

## Insurance and Risk Management

# Risk communication up to scratch?

Last year, after what was at least a four-year process, the three Auckland district health boards signed a new contract for community diagnostic services in Auckland.

The contract's main aim was to reduce the cost of these services to the community.

Within weeks of the new provider starting the service, instead of being hailed as wise guardians of public money, the boards were criticised, as diagnostic test results were misplaced, late or wrong.

Soon afterwards, the new diagnostic service was being publicly criticised by the Health and Disability Commissioner.

Turning now to the global financial crisis, *The Economist* pointed out in a



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recent sobering review of its aftermath that one contributor to the crisis was the lack of understanding by financial market operators of the risks involved in the bundles of debt they were trading.

"A proper understanding of a

typical collateralised debt obligation (CDO), a structured bundle of debt securities, would have required reading 30,000 pages of documentation," it noted. It seems unlikely that the documentation was ever read.

Both cases, although quite different, share a failure of risk communication.

In the case of the Auckland health boards, the large-scale transfer of diagnostic services and records from one provider to another was going to carry some risks. This was especially the case with a new provider setting up from scratch and promising to do the same job at less cost.

The resulting teething problems might have been more acceptable if the boards had been up front about

those risks ahead of time, and had been clear about what they had in place to deal with them. Better yet, some more clarity about the advantages of this change would have been helpful, such as what the freed-up funds were going to be spent on.

In the credit crisis, it is becoming clear that debt bundles were being traded without the traders communicating the risks attached to them. The information may have been available, but it had become so submerged in volume and detail that it was not really accessible.

So what could and should have been done differently?

In each case, some way was needed of exchanging information about the risks between the various

parties impacted by the changes, which would have contributed to a better understanding of those risks. This needs to be done in ways that build trust and understanding between the parties.

Good risk communication is about fully understanding who is affected, appreciating their perspectives, being open and honest, including admitting mistakes, supplying information in easily understood ways, and making solutions part of the process.

Managing your organisation's risks should involve each staff member and be a key part of how they do their job.

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