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WEBINAR SERIES



# FAP Risk Management

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# Re-cap of Previous Session

- Governance & director duties
- Covered governance considerations and practical solutions for small FAPs
- Available to watch again on the FSC Professional Advice Knowledge Hub ([getinshape.nz](https://www.getinshape.nz))

# Agenda

- What is risk management?
- Techniques for managing risk
- Determining your desired level of risk
- Common FAP risks
- Reporting/tracking your risks



# What is risk management?

Risk management is the identification, assessment, and prioritisation of risk, including eliminating or mitigating risk.

(The Four Pillars of Governance Best Practice: IOD)

Directors should have a sound understanding of the key risks faced by the business and should regularly verify there are appropriate processes to identify and manage these. (Corporate Governance Handbook: FMA)



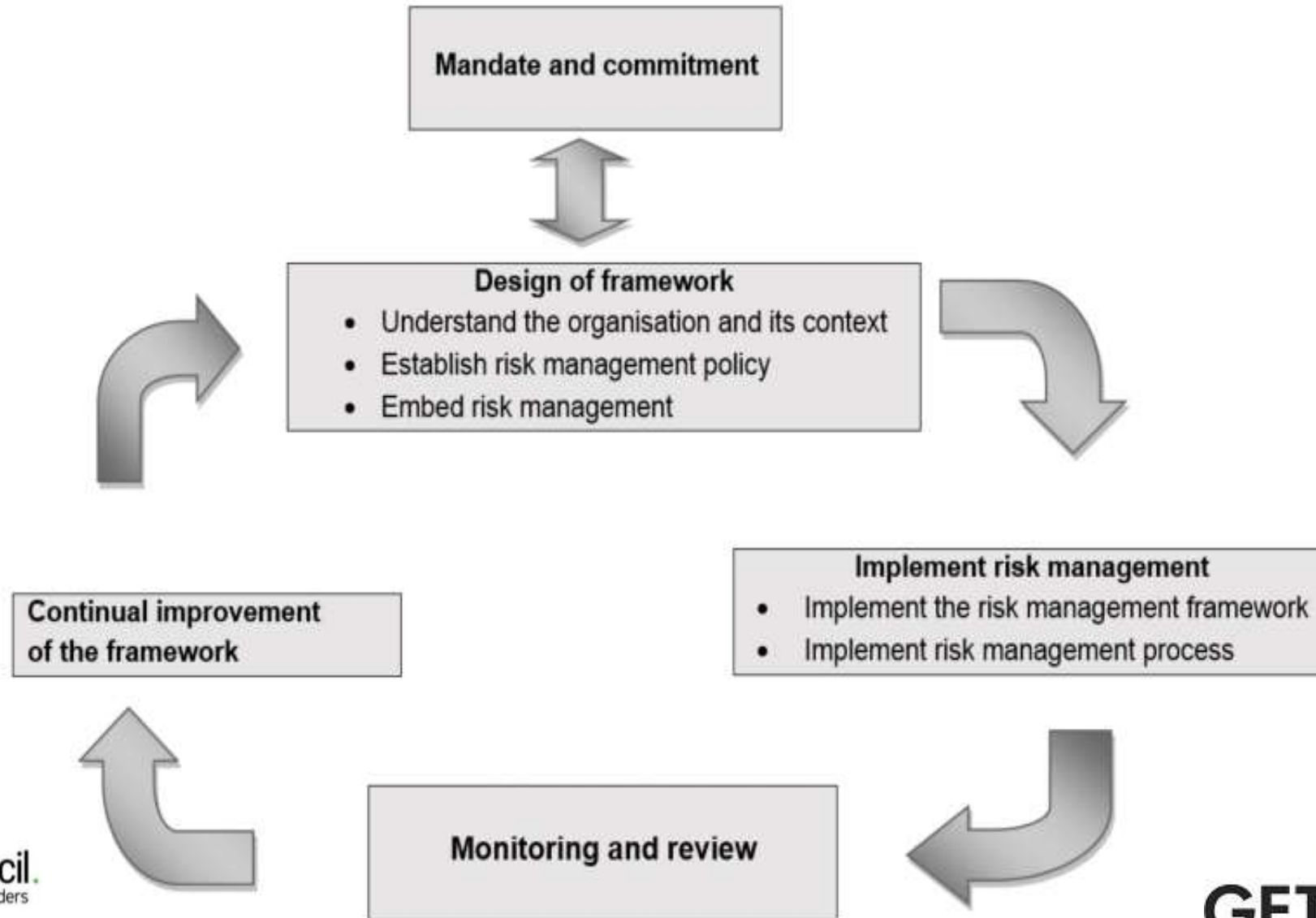
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# Risk management is for businesses of all sizes

Risk management benefits small businesses as well as large businesses.

