MANAGING RISKS: not if but when

South Africa has not been spared from the devastating impact of fire, flood and drought disasters.

The City of Cape Town's Disaster Risk Management Centre confirmed that approximately 1 700 homes were flooded in June following the worst storm to hit the Cape Peninsula in two decades. In the same month, raging infernos in Knysna gutted more than 1 000 homes, left thousands stranded and destroyed close to 300 kilometres of coastline – it has been billed the worst fire disaster South Africa has ever seen. This all occurred in the midst of the worst drought to hit the Cape in almost a century.

Extremes of weather

Such extremes of weather are a global phenomenon, and are likely to intensify. The year 2016 was the warmest year ever recorded since global land and ocean temperature records commenced in 1880. According to the 2016 Aon Benfield Annual Global Climate and Catastrophe Report, 315 major natural catastrophe events were recorded during the year generating economic losses of US$ 210 billion – notably the deadly earthquakes in Japan, Ecuador and Italy; major flooding in China and Europe; hurricane Matthew in the Caribbean and the United States; catastrophic wild fires in Canada and drought across South East Asia and Africa.

New innovative solutions needed

The rapid acceleration of severe natural disasters is likely to increase the frequency and severity of business interruption as organisations and economies become more interconnected.

Natural disasters are not always preventable for organisations and interestingly only 26% of the economic losses attributed to natural catastrophe events in 2016 were covered by insurance. While insurance can partially cover some of the property and operational losses, it does not address other consequences such as reputational damage, loss of market share or reductions in investor confidence. In this context, traditional risk management techniques to manage business interruptions cannot be relied upon. New innovative solutions are needed.

These innovative solutions include having a dynamic business continuity plan in place, whilst maintaining a broader view of the interdependency of these risks. Transactional insurance must be supported with enhanced and tailored risk management activities covering areas such as risk financing, business resilience and deep analytical insights into, emerging risks and global trends.

Technology should be leveraged to provide effective organisational responses to natural disasters. This includes timely information and early warning of potential hazards provided by geographic information systems and remote sensing and satellite data. Organisations should make use of available reputable global disaster early warning and monitoring providers so that quicker decisions can be made to avert major disruptions affecting people, products and premises.

An effective real time communication platform should be created to share critical information with these decision makers, as well as all affected staff and stakeholders. Organisational controls to manage natural disasters need to be flexible, taking into account that the nature of the event could change within a very short space of time.

Create collaborative efforts

Addressing these controls means organisations will always be reactive to these rapid changes.

Given that reputational events often arrive with little or no warning, organisations are forced to respond quickly and effectively in real-time, making a comprehensive reputation risk control strategy an essential part of preserving consumer trust. Meticulous preparation and executive training could prevent a critical event from turning into an uncontrollable crisis, and help maximize the probability of recovery.

The creation of platforms and forums where organisations can share their success and failures in managing specific natural disasters should be encouraged. These platforms should be used as shared learning forums to create collaborative efforts in managing these events before they occur.

The realities of risk is that it is no longer a case of 'if' but 'when' and risk managers need to explore innovative ways to cope with new and heavily inter-related complexities in an increasingly challenging environment.

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