PEOPLE RISK

WHAT IS PEOPLE RISK?

People Risk in an organisation refers to the costs that will arise as a consequence of things that happen to its people.

People are the single most important asset in any business but they are also the most vulnerable asset. People can breakdown and suffer damage just as in the case of machinery and property. However people can be harder to repair and the consequences can be more serious. People also age and will one day wish to retire from work. Planning ahead with financial provisions and succession plans will make that transition easier.

Managing People Risks can be hard because of the emotional connections they may develop

People form attachments and when working as a close-knit team these may be very strong connections. Most employees have families and dependants who are financially dependant on the income from their employment. These personal and emotional connections add challenging dimensions to managing the effects of sickness, injury or death of an employee. More than money will be involved.

A pro-active and strategic approach to managing People Risks will:

- **Reduce the disruptions and costs to the business**
- **Protect employees and their families from the financial impacts of loss of income**
- **Produce a win-win outcome for the organisation and its employees**

WHAT SORTS OF COSTS ARISE FROM PEOPLE RISK?

People Risk costs can be very large one-off costs or small but frequent amounts. The severity of impact can vary widely and often includes financial impact on the employee and his or her family as well as on the business.

The following are just a few examples:

Example 1

An key employee on an overseas assignment suffers a serious illness. He requires urgent evacuation and return to New Zealand. It is expected he will be off work for at least 6 months whilst recovering.

The consequences

Costs will be incurred for initial medical treatment, possibly hospitalisation and emergency evacuation. In addition the business may lose revenue if the overseas assignment is not completed. The employee's extended period off work will utilise all his sick leave entitlements in the first month of absence and leave him with a potential financial problem for the balance of his recovery period. The company will need to hire a short term contractor with similar skills to fill the role. This is expected to involve considerable cost given the employee's specialist skills.

Example 2

A business director and company shareholder dies suddenly and unexpectedly from a heart attack.

The consequences

The remaining business shareholders must quickly raise funds in order to purchase the company shares of the deceased director, which have passed to his estate. The company is currently short of cash and may need to borrow the cost of the shares. The widow of the deceased director has no desire to participate in the ownership or management of the business and would like to sell the shares as soon as possible. A quick resolution of the share purchase will enable the surviving directors to revert to "business as usual".

Example 3

Rates of sick leave, incidents of accidents and levels of productivity are poor compared to the industry average because of a high average age of employees and poor levels of physical fitness.

The consequences

There is a drain on the ongoing profitability of the business arising from the characteristics of the workforce. There may be serious consequences in relation to health and safety because some employees are not as alert as they should be. Sick leave of key employees may be disrupting the delivery of sales orders and impacting the company's reputation.

Example 4

An employee who has passed retirement age cannot afford to retire because of inadequate levels of retirement savings.

The consequences

The employee continues working in a role that is demanding but no longer has the physical and mental capability to perform well. As a result there is negative impact on customer satisfaction and on the organisation's productivity. In addition a younger employee who is keen for career progression leaves the business because she is unwilling to wait any longer for the older employee to retire.

Example 5

A group of senior directors and employees travel overseas into a third world market and their plane goes down with loss of all lives on board.

The consequences

A sudden and severe financial impact on the business with loss of key staff and associated disruption. The employees' families are also financially impacted. In the extreme there may be a significant negative impact on the company's share values, issues with bank borrowings and consequent problems over control of the business.

A MODEL FOR MANAGING PEOPLE RISK?

Similar options apply for managing People Risks as apply to other general business risks. The model below helps determine the appropriate strategy.

