

Safely



SPEAKING

BY RICHARD FROST

Risk management defined – part 1

OUR *Safely Speaking* articles are normally written about a single topic, exposure or issue with options to control, reduce or eliminate the problem. Beginning with this issue, we'll begin a series of articles about risk management overall, e.g., what it is and how you can use it to control, reduce, or eliminate problems and/or issues you may have.

Risk management is an ongoing systematic effort to identify and control the risk of losses and to finance those losses in a cost effective fashion.

Risk management is an ongoing systematic effort to identify and control the risk of losses and to finance those losses in a cost effective fashion. The goal of risk management is not to restrict your business or terrify you into not doing anything, but to provide a solid basis so an informed decision can be made. You are the best person to completely understand your business and industry and all the perils that are present. Therefore, you are ultimately in the best position to find solutions to these problems. Understanding and quantifying the actual and potential losses your company faces allows you to make proper business decisions, allocate resources and have your company reach its fullest potential.

By following the six steps of risk management you will be in the best position to make informed decisions.

Six Steps of Risk Management

1. Identify the risks

Identify the risks your dealership can or does face on a daily basis. In many cases, using scenarios, what ifs, and common sense can identify the potential risks.

2. Evaluate the risks

Now you need to quantify the risks in order to prioritize them. Generally, a weighting system is helpful to prioritize the risks.

- Frequency: How often are they likely to happen or do happen?
- Severity: How much of an impact would a loss have if one were to occur?

3. Examine the options

There are five methods used to control the loss. They are: stop doing it; reduce the number of losses; reduce the size of the loss; separate assets in order to protect them; and transfer the risk.

4. Select the right option(s) for you

Choose an option that is feasible and will not adversely affect the company or create other loss exposures. Sometimes more than one option will be needed to control the risk.

5. Implement the risk management plan

Once a risk management plan has been selected, it must be implemented to have any impact.

6. Review the risk management plan

The risk management plan must be periodically reviewed after it's implemented to ensure its effectiveness.

Risk management is not a one-time effort. It is a constant and continuous review of the business operations, environment, resources, etc. As the world changes, new risks arise and/or old risks change that must be identified and controlled. As the more severe risks are controlled, actions can be taken on other risks. ■

The information provided is intended to be general in nature, and may not apply in your province. The advice of independent legal or other business advisors should be obtained in developing forms and procedures for your business. The recommendations are designed to reduce the risk of loss, but should not be construed as eliminating any risk or loss.

RICHARD FROST, CRM, is loss prevention coordinator – National Associations, Federated Insurance. For more information, contact our Loss Prevention Department at 800/665-1934 or visit www.federated.ca.

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