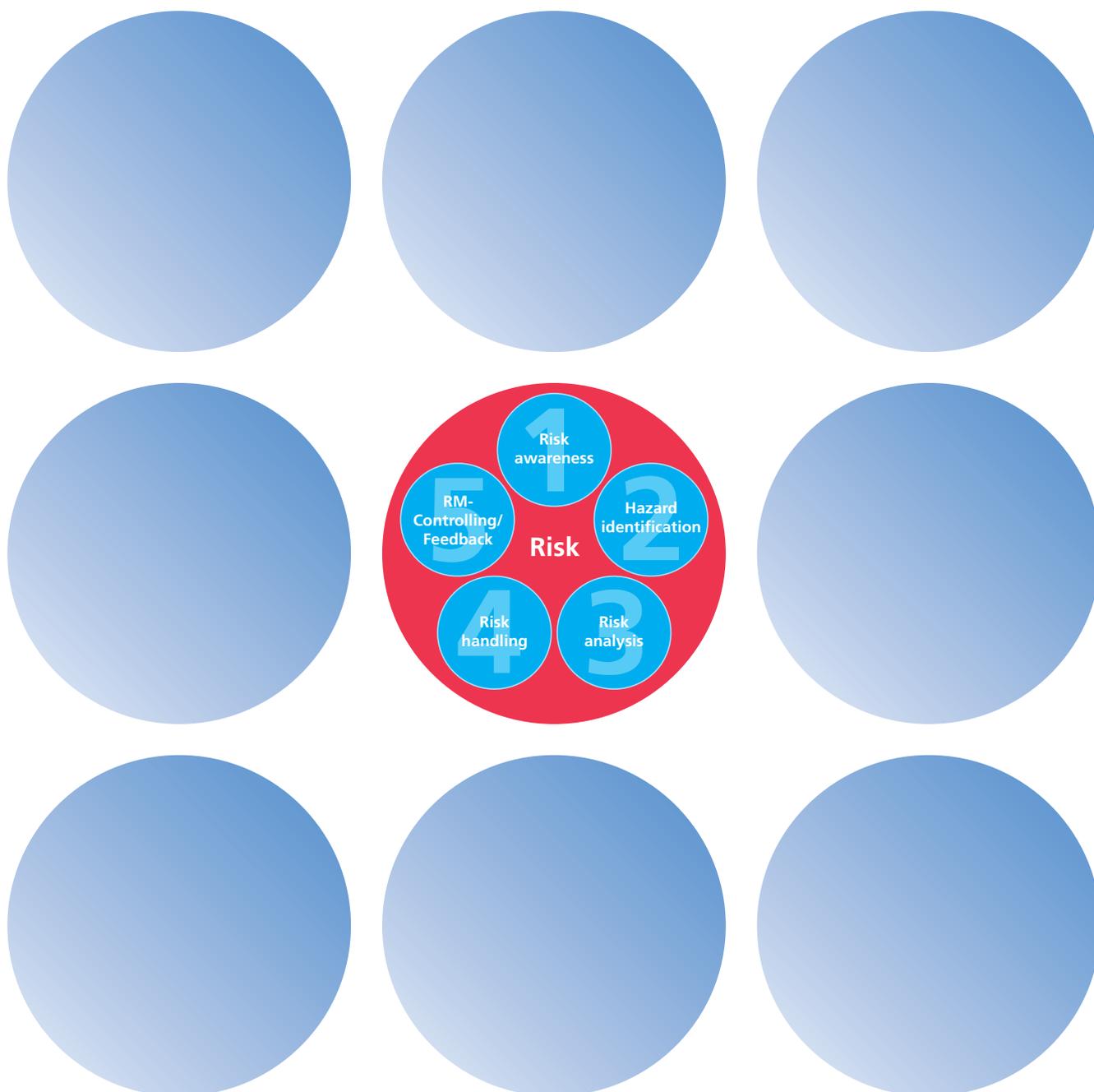


# Leave nothing to chance

Corporate Risk Management



# Corporate Risk Management proceed methodically

The fundamental basis of risk management (RM) is a dynamic process involving constant awareness and acting. For the management of corporate risk, it is important to use a method which reflects the process-oriented nature of risk management.

The methodology developed in 1994 by Zurich calls attention to five steps to be observed and implemented in corporate risk management.



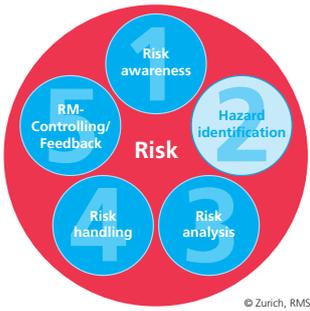
## Risk awareness

How do you promote risk awareness in your company?

Risks are not always adequately recognized in the every-day world of business. The result can be some nasty surprises and the doubtful benefits of hindsight. Yet, that is not how it need be. Risks can be systematically managed if they are recognized for what they are and the areas that can be influenced are defined. A company must, therefore, promote active awareness of risk. For this purpose, it must

- collate its experience of disruptions and near-losses, and
- evaluate information drawn from practical experience, science and research (eg. from specialist literature or lectures).

