

RISK MANAGEMENT & INSURANCE



Dealing with risk is a high-stakes game. FAIRFAX/SIMON ALEKNA

Risk can be a risky business

CHRIS PEACE

Risk management is something we all do in some way or another. We may drive a car, cross the road, go to work, fly in a plane – all potentially risky activities. Most of the time the risks are managed and nobody is hurt and no property is damaged.

The trouble is most people undertake risk management unconsciously or in a way that doesn't contribute to their success or their organisation's. Often a bigger problem is we think of risk as having only a negative outcome. Wrong! Risk is commonly defined as "the chance of something that could have an impact on objectives".

Risk management will, at least, help reduce the chances of negative things happening. But what if you turn risk management into something that provides advantages and opportunities?

Many high-performing organisations routinely think about their risks and how to use the opportunities they present.

What if your call centre went out of action, causing service failure and loss of customers? Could you prevent such a risk happening? If not, how would you seamlessly maintain the service your customers expect? The result of

such risk management may be that you gain a reputation for dependability – and perhaps gain customers. But how do you make risk management part of your organisation?

Start at the top; the board or the minister should know what the major risks are – the risks that matter. They are charged with setting the long-term strategy and giving management the resources needed to achieve objectives. They need to know the risks that could impact on those objectives.

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They can place those risks in the context you operate in and decide how much risk they are willing to accept. It helps if the board or minister and the chief executive want risk management to work and "set the tone from the top".

Getting them to set out their expectations and requirements will make risk management implementation much easier.

First, you need to identify the risks. Ask what are the events or the circumstances that could impact on your objectives? What could the

consequences be? Second, analyse your risks in terms of consequences and likelihood. Focus on the risks that could have the worst consequences and are most likely to occur. Ask how you manage your risks and what are your internal controls and are they effective?

Examples: "Fraud is a common threat to all organisations. How do you prevent it? How would you detect it?"

"Fork lift trucks are very valuable tools but can kill or injure or cause property damage. Are your drivers trained? Do they report near hits? How do you react to the reports?"

Third, what is your organisational culture like? Would your employees raise concerns about breaches of rules?

Trader Jerome Kerviel broke the rules in Societe Generale leading to multi-billion-dollar losses. Reports suggest nobody raised concerns about his activities. Are you happy with the level of risk in your organisation? If not, what could you do about it? Which of the options will best help achieve your objectives? Which give the best payback?

Would hedging foreign exchange reduce the impact of fluctuations in the dollar?

Do you need to insure business interruption?

How will you know your

controls and risk reduction options are working as intended?

Finally, who do you need to tell about your risks and how you are managing them? Open communication helps stakeholders to trust you and forgive times when "unknown unknowns" happen and affect your objectives.

■ Chris Peace is a committee member of the New Zealand Society for Risk Management and is managing director of Risk Management Ltd.

Shopping around for the right insurance

CHRIS PEACE

Deciding what insurances you need can be difficult. Large and complex organisations may have large and complex insurable risks but even small organisations can have complex insurance needs. Who do you turn to for help?

Start by writing down who you are and what insurance-related services you think you need.

Talk to business partners to find out who they use and which services they value. Ask about their experiences, good and bad.

Now turn your needs into a "request for proposals" (RFP). For larger insurance needs, include the requirement that the broker will be paid by a fee and insurance premiums will be net of any commissions or brokerage. Match your probable needs with a list of candidates who are professional insurance brokers.

Only pick companies that are members of the Insurance Brokers Association (IBANZ). Members must go through continuing professional development and adhere to standards of conduct, professionalism and practice.

Larger organisations will probably need the services of larger brokers to be sure of

getting the full range of front-office and back-office services. However, increasingly, smaller brokers are joining networks that give access to these services.

Draw up a short list of brokers. Send them your RFP. Specify the number of pages for proposals otherwise you may be overwhelmed with paper.

Choose the best three and ask them to make a brief presentation followed by questions.

Which insurances might you buy? A good broker should be able to develop an insurable-risk profile for your organisation and discuss with you which covers you need. They should be able to talk about trade-offs between the range of cover, deductibles and premiums; and how claims might be managed.

And they should be able to help you decide when to self-insure. How important is this? A good broker, armed with information about you and your risk management practices, will be able to market your needs and report back to you on the insurance options. You can then make your choice.

■ Sources of further information: New Zealand Society for Risk Management www.risksociety.org.nz; IBANZ www.ibanz.co.nz.



How well is your organisation managing risk?

Associate Membership of the New Zealand Society for Risk Management is helping many organisations manage risk more effectively. It will help yours too.

Associate Membership offers your organisation most of the benefits of individual membership, including access to:

- the latest international resources
- professional colleagues and leading experts
- professional development opportunities
- events and contacts in your region
- participation in special groups
- Members'-only resources at www.risksociety.org.nz
- the Society's newsletter.

The New Zealand Society For

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What happens is not always what you expect. It pays to have a Plan B.

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