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## Risk Management & Insurance

*By Robin Messenger*

This is a very brief look at Risk Management and Insurance. **Risk Management** can be defined as a process involving identifying, measuring, or assessing Risk and developing strategies to manage such Risks. These strategies can include:

1. Transferring the Risk to another party
2. Avoiding the Risk altogether
3. Reducing the potential negative effects of the Risk
4. Deciding to assume all or part of the consequences of such Risks.

We can define **Risk** as the possibility of loss, injury, disadvantage or destruction.

**Insurance** represents one of many methods of transferring Risk. Insurance is defined as the equitable transfer of the Risk of a potential loss, from one entity to another, in exchange for a premium.

We are going to briefly look at what can be termed Traditional Risk Management. Traditional Risk Management deals with Risks arising from physical or legal causes. This would include examples such as fire, third-party legal liability arising from business activities and various types of crime losses. A separate subject would be Financial Risk Management which would focus on Risks that can be managed using traded financial instruments.

The benefits of attending to Risk Management issues can be summarized as:

1. Providing the organization with increased confidence in achieving its desired outcomes
2. Effectively constraining potential threats to acceptable levels
3. Providing increased confidence in the organization's corporate governance and ability to deliver and in fact survive.

More simply it can provide a level of comfort allowing an organization more time to focus on growth, improvement and ultimately more profitability.

In order to manage Risks effectively they must first be identified. Here is a simple list of Risks with some examples that could be employed to start a Risk assessment process:

1. External - natural disasters – windstorm, earthquakes and floods.
2. Technical – Fire, Explosion, Power Failure, Product Failure
3. Organizational – Management of Contracts, Leases Purchase Orders, Employee Dishonesty, Employment Practices issues such as Wrongful Dismissal

Once Risks have been identified they can be approached and dealt with by a variety of methods. For example, intellectual-property issues are common to technology companies. Your company may host third-party confidential customer information (*Financial data, client information, personal medical records*). This may be integral to your business, and therefore you must accept the Risks which accompany these activities.

You might try and draft sales contracts with your customers relieving your company of responsibility for any security breaches involving a customer's confidential information.

In all likelihood you would be unsuccessful in this effort and might next turn to insurance in an effort to transfer the Risk, for a premium, to an insurance company.

A basic Risk which all companies face involves asset protection. Your office equipment, leasehold improvements and IT equipment are exposed to a variety of Risks. Fire, water damage, power surges, breakdown, burglary and theft are obvious perils.

Insurance is a common way of dealing with these Risks. You might elect to assume part of the Risk by accepting a Deductible in return for reduced premium costs. Introduction of Deductibles is one of the simplest forms of Risk Financing. For instance, if you were to receive a \$10,000 reduction in premium annually by introducing a \$50,000 deductible, once you have gone five years claims free you will have financed the Deductible cost for future losses.

Sophisticated Risk Management Information Services are available for larger companies. These software systems will massage information entered and provide analysis on Risk Management techniques, loss funding options and will, moving forward, track the effectiveness of your Risk Management systems.

Diligent identification and management of the Risks which face your company is a very important facet of corporate governance.

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