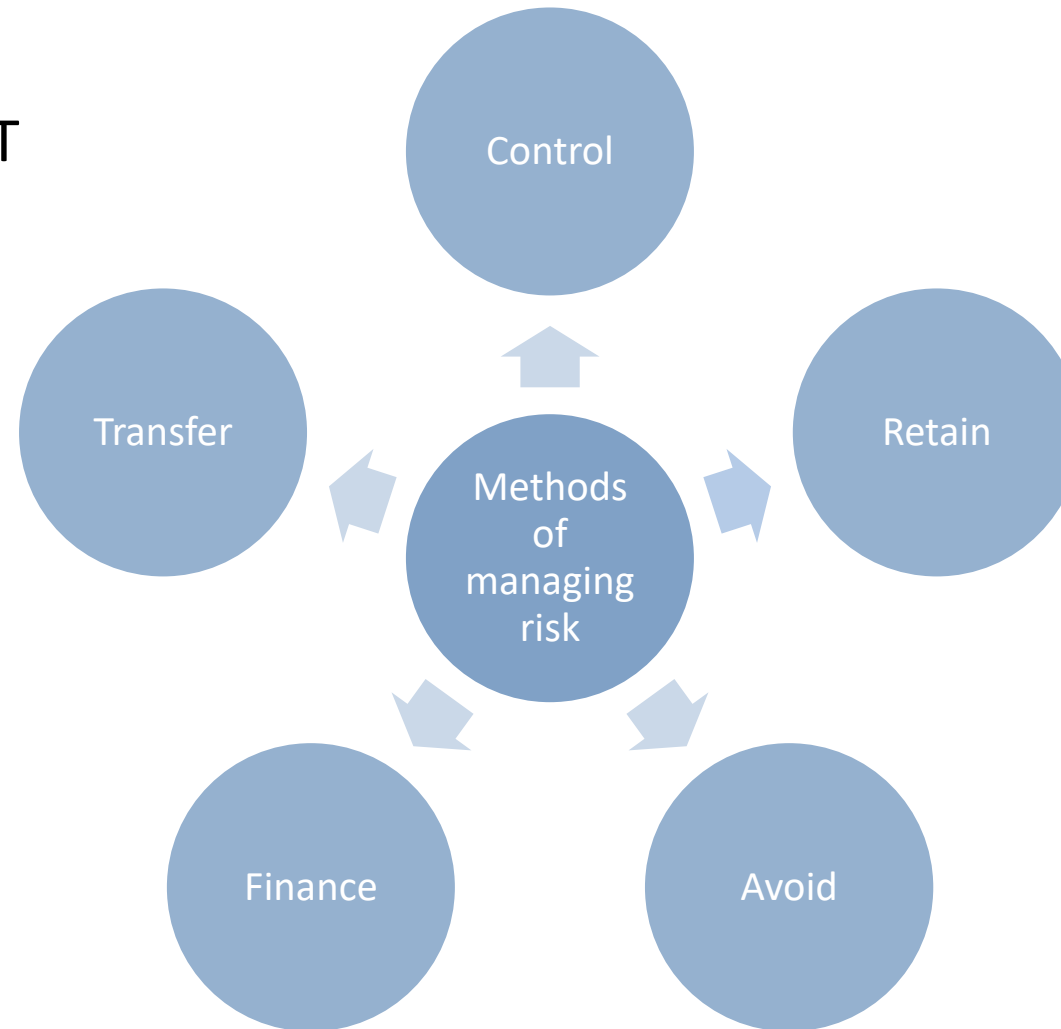
- Provide visibility and accountability to Director(s).
- Assist in meeting and tracking regulatory obligations.
- Provide assurance to external parties. (Product providers, regulators)

