Texas A&M University System Risk Management Conference

Higher Education: The Land of Emerging Trends

March 31, 2014

Jean Demchak, Global Education Leader
Managing Director
Agenda

• Global Risks

• What Are the Emerging Issues?
  – Information Security and Privacy Risks
  – International Initiatives

• Governance Driving the Bus?
“It wasn’t the risk we knew about that concerned us, but the risks we were unaware of that worried us the most.”
Ten Global Risks of Highest Concern in 2014

- Fiscal crises in key economies
- Structurally high unemployment/underemployment
- Water crises
- Severe income disparity
- Failure of climate change mitigation and adaptation
- Greater incidence of extreme weather events (e.g. floods, storms, fires)
- Global governance failure
- Food crises
- Failure of a major financial mechanism/institution
- Profound political and social instability
President Obama Address to Joint Session of Congress, February 24, 2009

“By 2020 America will once again have the highest proportion of college graduates in the world…so tonight I ask every American to commit to at least one year or more of higher education or career training…every American will need to get more than a high school diploma.”
President’s Higher Education Initiatives

• Affordability

• Cost Containment

• Transparency and Accountability
President’s Initiatives: Goals

- Increase number of Americans with college degrees
- Challenge states to fund HE based on outcomes
- Encourage innovation
- Keep student debt manageable
- Provide transparent data on cost and value
Attainment Rate Increase from 40% to 60%

• 10 M more Americans 25-34 with an Associate or Baccalaureate degree
  – 8 M beyond 2+M projected

• A third will come from high schools

• Two-thirds will be adult learners
And Predictions for 2020…

Share of 25-34 year-olds with a tertiary degree across OECD and G20 countries (2020)

- China, 29%
- United States, 11%
- Russia, 7%
- Japan, 4%
- India, 12%
- Indonesia, 6%
- Korea, 3%
- Mexico, 3%
- France, 2%
- Germany, 2%
- United Kingdom, 4%
- Spain, 1%
- Canada, 2%
- Brazil, 3%
- Turkey, 2%
- Other, 12%

204 million 25-34 year-olds with tertiary education
By 2018, about two-thirds of all employment will require some college education or better.

Source: Authors’ analysis of March CPS data, various years; Center on Education and the Workforce forecast of educational demand to 2018
Education: A Good Investment

Education Pays

Unemployment rate in 2011 (in %)
- Doctoral degree: 2.5
- Professional degree: 2.4
- Master's degree: 3.6
- Bachelor's degree: 4.9
- Associate degree: 6.8
- Some college, no degree: 8.7
- High school diploma: 9.4
- Less than high school diploma: 14.1
Average: 7.6%

Median weekly earnings in 2011 (in $)
- Doctoral degree: 1,551
- Professional degree: 1,665
- Master's degree: 1,263
- Bachelor's degree: 1,053
- Associate degree: 768
- Some college, no degree: 719
- High school diploma: 638
- Less than high school diploma: 451
Average: $797

Student Demographics

- Fewer high school graduates
- Enrollment challenges – privates
- Composition is changing:
  - Minority is majority
  - 1st generation, low income move from feeder schools that offer less academically
  - Adult learners
- Organizational challenge to meet demand
Challenge of Social Mobility

• 50% of college population 1st generation

• Low income drives delay in entry

• Students attend college closer to home
  – Live at home
  – Work full-time, take classes part-time
  – 6 years persistence

• Challenge to engage students early
  – Build community
Funding

• Undergraduate Student Aid: $185.1 Billion
  – Federal:
    - 7% Federal Grant Programs
    - 17% Federal Pell Grants
    - <1% Federal Work Study
    - 37% Federal Loans
    - 9% Federation Education Tax Credits & Deductions
  – 5% State Grants
  – 19% Institutional Grants
  – 5% Private and Employer Grants
Transformational Leadership

• Evolution of Risk Management
  – Expectations of skill sets
  – Sophisticated approach: ERM
    - Performance based metrics

• Role clarity
  – Internal Audit
  – Compliance
  – Legal
  – Business Officer
Strategic Risk Management: Expectations and Opportunities

Key performance indicators (KPIs)

