



Wisdom Nuggets from Simon

“Eliminate or reduce the impact of life and business risks”

Life's tragedy – Simon's Story: I grew up in a small town of Marondera. My father was a bus driver and my mother was a house wife. Life was just good and smooth. I remember the good days of trips to the capital city, sitting in front of “my father's bus” (at least then, I thought my father owned a bus). I enjoyed life until my father's tragic death in an accident. Life changed overnight. We lost our house, our car and many of our family assets. I dropped out of school. Life became a nightmare and my widowed mother struggled to make ends meet. I had to enrol for a day job at a nearby farm where I sweated it out amongst adults. My decision to enrol for night school became my turning point. Now, I am grown up and running successful businesses. My business name is Simon! I learnt that in life we may plan but there are unforeseen circumstances that can suddenly shatter our plans. Today, I stand firm in advising the society to be mindful and prepare for unforeseen life and business risks. Hear me as I take you through the risk management story through this series of articles.

Business and life's tragedy – Horatio's story: have you gone through life's worst times? If you think so, wait until you hear Horatio Spafford's tragic story! Horatio Spafford (1828-1888) was a wealthy Chicago lawyer with a thriving legal practice, a beautiful home, a wife, four daughters and a son. At the pinnacle of his financial and professional success, Horatio and his wife Anna suffered a tragic loss of their young son. They were so devastated. Shortly, after the death of their son on October 8, 1871, the Great Chicago Fire destroyed almost every real estate investment that Spafford held. They were further devastated. Spafford decided to send his family to Europe to give them a break from the tragedies. On their way to Europe, another tragedy struck! The family's ship encountered a collision and all Spafford's four daughters perished on the spot. It was tragedy after tragedy and on his way to see his grieving wife in England, Spafford penned the now popular song, ‘It is Well With My Soul’. For more than a century, the tragic story of one man has given hope to billions of people who have raised their voices to sing, “It is Well With My Soul”. Again, the lesson learnt there is that, in life and in business, we plan, but unexpected negative occurrences may adversely affect our plans (downside risk).

Risk - Put simply, risk is defined as the chance of loss or gain as a result of a negative/positive occurrence. Risk that result in loss from a negative occurrence is known as ‘downside risk’. An example is Horatio's loss of real estate business due to the unforeseen Chicago Fire. Downside risk is also known as Pure Risk. With Pure Risks, there are only two possibilities, i.e. something bad happening (loss) or nothing happening. The other category of risks is called Speculative Risks. Speculative risks give three possible outcomes, i.e. something good (gain), something bad (loss) or nothing (staying even). For example, if you gamble a dollar there is a speculative risk of you winning (coming out with more than a dollar), losing (coming out with less than a dollar) or staying even (remaining with a dollar). Similarly, if you invest in stock markets there is a chance of you gaining from stock upward price movements, losing from stock's downward price movements or remaining even if the price remains the same. For the purposes of this series of articles, the author will focus on downside/pure risks.

Risk Management – in business, risk management is a process of identifying all possible risks that may negatively affect business objectives, analysing them and putting in place measures to reduce their frequency of occurrence and/or their financial impact. Risk Management should therefore be a continuous process which is embedded in business operations.

Examples of Life and Business risks - Risks can be categorised broadly into Life Risks and Business Risks. Life risks consists of unforeseen events that can affect our plans as individuals. Examples being:

- Illness that can stop us from generating income
- Permanent disability or terminal illness that can force us into early retirement
- Untimely death
- Retrenchment / loss of employment
- Legal action against us

Business risks are also wide ranging and examples include:

- Loss of property due to natural perils e.g. Fire, Hailstorm, Floods etc.
- Loss of property/assets due to theft, vandalism etc.
- Loss of valuable information / data due to cyber attacks
- Business interruption due to machinery/plant breakdown

Companies adopt different approaches to risk management. The next article will focus on the general steps of risk management.

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