Risk Management Tools

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Initial Questions

- Who handles risk management?
- Could be the General Counsel? Could be someone else. Could be a number of different persons/committees.
- Difficulty is that each department (as well as departments in operational units or divisions) will have a role to play.
- The real issue is how is risk management is brought together. And how it is reviewed, updated and managed on a continuing basis.

Risk Management Register

- Provides a tool for looking at the totality of a company's risk profile. Let's the management team assess whether the risks have been properly identified and whether those that are the most significant are being addressed properly.

- Idea is to provide management (as well as the board and investors) with information about the risk exposure of the company.

- Important also that insurance providers are aware of the risks faced by the company (particularly operating risks which are more susceptible to mitigation through insurance) such that insurance is properly identified, scoped and negotiated. Not having identified significant risks may result in a situation where possible insurance cover was not obtained or coverage is not possible once the problem arises.

- Increasingly, legal and compliance risks are of major importance to the well-being of a corporation. Identifying and managing such risks is very important.

Identify high-impact risks relevant to your business

- Top-down approach and bottom-up approach
- Examples might include:
  - Asset loss such as having a factory destroyed,
  - Breach of financial covenants,
  - Interruption in raw material supply,
  - Internal fraud,
  - Theft of trade secrets
  - IT system failure
  - Currency fluctuations
  - Workplace injury
- Categorize risks as high, medium or low.

Segment the high-impact risks

Examples might include:

- Financial: risks that can adversely impact the financial results or that are related to the financial aspects of the company.
- Strategic: risks that adversely affect the strategic plans or key capabilities of the company
- Legal and Compliance: risks that result in a failure to comply with either corporate policies or laws and/or regulations applicable to the company’s business.
- Operational: risks that affect the operational performance of the company

Identify those risks requiring the most attention

These are the high or medium-level risks that carry the greatest potential loss for the company.

What might bring about the identified risks?

What is the result if the risk manifests itself?

How serious is the impact if the risk occurs? Financial and otherwise.

Assess the adequacy of risk controls

- Risk controls are, in all likelihood, in effect for at least some, if not all of the risks that have been identified.
- For each category of risks (and then on a risk by risk basis) what do the existing controls fully address the risk or category of risk? I.e do the risk controls apply to all aspects of the risk and are they understood by all relevant personnel?
- Do they fully or partially address the risk?
- Is the risk not addressed, i.e. appropriate controls have not been fully implemented?
- Despite what has been done or what will be done what residual risk remains?
- What further actions are possible? Who will carry them out and when?

Risk register

The risk register is the document which identifies the following: (1) the risk categories, (2) the specific risks related to each category, (3) what might make such a risk become reality, (4) the consequences of the risk occurring, (5)who in the company has responsibility for handling the risk, (6) the likelihood of the risk occurring and (7) it's likely severity, (8) efforts undertaken to ameliorate the risk, (9) risk that remains after mitigation efforts have been undertaken, (10) further necessary actions, who is responsible and when completion is expected.

Sample Risk Register Template (separate document)

The risk assessment process

- Must be practical, cannot be overly complicated
- Must be transparent
- And, it must not be a one-time effort. It must be sustainable over time.
- Responsibilities must clear.
- Regular reporting. Annual or semi-annual reporting and high-level review (executive committee and/or board) is of fundamental importance

Business Continuity Plans

Certain risks, if they become reality, can have a major impact on the activity of the company.

For these risks, a business continuity plan is indispensable.

For example, what happens when the company’s IT system ceases to function as it should?

What happens if one of the major factories burns to the ground?

Not all risk factors will require business continuity plans. These are not easy to do. Nevertheless, they could prove extremely valuable.

Insurance

- Insurance is used to mitigate or address many (but not all) of the risks identified in the risk register.

- Insurance providers may, on occasion, release part of the insurance premium to cover the work on a risk management program.

- Existence of a comprehensive risk management program and risk register, updated on a regular basis, may be a strong argument for a decrease in insurance premiums.

Issues

- Is a risk management program worth the effort?
- How do you convince the CEO or the Board that such a program is important?
- Are not insurance programs in reality costs that are best avoided?
- Why should I bother getting involved in the minutiae of insurance policies?