- Manage RM value through TCOR: 20%
- Competitive procurement of risk transfer: 15%
- Financial measures for retained/insured exposures: 15%
- Insurance budget management: 13%
- Mitigate liabilities/support preparedness: 7%
- Align RM objectives with company risk tolerance: 6%
- RM alignment with company goals: 5%
- Build strategic risk awareness across organization: 4%
- Deliver successful claim results: 3%
- Compliance: 3%

Source: Excellence in Risk Management VIII
Strategic Risk Management: Expectations and Opportunities
Top Ten Risks

<table>
<thead>
<tr>
<th>Company’s Top Risks</th>
<th>Risk Managers Rank (Readiness*)</th>
<th>C-suite Rank (Readiness*)</th>
<th>Finance Rank (Readiness*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Economic conditions</td>
<td>1 (30%)</td>
<td>1 (26%)</td>
<td>5 (31%)</td>
</tr>
<tr>
<td>2 Business disruption</td>
<td>2 (76%)</td>
<td>3 (58%)</td>
<td>1 (63%)</td>
</tr>
<tr>
<td>3 Regulatory / Compliance</td>
<td>3 (60%)</td>
<td>5 (59%)</td>
<td>3 (62%)</td>
</tr>
<tr>
<td>4 Legal or regulatory shifts</td>
<td>4 (44%)</td>
<td>2 (47%)</td>
<td>6 (53%)</td>
</tr>
<tr>
<td>5 Litigation or claims</td>
<td>6 (70%)</td>
<td>5 (63%)</td>
<td>9 (56%)</td>
</tr>
<tr>
<td>6 Technology / systems failure</td>
<td>7 (63%)</td>
<td>11 (65%)</td>
<td>3 (60%)</td>
</tr>
<tr>
<td>7 Brand / reputation</td>
<td>5 (44%)</td>
<td>8 (51%)</td>
<td>12 (35%)</td>
</tr>
<tr>
<td>8 Data security / privacy breach</td>
<td>9 (65%)</td>
<td>7 (60%)</td>
<td>8 (53%)</td>
</tr>
<tr>
<td>9 Destruction of physical resources</td>
<td>8 (80%)</td>
<td>20 (61%)</td>
<td>2 (73%)</td>
</tr>
<tr>
<td>10 Business continuity</td>
<td>10 (67%)</td>
<td>13 (64%)</td>
<td>17 (58%)</td>
</tr>
</tbody>
</table>

* Percent of respondents with management plan in place or recent review undertaken of the risk

Source: Excellence in Risk Management VIII
“Information Security and Privacy Risks”
What are the Risks?

• Privacy, computer and network security are not just Internet issues.

• Any entity that transacts business using:
  – a computer network; or
  – confidential information is at risk.

“Essentially, data loss is no longer a question of what if? The only question is when?”
What are the Risks?

- Legal liability to others for computer security breaches
- Legal liability to others for privacy breaches
- Regulatory actions and scrutiny
- Loss or damage to data / information
- Loss of revenue due to a computer attack
- Extra expense to recover / respond to a computer attack
- Loss or damage to reputation
- Cyber-extortion
- Cyber-terrorism
Top Three Cyber Targets in 2013?

• 38% Healthcare
  – 78% Human Error
  – 22% Malicious Intent

• 13% Education
  – 26% Human Error
  – 74% Malicious Intent

• 9% Finance
  – 53% Human Error
  – 47% Malicious Intent
Privacy Liability: Why is it Different From Cyber Liability?

• Breach of privacy:
  – Disclosure of confidential information:
    - Personal
    - Commercial
  – Cause doesn’t matter:
    - Negligence
    - Intentional acts
    - Computers
    - Vendors
    - Dumpsters
    - Phishing
    - Employees

• Damages / covered loss:
  – Legal liability
  – Defense and claims expenses
  – Regulatory defense costs
  – Vicarious liability when control of information is outsourced

• Crisis coverage:
  – Credit remediation, credit monitoring, and ID Theft investigation
  – Forensic expenses
  – Cover for crisis and public relations expenses
  – Cover for notification costs
Cost per record – By Industry

© Ponemon Institute 2011
Coverage Gaps?

