

MANAGE YOUR RISK AND AVOID A CRISIS

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Years of unrestrained spending, cheap lending and failure to implement financial reforms left Greece badly exposed in the global economic downturn. The lesson independent financial advisers can learn from this is to identify the risks in your business now and take the appropriate measures to ensure your practice is robust enough to survive and thrive in tough times.

Risk management focuses on recognising what could go wrong, evaluating which risks to manage, and implementing strategies to deal with those risks. Businesses which have undergone this process are better prepared and have a more cost-effective way of dealing with risks.

To identify risks, you'll need to look at the key areas of your business and finances. Typical risks may include compliance, employee, operational, economic, strategic and financial risk, the latter being associated with your business'

financial structure, systems and types of income. Determining the extent of your financial risk involves analysing your daily financial operations. Regularly compare your actual figures with your forecasts and budget and watch for any warning signs or changes in market conditions that may require further monitoring.

Figures that drastically differ from your forecasts may indicate an increase in risk due to greater competitor activity, new entrants in the market, industry or legislative changes that are influencing the demand for your products or services or the start of a new trend. If your actual figures vary significantly, and you've ruled out that it's not due to a once-off or seasonal anomaly, it's vital to respond quickly and revise your business plans if necessary.

You can also determine the extent of your financial risk by analysing your cash flow. For instance, your cash flow figures will indicate if your business is too dependent on a single client, the loss of whom would considerably impact your business' viability. Or they may reflect a heavy reliance on commission. The sooner you identify a potential problem, the more time you have to implement a solution.

Once you have identified all your risks, you can evaluate them to determine the significance of each and how to deal with them. To do this, rate the consequence and probability of each risk as high, medium or low. By comparing these results with your business plan, you can determine which risks may affect

your objectives. You can then direct your efforts, time and money to manage the most important risks.

To manage a risk, you can accept it, transfer it, reduce it or eliminate it. Where the cost of mitigating a potential risk is extremely high, doing nothing about it sometimes makes more business sense. Alternatively, you could transfer the risk, which is typically done through insurance such as professional indemnity cover. Or you could reduce a risk or eliminate it completely, for instance, by revising your processes.

Risk management is not a once-off application. Ongoing monitoring and reviewing are essential for your risk management approach to succeed. Checking ensures that risks have been correctly identified and assessed and relevant controls are in place. It is also a valuable way to learn from experience and constantly improve your risk management approach.

Masthead assists advisers to manage their risks in several ways. As the adviser's adviser, we offer the support and services to identify, evaluate and help our members to manage their risks. We also offer advisers the opportunity to operate under a master licence, where Masthead Financial Planning assumes the key individual responsibilities.

To find out more about how good risk management can improve the quality and returns of your business, please contact your nearest Masthead regional consultant or visit www.masthead.co.za.