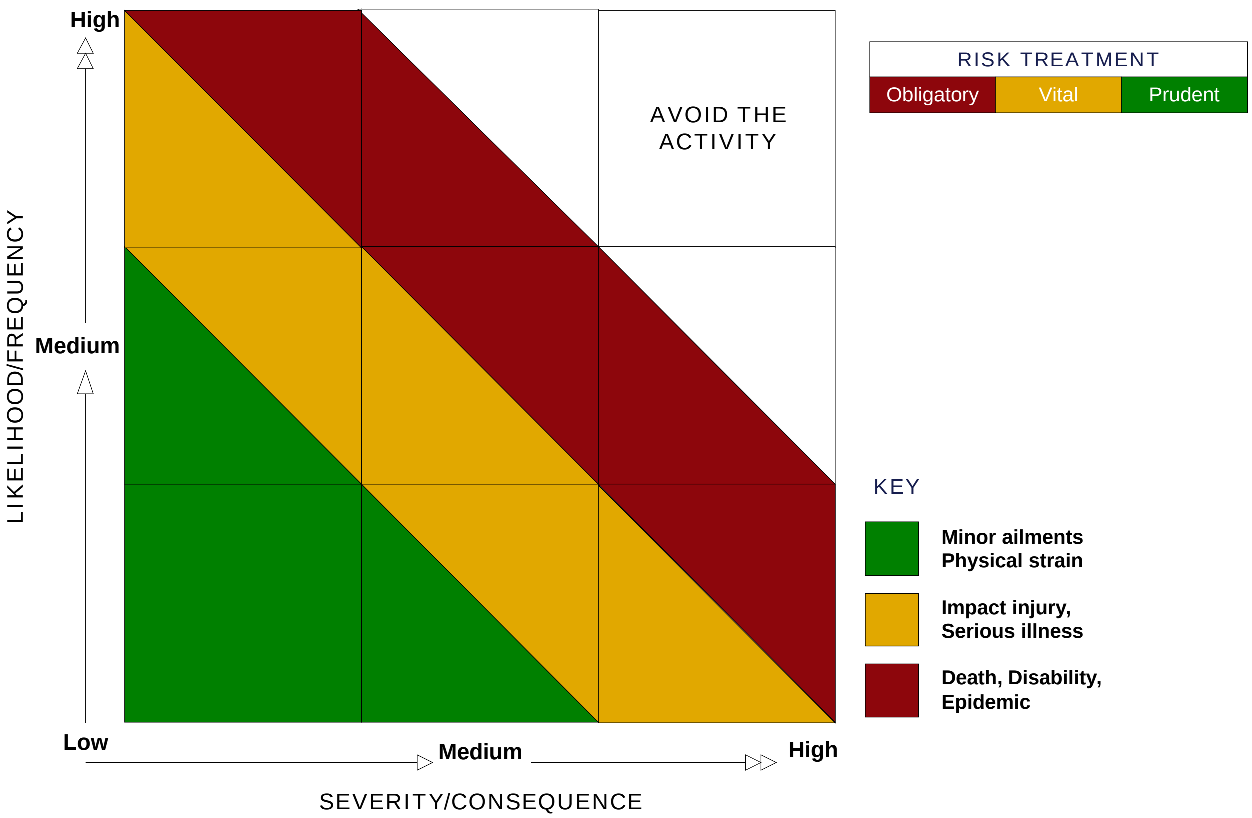
The model proposes that some risks that are very high in likelihood and in severity of impact should be actively avoided. e.g. allowing the whole senior executive team to travel on a non-scheduled airline in a high risk area, as in example 5 opposite.

Many risks are in the middle group of the Risk Map e.g. medium to high likelihood and severity. These risks usually call for a combination of insurance and appropriate business practices that will reduce impacts.

Very low severity risks may not justify insurance and may be managed to keep impacts on the business minimal and predictable. In example 3 opposite, the solution may involve the introduction of a wellness programme and a change in employee selection criteria.

In most of the examples we have described there is an option to apply insurance as a part of the risk management solution. In some cases the insurance protection will be for the organisation. In a number of cases it may also be an employee benefit.

RISK MAP



THE PEOPLE RISK MANAGEMENT PROCESS

The first step is to identify and assess the People Risks that exist in the business. These then need to be prioritised according to the potential impacts on the business. Which risks are frequent and severe and most in need of attention? Are there some that are infrequent and of low impact and can be given low priority? Are some risks clearly a financial issue for the business and some a financial issue for the employees of the business. Is there a win-win solution that will meet the needs of both parties?

From the initial analysis, actions can be considered that will be a mix of prevention or minimisation strategies to "avoid, eliminate or treat" the risk. Some risks can be comfortably retained as inherent business risks. Other risks will need to be transferred out of the business through appropriate insurance.

Willis advises businesses on managing all forms of business risk, and can help you to:

- Identify the risk
- Minimise risk exposure
  (e.g. developing a staff travel policy)
- Mitigate the impact of any loss
  (e.g. crisis management planning)
- Get your business back on track should the worst occur
  (e.g. business continuity planning)

With proper planning, a crisis need not become a disaster. Applying a strategic and disciplined approach to managing People Risks creates a business culture that will have spin-offs that are much more than just protection against unexpected costs for the business.

The outcomes should be:

- Improved employee productivity
- Reduced rates of absenteeism
- Improved employee health and wellbeing
- A positive employer brand that helps with attracting new talent
- Increased employee motivation
- Improved employee retention

GOOD PEOPLE RISK MANAGEMENT IS A WIN-WIN ACTIVITY.

CONTACT US

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