• Traditional insurance
  – General liability
  – Property
  – Fidelity/crime
  – Error and omissions

• Non-traditional Insurance response:
  – Privacy and Security Liability
  – Information Asset Coverage
  – Business Interruption Coverage including Extra Expense
  – Cyber Crime Coverage
  – Cyber Extortion Coverage
  – Criminal Reward Fund
  – Crisis Management Coverage
## Network Security/Privacy Liability Coverage Overview

<table>
<thead>
<tr>
<th>Coverage Part</th>
<th>Description</th>
<th>Likely Claimants:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Privacy Liability</td>
<td>Defense and liability for failure to keep information private or for failure of others that you have entrusted with information to keep it private (e.g., pension actuary, credit card processor). Also includes liability for not properly notifying of a privacy breach. Coverage has expanded to include corporate information and non-computer related information.</td>
<td>Third parties, employees</td>
</tr>
<tr>
<td>Privacy Regulatory Defense Costs</td>
<td>Costs to defend an action by a regulator due to a privacy breach.</td>
<td>Regulators</td>
</tr>
<tr>
<td>Security Liability</td>
<td>Defense and liability for failure of systems to prevent spread of virus or a denial of service to those that rely on systems due to a failure in network security.</td>
<td>Customers</td>
</tr>
<tr>
<td>Cyber Extortion</td>
<td>Costs of consultants and extortion monies for threats related to interrupting systems and releasing private information.</td>
<td></td>
</tr>
</tbody>
</table>

### 1st Party Costs

<table>
<thead>
<tr>
<th>Notification Costs — Privacy</th>
<th>The following costs result from a privacy breach:</th>
<th>1st Party Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Computer forensics investigation expert.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Costs to provide notifications (including attorney costs/call center).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Offer of fraud monitoring to those impacted.</td>
<td></td>
</tr>
<tr>
<td>Crisis Management Expenses</td>
<td>Costs of public relations firm due to privacy or security incident.</td>
<td>1st Party Costs</td>
</tr>
<tr>
<td>Business Income/Extra Expense</td>
<td>Loss of income or extra expense due to system shutdown from security failure. Waiting period applies. Coverage for destruction of data assets also available.</td>
<td>1st Party Costs</td>
</tr>
</tbody>
</table>
IT Reality

In this corner, we have firewalls, encryption, antivirus software, etc. And in this corner, we have Dave!!
# Information Security and Privacy Laws

<table>
<thead>
<tr>
<th>Law</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Breach Notification Laws: 48 passed</td>
<td></td>
</tr>
<tr>
<td>HIPAA</td>
<td></td>
</tr>
<tr>
<td>Gramm-Leach-Bliley Act</td>
<td></td>
</tr>
<tr>
<td>Fair Credit Reporting Act and FACT Act</td>
<td></td>
</tr>
<tr>
<td>Sarbanes-Oxley</td>
<td></td>
</tr>
<tr>
<td>Telemarketing and Consumer Fraud Protection Act and Telephone Consumer Protection Act</td>
<td></td>
</tr>
<tr>
<td>CAN SPAM Act</td>
<td></td>
</tr>
<tr>
<td>Privacy Act of 1974</td>
<td></td>
</tr>
<tr>
<td>NAIC 1982 and 2000 Model Privacy Laws</td>
<td></td>
</tr>
<tr>
<td>USA Patriot Act</td>
<td></td>
</tr>
<tr>
<td>Credit Card Associations Standards—not a law but similar effect</td>
<td></td>
</tr>
<tr>
<td>MA201 Ch. 17</td>
<td></td>
</tr>
<tr>
<td>Red Flags Rule Amendment to FACTA</td>
<td></td>
</tr>
</tbody>
</table>
Activities to keep in mind include…

• **Do you have:**
  – Interactive websites
  – Business partners, contractors that touch personal data
  – Social media sites (Facebook and Twitter) that collect and display private information
  – Contracts with third parties to provide (or develop) services or products on your behalf

• **Do you do:**
  – Credit card data collection and online payment processing
  – Data storage (online and traditional shipping of paper records or back-up tapes)
  – Housing of private data on laptops
  – Providing of online content or media
  – Cloud computing and outsourced computing
  – Development of software
  – Performance of system integration services or software maintenance services
  – Broadcasting or distribution of content
Assessment Options

The Assessment evaluates the following:

- Security Policy
- Security Organization
- Asset Management
- Incident Response Preparedness
- Physical Security
- Computer and Network Management
- Access Control
- System Development
- Business Continuity
- Compliance

### Top Causes of Breaches

- Lost laptop or other device
- Third party or outsourcer
- Electronic backup
- Malicious insider
- Paper records
International Programs
Trends in Study Abroad

