# MANAGING RISK

## IT'S MORE THAN JUST INSURANCE ...

When planning for your future and achieving your goals and objectives, a robust risk management plan is the safety net providing the best chance of your plans coming to fruition if unplanned events occur.

When the term 'risk management' is raised, some mistake it to be all about implementing insurance. However, holding appropriate insurance is merely a component of your risk management plan.

When considering the risks to your plan, the process should undertake the following three steps:

1. Identify the risks
2. Quantify each risk
3. Manage each risk

**1. Identify the risks**
This step is designed for you to think about all the risks that may impact your ability to achieve your goals and objectives. When planning for your financial future, this may include risks such as the following:

- Spending more than you plan to spend
- Relationship breakdown
- Ill-health
- Investment market volatility
- Legislative change or economic uncertainty
- Death or disability
- Destruction or theft of property
- Cyber security breaches
- Litigation risk

**2. Quantify each risk**
This step of the process is designed to determine the impact each risk would have on your plan. These risks may be financial or non-financial. Using the examples above, the impacts of these risks may be as follows:

- You outlive your asset base causing a reduction in living standards

- A reduction of your asset position and or income, an increase in expenditure and potential impact on your emotional and mental wellbeing

- Being unable to enjoy the fruits of your hard work and or increased expenditure to deal with the treatment and convalescing

- Your capital base being eroded by negative investment returns or you not meeting your goals due to underperforming investments

- Increased costs to your plan resulting from changes outside your control, such as rising inaterest rates or changes to government benefits like the aged pension, Medicare entitlements or taxation concessions

- Future income being lost or significant increase in costs from premature death or unplanned disablement

- Your asset position being reduced by the destruction or theft of property

- Financial loss or reputational damage caused by data breaches, social media activity or professional incompetence

- The financial, emotional and reputational impact of resulting from legal action

**3. Manage each risk**

Having identified and quantified each risk, it is then a matter of determining how each risk will be managed. This is based on the potential impact of each risk, the likelihood of occurrence, and the level of control you have over the risk.

Each risk is then managed by either accepting the risk, minimising the risk, avoiding the risk, or transferring the risk.

Minimising the risk means there is a risk present and, if it occurs, it will have an impact but there are actions within your control to minimise the chance of the risk occurring. This might be eating well and exercising to reduce the risk of premature death or ill-health, having a regular date night with your significant other to focus on your relationship, or investing in appropriate assets so you do not take any more risk than necessary to achieve your plan.

Avoiding the risk means there is a risk present and, if it occurs, it will have an impact, but by not participating in that activity means the risk is eliminated. This might be not participating in extreme sports such as skydiving or bungee jumping, social habits such as smoking, drinking, gambling or taking drugs, or investing in speculative investments.

Transferring the risk means there is a risk present and, if it occurs, will have an impact, but you can pass that financial risk off to another party. This is traditionally where insurance fits into the risk management equation. This might be holding adequate and appropriate life or disability insurance protecting against premature death or ill-health, home and contents and motor vehicle insurance protecting against the destruction or theft of property, or professional indemnity, public liability, management liability or cyber security insurance protecting against litigation risk.

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When it comes to putting plans in place, a robust risk management plan will provide the safety net for success, but it is much more than just insurance ... Our team will look after the risk management details so you are free to get on with what's important to you.

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**David and the team at Personal Risk Professionals provide a specialist life risk advisory service.**