



## **Risk Management Basics**

### **WHAT IS RISK MANAGEMENT?**

Most entrepreneurs are risk takers, willing to invest resources with an expectation and hope, but no guarantee, of reward. But, from the viewpoint of insurance, "risk" is another word for "peril" and refers to things that can go wrong. Crime, vandalism, fire, a personal injury lawsuit, a computer virus, equipment breakdown, non-delivery of raw materials, death or illness of a key employee—the list of adverse events which can cause economic harm to your business or organization goes on.

Risk management is a broad topic. It involves taking steps to minimize the likelihood of things going wrong, a concept known as loss control. It also involves the purchasing of insurance to reduce the financial impact of adverse events on a company when, despite your best efforts, bad things happen. No one likes thinking about what could go wrong. Nevertheless, as a prudent manager, you should understand the risks your business faces. Until you identify risks, you can't make good decisions about managing them.

### **RISK MANAGEMENT REQUIRES LEADERSHIP**

Risk management, particularly loss control, begins at the top of any organization. If the head of company makes it a point to emphasize safety, compliance, and lawful and ethical behavior, the rest of the organization is more likely to follow suit.

Risk management costs money, but the costs of not paying attention to safety concerns and not purchasing insurance can be far higher in the long run than any front-end savings. While small companies typically do not hire full-time risk managers, risk management should not be left to chance. Specific individuals should be required to take responsibility for safety and compliance programs as well as for insurance matters.

### **RESOURCES FOR RISK MANAGEMENT**

Thanks to the Internet, all organizations have easy access to enormous amounts of information on risk management, including loss control measures, safety, compliance and disaster preparedness and recovery. Extensive checklists and suggestions of a general nature are available as well information tailored to specific types of businesses. Check the resources available from your insurance company.

One useful resource is your insurance agent. Invite the agent to tour your premises and discuss how you are currently managing risks. He or she will be able to evaluate your actions and offer suggestions.

Depending on the nature of your business, it may be a wise investment to engage a risk management consultant.



## **LOSS CONTROL AND INSURANCE**

Effective loss control—reducing the number and size of losses—may impact both the availability and affordability of insurance.

A business that is indifferent to loss control may have a higher than average number of insurance claims. A really poor loss history can make it difficult to find insurance. Conversely, businesses that actively manage risks, and thereby control losses, will have fewer claims and will often see those efforts rewarded with lower insurance premiums.

## **PREVENTING FIRE LOSSES**

Over time, experts have identified the most frequent causes of loss and how to reduce the extent of damage when accidents occur. Below are questions designed to help you decide whether you need to take additional precautions to control the risk of fire.

- Are employees trained in fire safety? Do they know exactly what to do if a fire starts? Is extra training given to those responsible for storage areas, housekeeping, maintenance and operations where there are open flames or flammable substances are used or stored?
- Do you have the right type, size and number of fire extinguishers? Your fire department or fire protection equipment supplier can advise you. Are the fire extinguishers serviced and tagged annually? Do you review with employees at least once a year where the fire extinguishers are and how to use them?
- If needed, have you modernized your electrical system? Faulty wiring causes a large percentage of nonresidential fires. Are electrical panels accessible, with at least three feet of clearance and labeled? Except for temporary use (or surge protection for sensitive electronics such as computers) electrical equipment should be plugged directly into an outlet, rather than into extension cords.
- Have you situated your business in a fire-resistant building—a structure made of noncombustible materials with firewalls (self-supporting solid walls running the full width and height of the building) that create barriers to the spread of fires?
- Does your building have a fire alarm system connected to the local fire department or an alarm company?
- Does your building have a sprinkler system to douse fires? If so, is it serviced, including a main drain test, at least annually? Is your sprinkler system the right one for your kind of building and the materials used in your business? Different types of buildings and contents require different types of fire suppression systems. Your insurance carrier, alarm company or local fire department can assist you in choosing the most appropriate type of system.
- Have smoke detectors been installed, and are they regularly tested?
- Have you posted "No Smoking" signs? Do you enforce the rule? Is there evidence of smoking?
- Do you regularly check your heating system?

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