• College and University President’s Increase Emphasis on Internationalization
  – Serving more Students with Less Resources
• Study Abroad is more popular than ever among students
• International travel a critical component of higher education
• Short term programs on the increase
• Move to the Developing World
• Inconsistent academic, support and safety standards
Current Destinations*

* Institute of International Education

Marsh—Leadership, Knowledge, Solutions…Worldwide
Race/Ethnicity Demographics of U.S. Study Abroad Students

- Caucasian, 83.0%
- Asian or Pacific Islander, 6.3%
- Hispanic or Latin American, 5.6%
- African American, 3.5%
- Multi-Racial, 1.2%
- Native American Indian, 0.4%

Terrorism’s Impact on Study Abroad?

• Guidelines for safe study abroad programs:
  – Security belongs at the foundation of a program
  – Designate a security manager or managers
  – Invest in security evaluations of host countries
  – Learn from institutions that have suffered critical incidents
  – Gain advice from a security professional
  – Consider risk and evacuation insurance
  – Avoid pitfall of “more remote, more rewarding”
  – Involve families
  – Develop security plans and nurture student awareness

*SAFETI On-Line Newsletter, Volume 2, #2, Fall-Winter 2001/2002
International Risks

• Some are new:
  – supervise social and athletic activities
  – prevent injuries caused by substance abuse
  – provide adequate facilities
  – transport safely
  – prevent harassment

• Some are not:
  – inexperienced faculty
  – language and interpretation
  – unfamiliar legal system
  – evacuation
  – substandard healthcare
  – loss of communication
“… it is clear that parents and family members of students injured or killed in international studies tragedies are firmly advancing the in loco parentis theory”

Richard C. Kast

Liability Issues in International Studies
Legal Responsibilities

1. **Tort Liability**: claims which involve negligence such as failure to protect others from a reasonable risk of harm
   - in international study cases, institutions have a legal “duty of care” for participants

2. **Contract Law**: documented relationships between participants & program. Any written agreement determines responsibility and right of involved parties.
   - All representations by program sponsor may be considered by court, including:
     - program brochures, catalogs & posters (Neiswand v. Cornell (1988))

3. **Federal regulations and legislation**: US government has adopted a variety of laws & policies affecting higher education, which may affect international education. They include standards on:
   - Title IX (Earlham College & E. Michigan cases)
   - Campus Security -- Clery Act (Crime Reporting)
   - ADA (Disabilities)
     - Clear communications re reality of circumstances
   - FERPA (Student Records)
International Responsibilities

“Your responsibility to your students is to ensure that they receive all the information and assistance they need and that they understand their own responsibility for maintaining their health and well being.

Your responsibility to your institution is to see that your program complies with relevant statues and regulations and that institutional liability is minimized through careful planning.”

J.E. Gore
NAFSA’s Guide to Education Abroad for Advisers and Administrators
What is Crisis?

According to the Merriam-Webster dictionary, a “Crisis” is “an unstable or crucial time or state of affairs in which a decisive change is impending; especially : one with the distinct possibility of a highly undesirable outcome.”
Why Establish Standards for Crisis in International Programs?

• Because if you have a plan and follow it in a crisis, you’re less likely to:
  – Panic
  – Omit key people or steps
  – Waste valuable time developing a plan during the crisis, or
  – Make rash judgments

• Have a local crisis plan for each International Program Site

• Orient & Train All Students, On-Site Staff & Key Faculty

• Continuously Monitor News Sources, Intelligence

• Alerts and Consular Information
Speed is a Key Element

• Speed is a key element of successful crisis management response, which is enhanced by:
  – Technology (e.g., required cell phones, mass texts, Campaign Monitor, Travel Tracker)
  – Having clear global and local crisis plans in place
  – Training
  – Drills
  – Experienced people with good judgment
  – Having clear lines of decision making authority backed up by accountability
Governance Driving the Bus?
WHERE TO START?

Kenneth, why did you bet that terrible hand?

Why? Because I believe life is for the living. I believe in taking risks and biting off more than you can chew. And also, people were yelling and I got confused about the rules.
How Effectively Do Boards Oversee Institutional Risk?

