

Special Feature: Insurance and Risk Management

How to keep an even keel in times of turmoil

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It's a sunny morning and all's right with the world. Business is tight but you've still got a good chance of winning that local government tender and, boy, this coffee tastes good. You arrive at work to discover the company that runs all your computer systems has gone into receivership. Wham. There's no one to update your website, you don't have any idea who owns the intellectual property on your business systems and it seems the only person who understands how to put your end-of-year financials together has disappeared to the Bahamas.

Bugger.

Risk is inherent in business. No company can avoid competitors starting up or getting stronger, nor can they avoid key staff leaving, suppliers going out of business, an economic downturn, even a workplace injury caused by human error. But by identifying risk, analysing exposure to common and company-specific risks, and attempting to mitigate them in some way, companies can go a long way to prevent an annoying situation becoming a major problem.

In fact, says Wellington-based specialist Chris Peace, risk can provide opportunities too. "One example I like is the New Zealand company that has developed docking systems for ships to make it safer for dock workers. Mooring a ship using ropes was a risky situation and occasionally a worker would have an accident and be killed. This business saw an opportunity."

Risk management is even more important with the global financial crisis, advisers warn. In the present climate, when finances get too tight or something unexpected affects your business, it's going to be

harder to get someone to bail you out than it was in the past. It's a good time for business owners and boards to revisit their risk-management set-up, they say.

"I'm advising clients that now is the time to engage heavily with your outsourcing partners," says Faris Azimullah of Deloitte. "You need to ask questions about everything from service levels to how the current economic climate is affecting them. This is in the true spirit of partnership because both need to know if there's a potential problem."

Independent Auckland-based advisor Denise Bouvaird, a former president of the New Zealand Institute of Chartered Accountants, says a structured approach to risk management is useful because it makes it more likely that all key risks will be identified, prioritised and monitored. "I find some clients have not quantified risks, for example, to see how serious they are. You might find a risk is less serious than you thought and you can spend less on that area." Or it might be the opposite.

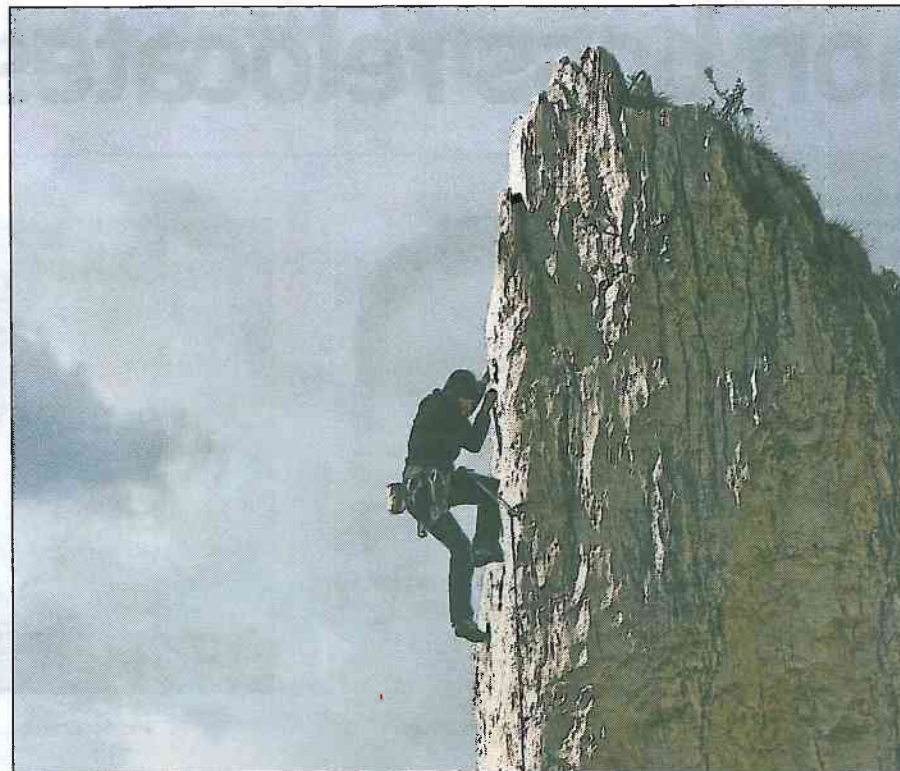
She finds there are risks that are generally common to all businesses, and then a couple that might be unique to a sector. The important thing is that the business has identified the risks, understands what they mean for it and then works to manage them, she says.

Ongoing risk management needs to be integrated with other business processes, she says.

"For example, you can incorporate some of it with day-to-day balance sheet reporting – most businesses do that well."

Risk is defined in the Australian and New Zealand Standard on Risk Management as the chance of something happening that will have an impact on objectives.

Risk management entails describing the "something



Managing risks: Does your boss know that you're here?



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happening" in terms of the impact it will have on a business should it occur and the probability that it will occur. When business owners or managers go through the process of analysing risks, they will end up with a spectrum of risks that are particularly relevant to their sector and their business. These are what they should plan for.

Kirk Williams, the chief executive of insurance broker and risk specialist Marsh New Zealand, says over the past 20 to 25 years risk management has evolved and taken its place as a key business management discipline.

This is in part because owners and managers see the opportunity to help staff look after themselves and their colleagues, and to do this efficiently by setting up a good framework.

It has also to some extent been imposed by a "more intense litigious environment", Williams says. "Staff, third parties, shareholders and regulators are

more likely to demand recompense for errors. They say, 'If you get it wrong, we'll have a go at you.'"

Risk management is also a way of dealing with increasing statutory and regulatory requirements, and is specifically required in some legislation. "It's important that everyone understands their role in risk management," Bouvaird points out. For example, a receptionist's role in receiving visitors can be important because it may be a person's first face-to-face contact with the organisation and represents an important aspect of managing reputation or brand.

This understanding is something that can get lost when a business grows, she points out.

"Often when a business starts, the owner knows their product or service well and they know the important things to focus on. But as the business gets bigger, they have to divest some of their responsibilities. They need to establish processes to make sure they retain the important things, but they are generally not used to working with such processes.

"With things getting tighter at the moment, it's a good time to make sure every aspect of the business processes are working well and to make sure every dollar counts," she says.

In many circles, including the

Government these days, risk management is being talked about as "resilience", notes human capital risk specialist Cecelia Farrow, of Triple Jump. As advisers helping to achieve business resilience, part of Triple Jump franchisees' role is to make sure businesspeople are dealing with realistic assessment of risks, she says. Sometimes they find people are telling themselves, "She'll be right" or "My mates will see me through".

Triple Jump helps businesses identify what it calls "key person risk" – the legal, moral or financial exposure that would exist if a shareholder or key person suffers a catastrophic event.

Triple Jump has developed modelling tools to help business owners and managers better understand risks associated with ownership and staffing.

It's often the case that while a small or medium-sized business may be very dependent on one or two key people, these individuals are in turn dependent on the business remaining viable as it is their main source of income and their investment vehicle, says Farrow. Once a business goes into crisis mode, strategies and plans provide reference points but management is a very practical matter of keeping key processes going.