

Businesses are exposed to an array of risks

A business and its executives are on a daily basis exposed to a vast array of risks - both internally and externally - that have the potential to negatively impact a business' cash flow, operations, reputation and ultimately the success of the business.



Annelie Smith, Corporate Executive at Risk Benefit Solutions

According to Annelie Smith, corporate executive at Risk Benefit Solutions (RBS), often businesses, and in particular small and medium enterprises (SMEs), don't know the true extent of the risks impacting their business, or have measures in place to protect themselves from the consequences of these risks.

She adds that when implementing a risk management plan, businesses need to identify all possible threats against their business. "Often businesses obtain insurance for the more 'obvious' risks such as fire and perils, theft and damage to property. There are however so many other lurking risks which could be harmful to a business if the necessary protective measures aren't in place," says Smith.

Negligent decisions

Director & Officer Liability cover, for example, is often neglected by SMEs until it is too late, says Smith. "There is an increasing trend of companies - no matter how big or small - and their directors being held accountable for negligent decisions. The Zurich 2014 SME survey, which measures SMEs' greatest risks, ranked reputational damage and corruption in the top five risks facing SMEs, thereby highlighting the rising need for such protection. While we are seeing a rise in businesses purchasing this type of cover, it definitely isn't top of mind for all businesses."

She points to a few other examples: "The pilferage of stock shortage is uninsurable and is not considered a Fidelity Guarantee claim of theft. Another example is that if the insurer is not notified of a business' description changing the business may not be covered, as this is considered a material change to the policy."

In terms of compliance, there are often amendments that companies need to stay abreast of, says Smith. "For example, the amendments to the Labour Relations Act - which provides greater protection to staff employed through Temporary Employment Services or labour brokers - exposes businesses to Employment Practices Liability claims.

"It is also important to note that the Consumer Protection Act makes plain language a fundamental consumer right and therefore requires companies to make sure their policy has the plain language stamp of approval."

Unique challenges

Smith says that these are just a few examples of the risks that businesses face. "Every business has a unique set of challenges, ranging from the political risks, the type of industry they operate in, as well as the geographic location the business operates in, to name a few."

In today's tough economic environment, SMEs can no longer afford to have a careless attitude to risk management," says Smith. "Businesses need to be taking a fresh look at enterprise risk management strategies and behaviours best suited to the business and its potential challenges."

She advises businesses to formulate and implement an acceptable risk management strategy that takes the following four tiers into consideration: Transfer of risk (insurance), retention of risk (self-insurance), treat (improve risk with the assistance of a qualified risk engineer) and terminate (do not continue with risk).

"Through experience, we know that uncontrollable risks can have a major impact on a business both physically as well as financially. Businesses should be working with their broker to move away from transactional insurance to more innovative, transparent and manageable insurance solutions," Smith concludes.

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