



# Useful definitions

## Risk management and the human factor

**W**hen examining Risk planning it is useful to look at some definitions - Risk can be defined as "the potential future harm that may arise from some present action"<sup>[1]</sup>

Risk planning is seen as creating a plan for the business and including the estimated risks. It is one of the essential parts of strategic planning – the ability to see all possible consequences of your activities.<sup>[2]</sup>

Risk management is defined in The King Report on Corporate Governance for South Africa 2002 (King II) <sup>[3]</sup> as "a process that utilises internal controls as a measure to mitigate and control risk". This report highlights that risk management goes beyond the control of financial risks only and that the reputation and the company's future survival are also at stake<sup>[4]</sup>.

A human is defined as "a person, individual, someone, somebody, mortal"<sup>[5]</sup>

The human is central to any risk planning (and management) because human actions and attitudes affect every part of any business.

The risks attached to the human factor are countless as they can include the most basic actions or lack thereof –

- Involvement in setting up systems; one slip of the finger, or one step in the process that is missed out;
- Financial side; cheque is not banked or forgotten in a drawer or file, invoices for fees are not sent out;
- Telephonic communication with clients, forgetting to write down a message, or correct telephone number, the person has a bad day and is perceived to be rude or distant;
- Face-to-face client contact; is the documentation filled in correctly? – the Ombud will scrutinise all forms for evidence in case of a complaint;

- General operational issues; key personnel are out of the office, the client demands advice, it is given by an unauthorised, well-meaning employee;
- Administration; the information is given to the key individual too late to assess it before seeing the client and the wrong information is on the schedule that is used to plan an entire portfolio;
- Data input, or e-mails; something is left out because it was not received in time; an e-mail with sensitive information is forwarded to a client; and
- General poor performance, lack of structures, guidelines, scattered work, sick too often or continually late.

Is the human factor the only risk factor?

Absolutely not, it is only one of them. Indeed, King II<sup>[1]</sup> mentions that a company should address exposure in the following areas:

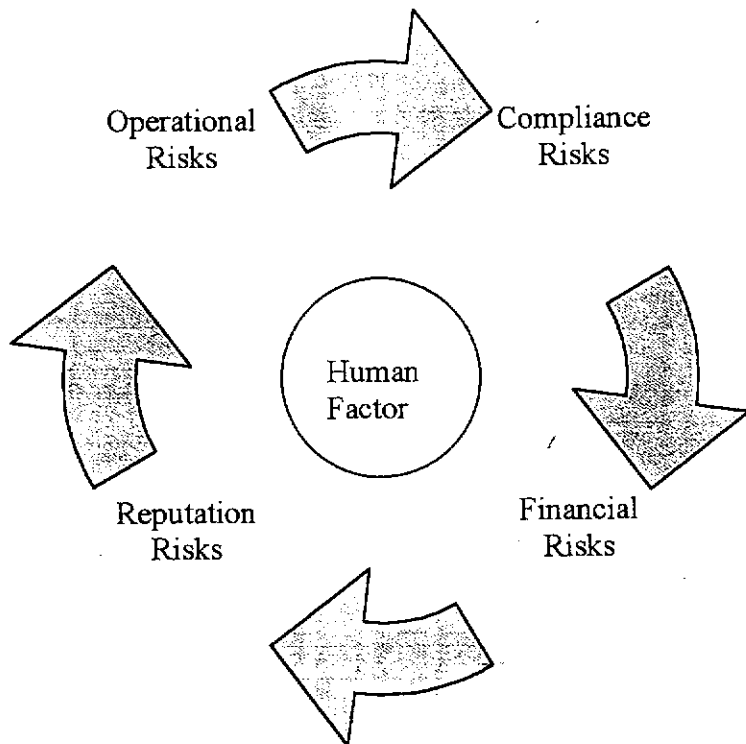
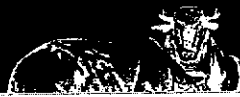
- Physical and operational risks;
- Human resource risks;
- Technical risks;
- Business continuity and disaster recovery;
- Credit and market risks; and
- Compliance risks.

The Financial Planning Institute (FPI) has identified the following areas as the main risk areas for members<sup>[2]</sup>:

- Operational risks, which include the human factor;
- Compliance risks;
- Financial risks; and
- Reputational risks;

The human factor has an effect on all these areas.

Why are risk planning and the human factor important to the financial planner? King II<sup>[3]</sup> is very clear about it:



- Human capital indicates the latent or potential value that employees at all levels represent for a company. Development of human capital serves not only the economic interest of the company, it also serves the requirements of the society within which the company operates; and
- Criteria for measurement of development and performance.

Our own industry regulations address these issues as well in The General Code of Conduct for Authorised Financial Services Providers and Representatives<sup>[1]</sup> and highlight the following areas as important – Part IX on Risk Management:

### Control measures

Clause 11. A provider<sup>[2]</sup> must at all times have and effectively employ the resources, procedures and appropriate technological systems that can reasonably be expected to eliminate as far as reasonably possible, the risk that clients, product suppliers and

other providers or representatives will suffer financial loss through theft, fraud, other dishonest acts, poor administration, negligence, professional misconduct or culpable omissions.

### Specific control objectives

Clause 12. A provider, excluding a representative, must without limiting the generality of section 11, structure the internal control procedures concerned so as to provide reasonable assurance that –

- The relevant business can be carried on in an orderly and efficient manner;
- Financial and other information used or provided by the provider will be reliable; and
- All applicable laws are complied with.

### Insurance

Clause 13. A provider, excluding a representative, must, if, and to the extent, required by the registrar maintain in force suitable guarantees or professional indemnity or fidelity insurance cover.

As a financial planner, your expertise is to assist your clients to plan and manage risks relating to financial planning.

In your practice, have you taken steps to reduce the risks relating to:

- Necessary insurance;
- Necessary resources, procedures and IT systems; and
- Effective control procedures?

King II<sup>[1]</sup> recommends that all companies give due consideration to the application of the report, not only those who fall into the prescribed category.

According to a recent global research, 90% of financial organisations lose more than R70 million a year each because of poor risk management<sup>[2]</sup>.

Do you want to put yourself, your business and your reputation at risk?

### References:

- 1 BambooWeb Dictionary Risk p1 [www.bambooweb.com](http://www.bambooweb.com)
- 2 What does Risk-Planning mean? P1 [www.bpr.surnet.ru](http://www.bpr.surnet.ru)
- 3 P12 of the report; [www.cliffdekker.co.za](http://www.cliffdekker.co.za)
- 4 P13 et al
- 5 [www.answers.com](http://www.answers.com)
- 6 P12 et al
- 7 Van der Walt P ISG Risk Planning p2 Blue Chip
- 8 P18 et al
- 9 Board Notice 80 of 2003 issued by FSB
- 10 Code of Conduct definition - "Provider" means an authorised financial services provider, and includes a representative despite the FAIS Act the definition is "financial services provider means any person, other than a representative, who as a regular feature of the business of such a person –
  - (a) furnishes advice; or
  - (b) furnishes advice and renders any intermediary service; or
  - (c) renders an intermediary service"
- 11 P 23 et al
- 12 Little inefficiencies could lead to large operational losses/risks p1 Technews [www.securitysa.com](http://www.securitysa.com)

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