# The Nevada Chapter of RIMS
# Outreach Program

# OVERVIEW OF RISK MANAGEMENT

# Risk Management Overview

Do you/we take risks?
How much risk do you take?
Do you realize everything you do involves risk from waking up in the morning to all your activities throughout the day to going to bed at night?

**What is Risk Management?** Simply put, risk management is a process for identifying, assessing, and prioritizing risks of different kinds

**The Importance of Risk Management to Business Success**
Risk management is an important part of planning for businesses. The process of risk management is designed to reduce or eliminate the risk of certain kinds of events happening or having an impact on the business.

**Definition of Risk Management**
Risk management is a process for identifying, assessing, and prioritizing risks of different kinds. Once the risks are identified, the business owner or in some cases (if your company is large enough) the risk manager will create a plan to minimize or eliminate the impact of negative events. A variety of strategies is available, depending on the type of risk and the type of business. There are a number of risk management standards, including those developed by the Project Management Institute, the International Organization for Standardization (ISO), the National Institute of Science and Technology, and actuarial societies.

**Types of Risk**
There are many different types of risk that risk management plans can mitigate. Common risks include things like accidents in the workplace or fires, tornadoes, earthquakes, and other natural disasters. It can also include legal risks like fraud, theft, and sexual harassment lawsuits. Risks can also relate to business practices, uncertainty in financial markets, failures in projects, credit risks, or the security and storage of data and records.

**Goals of Risk Management**
The idea behind using risk management practices is to protect businesses from being vulnerable. Many business risk management plans may focus on keeping the company viable and reducing financial risks. However, risk management is also designed to protect the employees, customers, and general public from negative events like fires or acts of terrorism that may affect them. In today's global economy we also need to be aware of supply risk. Risk management practices are also about preserving the physical facilities, data, records, and physical assets a company owns or uses.

**Process for Identifying and Managing Risk**
While a variety of different strategies can mitigate or eliminate risk, the process for identifying and managing the risk is fairly standard and consists of five basic steps. First, threats or risks are identified. Second, the vulnerability of key assets like information to the identified threats is assessed. Next, the risk manager must determine the expected consequences of specific threats to assets. The last two steps in the process are to figure out ways to reduce risks and then prioritize the risk management procedures based on their importance.

**Strategies for Managing Risk**
There are as many different types of strategies for managing risk as there are types of risks. These break down into four main categories. Risk can be managed by accepting the consequences of a risk and budgeting for it. Another strategy is to transfer the risk to another party by insuring against a particular, like fire or a slip-and-fall accident. Closing down a particular high-risk area of a business can avoid risk. Finally, the manager can reduce the risk's negative effects, for instance, by installing sprinklers for fires or instituting a back-up plan for data. Having a risk management plan is an important part of maintaining a successful and responsible company. Every company should have one. It will help to protect people as well as physical and financial assets.

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# Business Risk Management

**The Many Factors to Consider in Business Risk Management**
Creating a risk management plan is central to the operation of any successful business. A truly effective plan will address all areas of possible risk to the business' information, employees, physical assets, and finances. While it is not possible to predict all sources of risk, it's important to mitigate as many as possible to protect the company from damage, liability, and other sources of loss.

**Business Risk Management Defined**
A variety of different risk factors can affect the ability of a business to operate effectively. Risk management is a process by which the most important risks can be identified, prioritized, and mitigated or eliminated. The strategies used to deal with risks break down into four main categories. Getting insurance is one way; eliminating high-risk areas or reducing them are two others. Also, a company can accept the consequences of a risk and budget for it.

**Identifying and Managing Risk**
The process for identifying and managing business risk is fairly standard and consists of five basic steps. To begin with, identify the company's risks assets. Next, measure, quantify, and qualify possible damages. Then, you must come up with strategies to limit the damage. Fourth, implement the strategies. Finally, the company and its risk managers must continue to monitor the risk to see if the implemented strategy is effective.

**Business Risks to People and Property**
Business risks can take a wide range of forms, which means that business risk management plans must cover an equally wide range of policies. On a very basic level, ensuring employee and equipment safety by preventing accidents is important. Disaster preparedness is also an important component of business risk management and should include things like fire, flood, and critical incident plans. Another important part of a risk management plan is making sure that data are backed up regularly and are secure so they cannot be accessed by unauthorized personnel.

**Business Risks to Finances and Strategy**
Risks to the financial resources are often treated differently from other sources of risk when coming up with a risk management plan. Financial risk management plans often include guidelines for how to make financial decisions. They also codify how much risk and what kinds of risks are acceptable for the company to take. Plans to handle strategic risks are similar in that they would lay out how decisions about how to make advertising, research, and development, and other business practices.

**Operational Risks**
Operational risks are risks that come from the way the business operates both internally and externally. External risks are things like changes in political climate, regulations, suppliers, and contracts. Internal risks include the possibility of the failure of internal systems or processes. Loss of physical assets to disasters like fire or flood is an example, as is loss due to the computer system crashing. A business risk management plan would also need to address human error, as well as fraud, theft, and other illegal activities.

Business risk management planning includes the consideration of a wide variety of risk factors, including those to people, property, financial assets, strategy, and operations. It's an important precaution to have a plan in place for as many of these factors as apply to a business.

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## Insurance Agent Relationship

What could constitute a "special relationship" and what impact does that have? To start with, let's look at the typical responsibilities of the insurance producer/agent and the client in obtaining an insurance policy.

In most states, an insurance agent is not required to:
**- provide an insurance policy that would cover all possible contingencies**

**- advise an insured with respect to coverage options**

**- advise the insured as to every exclusion contained in the policy**

Ordinarily, an insurance agent assumed only those duties normally found in an agency relationship, including the obligation to deal with his or her principle in good faith and to carry out instructions and assumed no duty to advise merely by such a relationship. Absent an agreement to the contrary, an agent has no duty beyond what he or she has specifically undertaken to perform on behalf of the client. Insurance professionals owe a duty to their customer to exercise reasonable skill, care and diligence in effecting insurance.

**Does your insurance agent know?**
Does your agent have Intimate knowledge of your personal and business endeavors? If the agency has for some time, written the customer's entire insurance program (potentially both personal and commercial lines), this can help your success in the management of risk of your business. Your risk may be written on you and not lumped into a business group, and you can see some savings or enhanced coverages.

## Safety and OSHA General Overview

One of the most overlooked areas is in regulatory compliance. Depending on the nature of your business you may fall under a number of regulatory compliance rules.

Everyone must comply with Safety and OSHA. As a small business this is something you might not think about, however when you start to bring on employees, and maybe some facilities (buildings, offices etc.) you are to be faced with the reality of OSHA. However, you have an advantage that many large businesses do not have and that is the ability to use the OSHA consultation service (FREE OF CHARGE).

For most people there are two OSHA codes you will have to deal with. They are the General Standards and the Construction Standards. Some of you may not have to deal with Construction; however everyone deals with the General Standards.

One important rule to understand, everything in the general standards is the minimums that you have to comply with. You may exceed the minimums but you have to at least meet the minimums.

If you're at a point where you fall into OSHA, you have to ensure a workplace that is free of hazards. One thing most people do not understand is that if there is no rule in the OSHA standards then they always have a fall back rule. This rule is the General Duty Clause. This allows an OSHA Inspector to writ you up for anything that can be considered unsafe.

Useful Links:
http://nevada.rims.org/NevadaChapter/Home/
(Click on the Resource tab then you will see Training Materials from this class)

http://www.osha.gov/Publications/osha3000.pdf