16th January 2009

New Age Risk!

Flexibility is the key!

We hold workshops covering the subject of Risk Management and during those workshops extol the virtues of Murphy's Law. In essence, when undertaking a review of Risk Management don't be blinkered, because the worst possible thing can occur at the worst possible time wreaking havoc in your business. Good Risk Management is essentially about an open minded approach to what can go wrong and ensuring your organisation has the flexibility to work around the problems (which, where possible of course you try to identify in advance).

Now the bit about identifying in advance can be a troublesome area. Take the situation 12 months ago. How on earth could you predict the disruption we are experiencing today in the banking sector? I imagine few Risk Registers had the line 'make sure bank is not about to go bust'.

For years I've read stories about pensioners storing their money in a jar under the bed. Essentially a lack of trust in the banks and a desire to keep personal wealth in a place they know and understand, their home. Now of course the sensible thing to do is advise that everyone with cash under the bed puts the cash in a nice safe bank account where it can earn interest.

Ok so let's assess 'safe'. For sure banks have more physical security to stop the money being stolen by a 'thief' (i.e. balaclava wearing thug breaking into house, as opposed to sharp suited city executive!) But as we saw in Iceland, the UK, the US etc etc, financial security is not something the banks are able to offer in some cases. The Government of course guarantees up to £50,000 of 'Retail Depositor' money and small organisation cans benefit from some of these provisions (send us an email if you want the details on this). But with all the reports suggesting the UK Government (well the UK itself) is possibly heading towards bankruptcy, what does a bankrupt's guarantee really mean in the long run?

And then there is interest....or at least there was. Recently, with general interest rates falling, most money held on deposit is earning less and less by way of interest. In fact 0.5% and 1% rates are increasing common place. It wasn't so long ago you could easily pick up a 6% fixed interest rate in one of those 'safe and secure' banks.

So in a world where banks are popularly considered to be fragile at best, and the returns generally poor, where should the money go...

Ironically, despite much corporate and personal cash and investments being decimated now is the time when careful financial advice is absolutely essential. For companies holding cash, the potential acquisition opportunities are quite stunning. Businesses struggling with cash flows are more amenable than ever to do deals, quite simply they have no choice. Internal investment in your existing business could be ideal, particularly as the goods, services and staff you need are possibly coming at a discounted price right now.

But if you haven't got expansion or diversification plans, be careful where your money goes. Your accountant, solicitor or financial advisor would be a good port of call. But it is still a tricky choice, with AIG, RBS, and others falling on government support who knows who may be next. There are some sound institutions of course, but you have to find them and remember the words of Thomas Jefferson ‘banking establishments are more dangerous than standing armies’.

So with all these issues to consider we come back to that thorny topic of Risk Management. If you are bold and brave enough to address this, make sure you look at all your business assets and have an open mind to what could threaten them. At the moment banking is the worry, who knows what it might be next week, those with an open mind to risk of course will realise the threats sooner than others and act quickly to mitigate (which often is the thing that makes the difference).

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