risk Analysis Studies* FTA, 1996.

Minnesota Office on Volunteer Services, *How to Control Liability and Risk in Volunteer Programs* Minnesota Department of Human Services, February 1992.

*Risk Management for Rural Transit Systems* FTA/RTAP Training Guide.

Studebaker, Dennis, *Succeeding with Volunteer Transportation* 1990.

Walther, Erskine, *Ruralization of Risk Management: A Handbook for Small Transit Operators* December 1992.

Wrenn, Diane, *Insurance: Protecting Yourself in a Hard Market*, Community Transportation Reporter, November 1990.

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