Seven Keys to Surviving this Financial Crisis

Know your capacity for risk

- Your (financial) risk capacity is the amount of risk that your organisation is able to take without experiencing financial distress.
- Your organisations risk capacity may be limited by external factors (eg regulatory restrictions or bank covenants); internal factors (eg KPI's, target financial ratios) or stakeholder expectations (eg expected dividends).

Define your risk profile

- Your (financial) risk profile is a high level assessment of the key risks that impact upon your organisations financial performance. It involves dividing risk into 5 or 6 key categories (eg strategic, operational, financial, IT, organisational, hazard) and identifying the potential loss in each area.
- Corporate strategy and objectives are the starting point for profiling risk. Your key risks are those events that would impact upon your ability to meet the corporate objectives and/or successfully execute the corporate strategy.

Quantify your appetite for risk

- Your (financial) risk appetite is the amount of risk that your organisation is willing to take. Your appetite for risk should never exceed your capacity for risk.
- Risk appetite must be quantified in terms that are simple to monitor and measure.

Set your risk strategies

- These are the strategies that you will employ to manage risk on a day-to-day basis.
- To develop suitable risk strategies you will need to thoroughly understand the drivers of risk and the likelihood of each risk event occurring as well as its impact.

Set and communicate risk limits

- Risk limits quantify the maximum acceptable exposure to risks at corporate level, and cascade down through the organisation, setting limits at each level of management.
- Corporate risk limits are defined by the corporate risk appetite. The cascade of limits must be articulated in a manner that is easily measured and monitored.

Monitor, measure and report risk

- The frequency of reporting depends upon the difficulty involved in monitoring and measuring risk – some risks may be reported daily, all risks should be reported monthly.
- Integrity and timeliness of reporting are dependent upon a strong control framework supported by robust infrastructure (systems, procedures, risk measurement methodologies, KPIs) and people with appropriate skills and experience.

Test your processes, controls & infrastructure

- Ensuring that you are able to monitor, measure and report requires a robust framework of processes, controls and infrastructure. Audit this framework regularly and make sure the audit team has the necessary skills and experience to ask the right questions.

Basis Risk Pty Ltd

Basis Risk

Taking and managing risk is at the heart of shareholder value creation[1]

Basis Risk enables organisations to take and manage risk in a controlled manner that enhances shareholder value. We achieve this by developing risk management frameworks:

- Aligned to corporate goals and objectives
- Reflecting corporate risk appetite
- Including contingency for the unexpected
- Supported by a robust framework of process, controls and infrastructure

We believe that more time spent anticipating risks means fewer crises to manage.

Good risk management frees more time for the Board and executive management to focus on strategic thinking, and less time monitoring compliance and managing crises.

Typical projects include risk audits, risk measurement, development of risk strategies, processes and controls on behalf of executive management or the Board.

[1] Cohen F and Peacock J, 1997, "Managing Risk to Increase Shareholder Value: New Concepts and Tools"

Contact Details:

Alan Miller
Director
Basis Risk Pty Ltd
18 Scott Street
South Fremantle
WA 6162

Email:
info@basisrisk.com.au

Website:
www.basisrisk.com.au

Telephone:
0408-951660