<table>
<thead>
<tr>
<th>Boards with a Formal Process for Risk Assessment</th>
<th>All</th>
<th>Budget &lt; or = $51 Million</th>
<th>Budget &gt; or = $51 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Public</td>
<td>33</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>Private</td>
<td>34</td>
<td>24</td>
<td>47</td>
</tr>
</tbody>
</table>

Source: 2011 AGB Survey of Higher Education Governance
### How Effectively Do Boards Oversee Institutional Risk?

<table>
<thead>
<tr>
<th>Board members and senior administrators regularly evaluate major risks <em>(more than 1 answer possible)</em></th>
<th>2009 Percentage</th>
<th>2013 Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Every board meeting</td>
<td>8.6</td>
<td>11.4</td>
</tr>
<tr>
<td>Every year</td>
<td>24.4</td>
<td>28.1</td>
</tr>
<tr>
<td>Every other year</td>
<td>3.1</td>
<td>1.7</td>
</tr>
<tr>
<td>As needed</td>
<td>50.8</td>
<td>44.4</td>
</tr>
<tr>
<td>None of the above</td>
<td>13.7</td>
<td>21.7</td>
</tr>
<tr>
<td>Other</td>
<td>10.7</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Source: 2009 and 2013 AGB/United Educators Survey on Boards and Risk
How Effectively Do Boards Oversee Institutional Risk?

<table>
<thead>
<tr>
<th>The board monitors institutional risk through regular, formal reports from administration</th>
<th>2009 Percentage</th>
<th>2013 Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mostly agree</td>
<td>22.8</td>
<td>30.0</td>
</tr>
<tr>
<td>Somewhat agree</td>
<td>30.4</td>
<td>42.3</td>
</tr>
<tr>
<td>No opinion</td>
<td>8.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Somewhat disagree</td>
<td>24.2</td>
<td>19.7</td>
</tr>
<tr>
<td>Mostly disagree</td>
<td>13.9</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Source: 2009 and 2013 AGB/United Educators Survey on Boards and Risk
## How Effectively Do Boards Oversee Institutional Risk?

<table>
<thead>
<tr>
<th>Overall, how would you rate your institution’s approach to and management of risks?</th>
<th>2009 Percentage</th>
<th>2013 Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exemplary</td>
<td>5.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Above average</td>
<td>43.6</td>
<td>43.7</td>
</tr>
<tr>
<td>Average</td>
<td>39.9</td>
<td>40.9</td>
</tr>
<tr>
<td>Below average</td>
<td>9.7</td>
<td>9.0</td>
</tr>
<tr>
<td>Poor</td>
<td>1.7</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: 2009 and 2013 AGB/United Educators Survey on Boards and Risk
Resources

• “Perspective” The Campus Legal Monthly
• “International Study Abroad Programs: A Critical Legal Planning Session” by Gary M. Rhodes, Ph.D., USC
• Overseas Security Advisory Council (OSAC) -- www.ds-osac.org/
• National Association of College & University Attorneys (NACUA) - www.nacua.org
• The Chronicle of Higher Education - www.chronicle.com
• National Association of International Studies (NAFSA) - www.nafsa.org
• “Safety is an Important Part of Studying Abroad”, Mike Halligan, U of Utah, Campus Firewatch, February 2004, www.campusfirewatch.com
Resources

• U.S. State Department -- http://travel.state.gov/index.html or for student access -- http://travel.state.gov/studentinfo.html
  – Bureau of Consular Affairs
  – Overseas Citizens Services Tips for Students
  – Overseas Security Advisory Council
  – Travel Safety for Student: Press Release
  – Travel Warnings
  – Services and Info for American Citizens Abroad
  – How Consular Officers Can Help in An Emergency
  – Important Telephone Numbers
  – Links to US Embassies and Consulates Worldwide
  – Bureau of Educational and Cultural Affairs
  – Country Reports on Human Rights Practices
Resources

- The U.S. Centers for Disease Control and Prevention - www.cdc.gov/travel
- American Council on Education (ACE)/The International Initiatives - www.acenet.edu
- Institute of International Education - www.iie.org
- US Peace Corps - SAFETI Adaptation of Peace Corps Resources
- International Student - www.internationalstudent.com
- Study Abroad - www.studyabroad.com
- Center for Global Education/University of Southern California - www.usc.edu/globaled
- University Risk Management & Insurance Association - www.urmia.org
Questions or Comments?
Thank you!