# Risk management framework



# Techniques for managing risk

Use the acronym CRAFT





# Determining your risk level

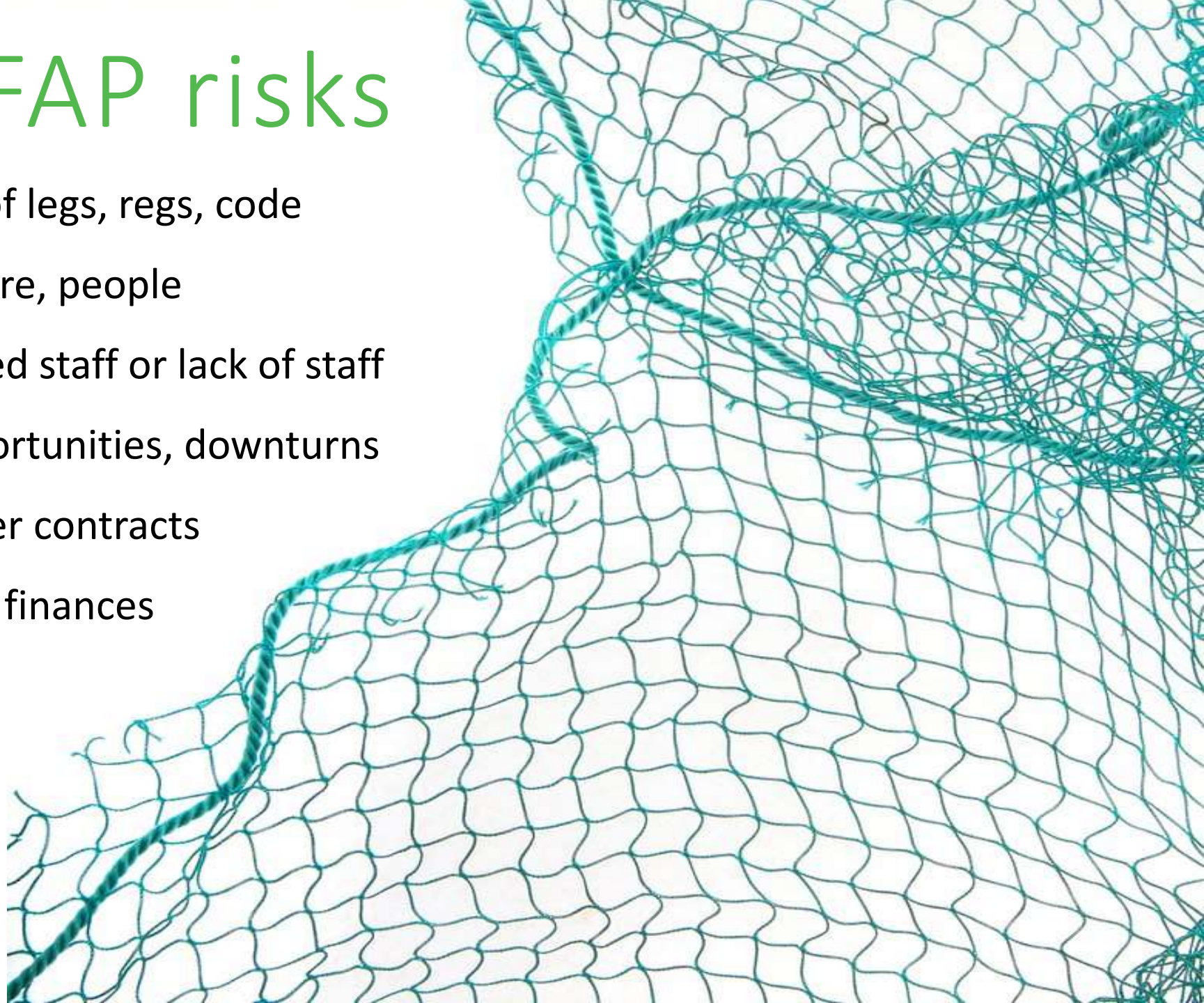
Not everyone has the same attitude towards risk and likelihood of occurrence.

- Your skill level in assessing risk?
- How likely do you think the risk is of occurring?
- Can you afford to pay the costs of the risk or do you need to insure some or all of it?
- Are the risk consequences short or long term?



