



# BIZguides

smallbusiness.wa.gov.au

## Insurance

# Risk Management Plan

Risk management aims to manage uncertainty and includes actions taken to identify, assess, monitor and reduce the impact of risks to your business.

A good risk management plan with appropriate risk management strategies can minimise costly and stressful problems, and may also reduce insurance claims and premiums. There are five steps to developing your risk management plan.

### STEP 1: Define the Risk Context

Identify where or under what circumstances the risk occurs. For example, a particular work site, department, work section, retail shop branch, or after severe weather.

### STEP 2: Risk Identification

Identify risks that are likely to affect the achievement of your business goals.

Describe the risk. What can happen? Consider how and why it can happen. Describe the consequences of the risk – what happens if the risk eventuates?

- Systematically work through each function, activity or stage of your operations and identify what might happen for each function.
- Conduct a review of your records and reports to identify things that have gone wrong in the past.
- Analyse your systems and processes to identify critical points.
- Brainstorm with your employees or co-workers.

### STEP 3: Risk Assessment

This step involves analysing the likelihood and consequences of each identified risk using the measures provided.

- Look at the existing controls for each risk. Identify what your business does to control this risk.
- Rate the effectiveness of existing controls in preventing the risk from eventuating or minimising its impact should it occur. Indicate whether existing controls are Adequate, Moderate, or Inadequate.

Likelihood is a qualitative description of probability and frequency. What is the likelihood of the risk occurring? In the Risk Analysis Matrix select the description that best describes the likelihood of the risk occurring (with existing control measures in place).

Consequence is the outcome of an event or situation, being a loss, injury, disadvantage or gain. What is the consequence of the risk event? In the Risk Analysis Matrix select the description that best describes the consequences of the risk (with existing control measures in place).

Risk Rating = Consequence Rating x Likelihood Rating. On the Risk Analysis Matrix find the intersection of the likelihood and consequence ratings selected for the risk.

Risk Priority provides an indication of how soon you need to implement a strategy to treat the risk. Go to the Legend on the Risk Analysis Matrix and find the Risk Priority corresponding to the Risk Rating determined above.



# Risk Management Plan

## STEP 4: Risk Strategies

The objective of this stage is to develop cost effective options for treating each risk. Determine the best treatment option from the five methods below.

1. Eliminate the risk by discontinuing the activity or removing the hazard i.e., not undertaking the activity that is likely to trigger the risk.

Consider the following factors when determining the validity of this option to avoid the risk:

- **What will happen if the activity is not undertaken?**
- **Is the risk level too high to proceed or continue with the activity?**
- **Is the cost of the required controls higher than the benefit of the activity?**
- **Will the failure of the activity have critical consequences for other areas of your business?**
- **Consider the reasons for avoiding the risk. Is your business unnecessarily risk averse?**
- **Will the risk avoidance increase the significance of other risks or lead to the loss of opportunities for gain?**

2. Accept the risk simply take the chance to incur the negative impact. You may already be doing all things reasonable to reduce the risk but it can't be completely eliminated.

3. Reduce the likelihood of the risk occurring in order to reduce the negative outcomes. Can the likelihood of the risk occurring be reduced? Through preventative maintenance, or quality assurance and management, change in business systems and processes.

4. Reduce the consequences in the event that the risk occurs. Can the impact of the consequences be controlled or reduced if the risk occurs? Through contingency planning, minimising exposure to sources of risk or separation or relocation of a business activity and resources.

5. Transfer the risk totally or in part may be achieved through moving the responsibility to another party or sharing the risk through a contract, insurance arrangements, or partnership/s and joint ventures.

## STEP 5: Monitoring and Review

Risk management is an ongoing process. Even if the existing control measures are adequate you need to regularly review whether anything has changed which may impact on the risk issues you have identified.

Once the Proposed Controls are completed reassess the risk by conducting regular risk reviews and reviewing the progress and effectiveness of your selected risk strategies.