**Risk awareness is the key to purposeful corporate risk management.**



# Hazard identification

## How do you identify possible causes and consequences of hazards in your company?

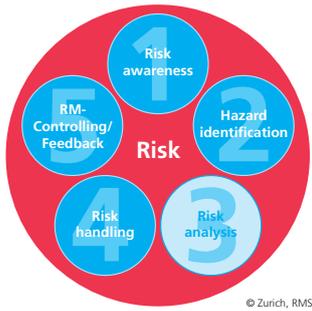
The purpose of hazard identification is, on the basis of risk awareness, to identify systematically the hazards existing within the company and also their causes and consequences. Consistent separation of causes and consequences simplifies risk analysis and facilitates efficient risk handling.

The methodological approach of the Zurich Hazard Analysis (ZHA) can also be applied especially in the case of technical risks.

Hazards	Possible causes	Possible consequences
Fire	<ul style="list-style-type: none"> <li>• Defective electric cables</li> <li>• Welding work</li> <li>• Smoking</li> </ul>	<ul style="list-style-type: none"> <li>• Dirty floors and water</li> <li>• Costly excavation &amp; cleaning operations</li> <li>• Employees are injured</li> <li>• Business interruption</li> </ul>
Product liability	<ul style="list-style-type: none"> <li>• Failure of raw materials to conform to specifications</li> <li>• Confusing user instructions</li> </ul>	<ul style="list-style-type: none"> <li>• Product recall</li> <li>• Users injured</li> </ul>
Sales difficulties	<ul style="list-style-type: none"> <li>• Limited or obstructed market access (domestic market/exports)</li> <li>• Working with unsuitable distribution partners</li> </ul>	<ul style="list-style-type: none"> <li>• Low turnover</li> <li>• Loss of market share</li> <li>• No or insufficient margin contribution</li> </ul>
Wrong investments	<ul style="list-style-type: none"> <li>• Wrong or inadequate information for the assessment of business investment</li> <li>• Declining demand in target markets</li> </ul>	<ul style="list-style-type: none"> <li>• Wrong allocation of resources</li> <li>• Overvaluation of plant or real estate</li> <li>• Longer pay-back period</li> </ul>

This approach can be used, as illustrated above, for:

- strategic risks
- market risks
- financial risks
- pure (operational) risks



# Risk analysis

## How do you assess and evaluate risks in your company?

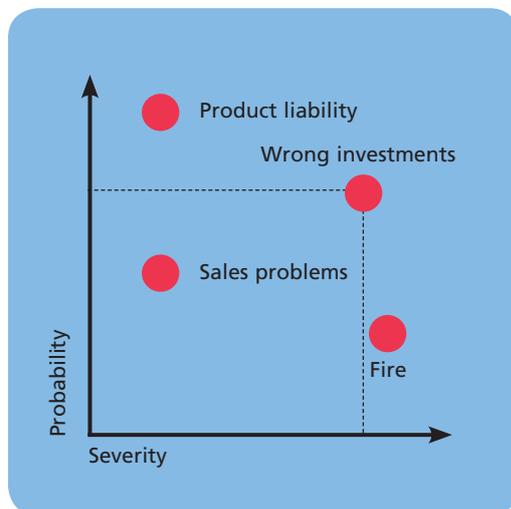
The object and task of risk analysis is to assess and evaluate the identified causes and consequences within the company.

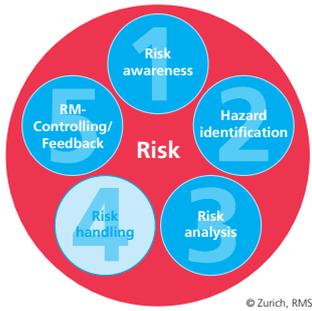
The probability of the identified causes is assessed in terms such as 'often', 'frequent', 'sometimes' etc. The severity of the identified consequences is assessed and similarly expressed in terms such as 'catastrophic', 'critical', 'small' etc. These terms also permit the adverse effects on human life and nature to be taken into consideration, which cannot be financially assessed.

A risk diagram visualizes the assessment of causes and consequences.

This also helps with evaluation. The risks must be compared with the company's requirements and safety guidelines. The comparison shows for what risks action is necessary.

### Specimen Risk Diagram:





# Risk handling

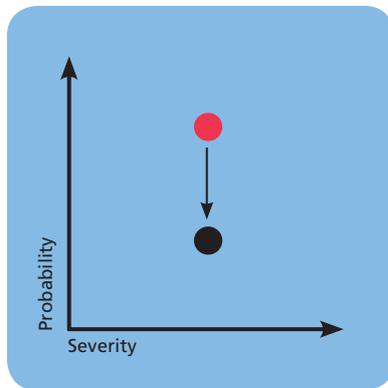
## How do you handle the risks in your company?

The objective of risk handling is to 'take risks in hand' by means of appropriate measures. The systematic approach allows risks to be handled consistently according to their causes and consequences.

### Cause-related handling

These measures avoid or reduce risks by diminishing the probability of their occurring (loss prevention).