# Common FAP risks

- Regulatory risks- breach of laws, regs, code
- IT risks- hardware, software, people
- People risks- Poorly trained staff or lack of staff
- Market risks- missed opportunities, downturns
- Breach of product provider contracts
- Financial risk- Insufficient finances
- Client complaints
- Loss of licence



# Identify and assess risk

Likelihood	Consequence (impact)	Risk (likelihood x consequence)
<b>1 - Very low</b> Extremely unlikely < 5% chance	<b>1 - Insignificant</b> Consequences low, minor disruption	<b>1 - 2 Very low</b> Manage within existing controls, monitor annually
<b>2 - Low</b> Unlikely 5% -25% chance	<b>2 - Minor</b> Losses may disrupt services for short period, financial losses may be \$10,000, disruption to single area of business	<b>3 - 4 Low</b> Manage within existing controls, monitor 6 monthly
<b>3 - Medium</b> Possible 25-60% chance	<b>3 - Moderate</b> Service loss for 1-5 days, financial loss \$10,000-\$100,000, internal event review required, adverse media coverage for 1 day	<b>5 - 9 Medium</b> evaluate efficiency of existing controls, develop and implement additional controls, monitor quarterly
<b>4 - High</b> Likely 60%-80% chance	<b>4 - Serious</b> Service loss for > 1 week, financial loss \$100,000 - \$1M, adverse media coverage 1 week, investigation by regulator, impact to multiple and diverse areas of business, significant senior management intervention required	<b>10 - 19 High</b> Implement mitigation immediately, seek legal advice, monitor weekly
<b>5 - Very high</b> Almost certain 80%-100% chance	<b>5- Very serious</b> Significant resources requires to recover, legal consequences/ prosecution, financial loss > \$1M, adverse media coverage for extended period, complete loss of service delivery affecting all critical functions, immediate intervention required by FMA	<b>20+ Very high</b> Implement mitigation immediately, seek legal advice, monitor weekly

# Heat map

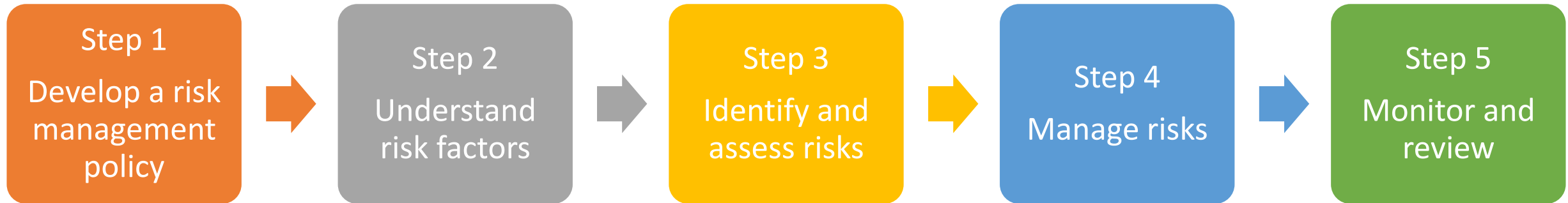
A heat map is a visual demonstration of the overall risk rating

Likelihood (Probability)	Very low	1	1	2	3	4	5
	Low	2	2	4	6	8	10
	Medium	3	3	6	9	12	15
	High	4	4	8	12	16	20
	Very High	5	5	10	15	20	25
		1	2	3	4	5	
		Insignificant	Minor	Moderate	Serious	Very serious	
		Consequence (Impact)					

# Reporting/tracking your risks

- Use method applicable for your business size
- Produce annual list of risks and review monthly
- Get compliance provider to annually assess your risks
- Discuss as part of peer reviews or business mentor discussions
- Formal risk framework- operated by office manager
- Formal risk framework and part of board meetings

# Implementing a risk management plan



# Summary

1. Every business has risks- you need a plan
2. Document your risks- likelihood and consequences
3. Talk with the team about the risks
4. Address these before 15 March 2021

# Next Steps

- Review presentation on FSC website
- Build a suitable risk framework
- If necessary, seek advice





# Next Webinar

- Privacy: Reviewing your obligations under the new Privacy Act
- What changes and when. Practical tips for preparing
- 2 October 2020, 10am
- Registration details will be sent via FSC emails. Contact [fsc@fsc.org.nz](mailto:fsc@fsc.org.nz) to subscribe

