Insurance isn't enough

Have processes in place when disaster strikes.

By Steve Vaughan

A couple of recent events are a timely reminder to think about how you are looking after risks to your business — the recent Tsunami in Samoa and the ongoing row about providing community diagnostic lab services in Auckland.

Many businesses on the south coast of the Island of Upolu were physically wiped out. Accommodation business, restaurants, scuba diving and other tour operators might have insurance for rebuilding the structures that were destroyed and replacing lost equipment but what about the other aspects such as business records or documented local procedures? And on a sadder note, what about the skilled people who died? No sort of insurance will replace those.

In the Auckland community diagnostic services row, the risk which eventuated was of the new lower cost single provider not performing. As it has turned out, risks such as diagnostic mistakes occurred — not something which could be covered by an insurance claim. Also, the DHBs are stuck with the consequences of things going wrong — even though they had contracted the actual job to Lab Tests Auckland Ltd. In hindsight, the DHBs have acknowledged they would have been better to spread the risk and increase their flexibility by contracting two providers instead of a single new one.

These very different examples highlight that insurance has its limitations as a risk "treatment" (taking action to address risks). Risk management professionals generally agree that the proportion of risks that can be dealt with by insurance may be as low as 10%.

Don't get me wrong, insurance does have a valuable part to play in managing business risk, but it is certainly not the whole story.

So what are the most significant business risks? While the Samoan Tsunami may have provided a dramatic and tragic example of losing people, the reality is much more mundane. Ask yourself what would be the effect on your business if two or three of your key people resigned and then another one was injured in a car crash and couldn't work for several weeks.

How do you deal with that majority of risks for which insurance won't help much?

The key ingredient is systematically using a formal risk management strategy that suits your business. Most New Zealand businesses are classified as small to medium enterprises, so a risk management strategy does not need to be big or complicated. As your company is unique, the best starting point is some basic principles rather than someone else's list of risks.

Before starting in to work on your risks consider whom you need to consult or communicate about your risks and how you are managing them. Open communication helps stakeholders to trust you and forgive those times when things do go wrong. It would certainly have helped the Auckland District Health boards if they had not waited for doctors and patients to discover things going wrong and then publicly complain. In this case some proactive risk communication would have gone a long way.

Next — clearly identify your business objectives. If you are a commercial business, the objectives do not just relate to profitability. They will also be about the quality of service or product you deliver, relationships with your clients and so on.

Prudent: A formal risk management strategy will help your business survive any unforeseen events. Pic/Getty

The next step is identifying the risks in and to your organisation. Ask yourself:

What are the events or the circumstances that could impact directly on your objectives?

What could the consequences of those events be?

With the risks identified, you will then need to analyse your risks in terms of the possible consequences and their likelihood. As you do this, you will need to ask yourself:

How are you currently managing your risks?

What are your internal controls and how effective are they?

This will enable you to focus first on the risks that could have the worst consequences and that are most likely to occur, and take action on those first.

As you work through the controls you already have in place consider what your organisational culture is like. Would your employees raise concerns about breaches of rules? Or is risk taking accepted as normal and ignored? Be careful about making assumptions — have you tested this with your employees?

Last and by no means least, it is important to keep checking. How will you know that your current controls and chosen risk reduction options are working as intended?

How will you know if your circumstances have changed? In larger organisations, senior management teams have regular formal sessions to review risks and consider what needs to be changed to manage them. For smaller companies, the same principles apply although less effort is likely to be involved.

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