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Management of operational risk

Mr Rossi, a company owner, has the following question:

I already have cover through a number of policies; why would I need to conduct an analysis on managing my business risks?

Daniele Barbasio, federally certified insurance expert and graduate in Risk Engineering, replies:

Insurance policies don't guarantee adequate cover of your business risks if you have not properly analysed the business risks facing your company in the course of its normal operations.

Experience shows that knowing how to face up to and overcome the hard times is the key to staying afloat for whatever business you are in. An adequate risk management instrument is thus indispensable to manage any crises that may arise.

It is therefore essential to adopt a dynamic forward-looking approach encompassing the different scenarios that could confront your company.

Why deal with risk? *Does it create value?* *Exactly!*

Reducing risk creates value as it mitigates the effects of potential problems and financial crises that can affect your company, which can lead to friction with clients, suppliers and creditors and, in extreme cases, the loss of all your assets.

Take the following example:

Think of a company in crisis following a fire which, apart from the material damage caused, has temporarily interrupted production. Imagine all the additional costs which could arise from this extension of the loss event:

- Problems with suppliers and clients
- Problems with creditors
- Need to raise capital through a new investment by the owner or shareholders
- Costs arising from managing the event and company restructuring
- Possible loss of market share
- Possible loss of key personnel
- Threat of bankruptcy if you don't have the financial means to meet your commitments

That is why deciding to deal with risk and considering insurance-based solutions as well of prevention and protection can help add value in the same way as productive investment, where the costs are outweighed by the benefits.