**Example:** By making a thorough calculation of the prospective investment before taking the investment decision the likelihood of wrong investments can be reduced.



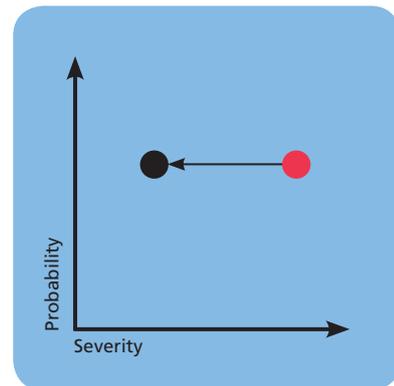
The probability of the causes is reduced. Risks are thereby avoided or reduced.

### Consequence-related handling

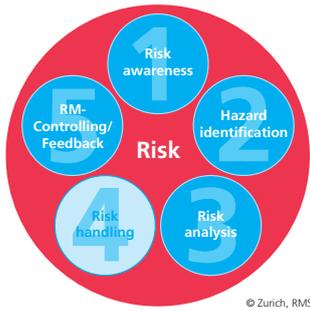
Consequence-related measures are productive after a problem has already occurred. We must then distinguish between:

Measures that have a direct influence on the consequences reducing their severity. The risk is there-by reduced (loss reduction).

**Example:** An efficient recall organization can reduce the level of recall costs and limit the damage to the company's image.



The severity of the consequences is reduced. Risks are thereby reduced.



© Zurich, RMS

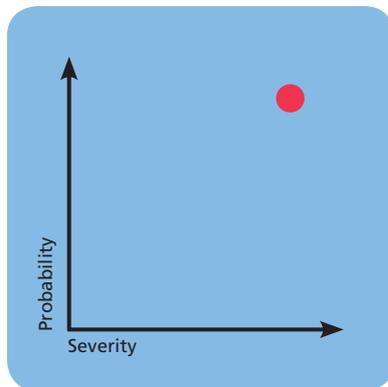
# Risk handling

Measures that provide financial solutions to handle risks. The risks themselves remain unchanged. They include:

Measures to transfer the risk. The risks themselves remain, resulting from the causes, and potentially, will produce the anticipated consequences.

However, the financial consequences are transferred to a contracting party or to an insurer or are financed in some other way.

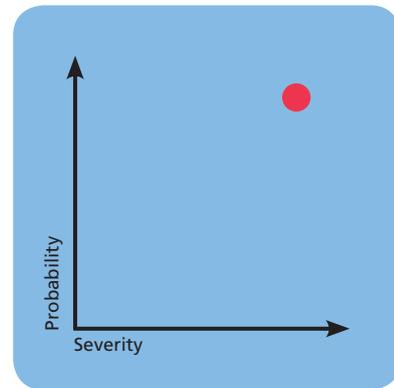
**Example:** The financial consequences of a fire are covered by an insurance policy.



The risks themselves remain. The possible financial consequences are transferred to an insurance company for a fee. The insurance company then pay for the risks that materialize.

Measures to retain the risk. Here, too, the risks still remain. However, solutions are found within the company to bear the financial consequences.

**Example:** The company builds financial reserves to overcome sales difficulties.



The risks themselves remain. The company sets up financial reserves. The company itself pays for the risks as they occur.

Besides the conventional instruments such as insurance solutions or reserves, there are alternative solutions to risk financing (captives, rent-a-captive, finite risk) which contain elements of transferring as well as retaining risks.



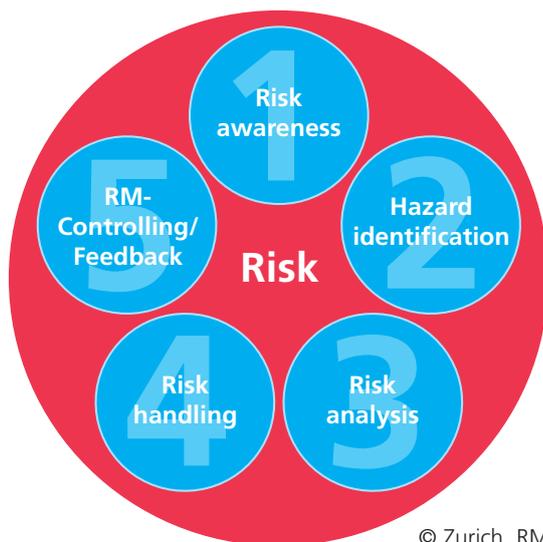
# RM Controlling/Feedback

## How is risk management integrated within your company?

The purpose of RM Controlling is to repeat the RM steps periodically and to integrate this process within the company.

Central to the feedback mechanism is the flow of information from the risk management process relating to both method and content: the experience or new knowledge concerning **hazard identification**, **risk analysis** and **risk handling** reveal new opportunities for controlling risk. In addition, the company can also obtain valuable experience from losses and near losses within its own operations. All this information must be centrally gathered, analyzed and fed back to the relevant activities in the business.

Risk management is a dynamic process and must be second nature to corporate management and the workforce.



Leave nothing to chance  
– proceed methodically.

This risk management methodology was developed in 1994 by Zurich.

*Because change happenz™*

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