# Risk Analysis Matrix

Likelihood \ Consequence		<b>Rare</b> The event may occur in exceptional circumstances.	<b>Unlikely</b> The event could occur at some time.	<b>Moderate</b> The event will probably occur at some time.	<b>Likely</b> The event will occur in most circumstances.	<b>Certain</b> The event is expected to occur in all circumstances.
		Less than once a year	At least once a year	At least once in 6 months	At least once per month	At least once per week
Level		1	2	3	4	5
<b>Negligible</b> No injuries. Low financial loss.	0	0	0	0	0	0
<b>Minor</b> First-aid treatment. Moderate loss.	1	1	2	3	4	5
<b>Serious</b> Medical treatment required. High financial loss. Moderate environmental implications. Moderate loss of reputation. Moderate business interruption.	2	2	4	6	8	10
<b>Major</b> Excessive, multiple long term injuries. Major financial loss. High environmental implications. Major loss of reputation. Major business interruption.	3	3	6	9	12	15
<b>Fatality</b> Single death.	4	4	8	12	16	20
<b>Multiple</b> Multiple deaths and serious long term injuries.	5	5	10	15	20	25

### Legend

Risk Rating	Risk Priority	Description
0	N	No Risk: The costs to treat the risk are disproportionately high compared to the negligible consequences.
1-3	L	Low Risk: May require consideration in any future changes to the work area or processes, or can be fixed immediately.
4-6	M	Moderate: May require corrective action through planning and budgeting process.
8-12	H	High: Requires immediate corrective action.
15-25	E	Extreme: Requires immediate prohibition of the work, process and immediate corrective action.



# BIZguides

smallbusiness.wa.gov.au

## Insurance

### Risk Types

The level and type of risk that you need to consider will vary with the type of business you operate. There are however some common categories which you can use to guide your thinking and the development of your risk management plan. The most common business risk categories are as follows:

**Commercial:** includes the risks associated with market placement, business growth, diversification and commercial success. This relates to the commercial viability of a product or service, and extends through establishment to retention and then growth of a customer base.

**Compliance / Legal:** includes compliance with legal requirements such as legislation, regulations, standards, codes of practice and contractual requirements. This category also extends to compliance with additional 'rules' such as policies, procedures or expectations, which may be set by contracts, customers or the social environment.

**Financial:** includes cash flow, budgetary requirements, tax obligations, creditor and debtor management, remuneration and other general account management concerns.

**Health & Safety:** includes the safety of everyone associated with the business. This extends from individual safety, to workplace safety, public safety and to the safety and appropriateness of products or services delivered by the business.

**Environmental:** includes loss or damage due to accidents or natural disasters such as fire, flood, hail or storms. Can extend to property damage caused by burst water pipes or power failure.

**Reputation:** entails the threat to the reputation of the business due to the conduct of the entity as a whole, the viability of product or service, or the conduct of employees or other individuals associated with the business.

**Strategic:** includes the planning, scoping and resourcing requirements for the establishment, sustaining and/or growth of the business.

**Operational:** covers the planning, operational activities, resources (including people) and support required within the operations of a business that result in the successful development and delivery of a product or service.

**Service delivery:** relates to the delivery of services, including the quality and appropriateness of service provided, or the manner in which a product is delivered, including customer interaction and after-sales service.

**Project:** includes the management of equipment, finances, resources, technology, timeframes and people associated with the management of projects. It extends to internal operational projects, projects relating to business development, and external projects such as those undertaken for clients.

**Security:** includes the overall security of the business premises, assets and people, and extends to security of information, intellectual property, and technology.

**Equipment:** extends to the equipment used for the operations and conduct of the business. It includes the general operations of the equipment, maintenance, appropriateness, depreciation, safety and upgrade.

**Technology:** includes the implementation, management, maintenance and upgrades associated with technology. This extends to recognising the need for and the cost benefit associated with technology as part of a business development strategy.

**Stakeholder management:** relates to the management of stakeholders, and includes identifying, establishing and maintaining an appropriate relationship. This includes both internal and external stakeholders.