Small business risk management guide

'Helping our customers stay in business by reducing risk'

About NZI Risk Solutions

NZI has extensive experience in providing expert risk management advice to help our commercial customers remain in business. We have used this industry knowledge and developed a suite of fact sheets, and this guide, covering risk management issues that will help you to take control of your business risks.

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Your small business risk management guide

Many small business owners are unaware of the numerous risks within their business and the effect these could have on their ability to continue trading. The real cost of a major loss incident is not only the direct loss or damage, but also the time spent dealing with the aftermath – including disruption to work and production schedules. Customer loyalty and business reputation can also be adversely impacted.

Risk management is critical to small business survival

Here at NZI we want to share our risk management expertise with our small business customers and in particular, help them to address those risks associated with their buildings and assets.

Generally speaking, a small business is considered one which employs between six and 49 staff, although the information in this fact sheet is relevant for those enterprises with one to five employees. Small business is the backbone of the New Zealand economy. However, often business owners are too busy working in the business to dedicate time to risk management and other important planning processes. We hope this guide will help small business owners to better understand and plan for their risks.

As a small business owner what are some of the risks that I need to be aware of?

Some of your most important risk areas will include fire safety, security, telecommunications and IT systems, environmental hazardous substances, electrical safety and for those in the hospitality sector, deep fryer cooking. It's also important that you have good management programmes in place to control risk related to general housekeeping (maintenance, cleaning etc.), smoking on-site and waste management.

First things first – check your insurance policy and endorsements

When starting on your risk management journey, it's important to check your insurance policy and any endorsements that are applicable to it. Your policy and endorsements set out exactly what your insurer will pay for as a result of accidental loss and what you are not insured for. It is particularly important that you understand any exclusions that may apply to your insurance policy. Having the right cover and adequate sum(s) insured is critical to your business surviving a significant loss. If you have any questions it's important that you discuss these with your Insurance Advisor.

Determining the level of risk in your business – where to start?

We recommend you start by analysing your business and listing known risks. From here ask yourself: what's the worst that could happen and how long could my business last following an incident? We've included a few checklists to help you with this task.

> *"Think about your strongest and weakest links and what could happen in a particular event. Planning for the worst case scenario can be a useful exercise."*

Analysing your business

You might find it helpful to approach this by asking: where is my business most vulnerable? Think about your strongest and weakest links and what could happen in a particular event. Planning for the worst case scenario can be a useful exercise. For some small businesses, the worst case scenario could be as simple as losing internet communications during the busiest part of your day.

To identify your worst case scenario it can help to consider:

1. What would be the worst thing that could happen to your business?
2. How likely is it to happen?
3. How would you cope?
4. How would it affect your staff, customers, suppliers, IT systems and processes, buildings and plant?
5. Is there anything you can do to prevent or minimise the risk of it happening?
6. How much can you afford to lose if you can't run your business for hours/days/weeks/months? For example, how long could you survive if your business was forced to run at only 50 percent of its normal activities? Would it be better to close the office or plant down? What would need to be done to ensure you can function at a minimum level? What's your break-even point?

Assessing the risks

When we assess risk we're generally looking to understand what are the most likely risks and those that pose the greatest impact to your business. It's also important to assess risk against the probability of it occurring (i.e. how likely is it) and the impact it could have (temporary or permanent etc.).

Listed below is a range of incidents and their corresponding preventative measures for you to consider:

1. There is a fire and you're not able to use your site for weeks. Do you have an alternative site? What about off-site IT back-up?
2. You are burgled and your property is damaged as a result. Do you have insurance? Security?
3. There is a power failure that lasts for days. Do you have a back-up generator? Can you access your systems off-site?
4. Your internet goes down at the busiest time of the day. Do you have alternative communication options in place? Can you and your staff work remotely and access customer files?

Developing a risk management plan

Now that you have a sense of some of the risk areas in your business, we recommend you use the self-assessment checklist at the back of this fact sheet to establish where your exposure to risk currently lies. Once you've completed the checklist look at each section and the number of 'no' responses. If these outweigh the 'yes' responses then it's time to consider implementing risk mitigation measures.

Using the checklist and your risk analysis and assessment is a good way to begin developing a risk management plan. From here you can identify actions that need to be undertaken to help you prevent or minimise business risk. Remember you may never know the true value of the plan until the day you have to use it.

Addressing business risk

Now that you have analysed your business, assessed your risks and potentially made a start on a risk management plan, it's time to consider ways in which you can address areas of risk in your business. The following section includes information about the most common areas of risk for small business.

Fire safety

Best practice for business premises is the installation of hand-operated fire extinguishers and/or hose reels. Accidental fires are more likely to occur during working hours due to the greater use of electrical equipment, heating and normal processes.

Fire extinguishers should be installed by approved contractors, mounted on brackets with clear signage indicating their positions so that they can be easily located in an emergency. They require annual servicing by approved contractors to ensure they remain serviceable and they should also be checked regularly by staff on site.

New Zealand Standards

The New Zealand Standard 4503:2005 – Hand Operated Installation and Maintenance of Fire Fighting Equipment, is the minimum standard for hand operated fire-fighting equipment in New Zealand. You should ensure that your fire extinguishers are selected, installed and maintained in accordance with this Standard.

Using the correct fire extinguisher

Care should be taken to use the right type of fire extinguisher on a fire. Using the wrong fire extinguisher on certain fires can sometimes have disastrous results *e.g. never use water extinguishers on burning liquids or oils or electrical fires.*

Fire sprinkler systems and automatic fire detection systems

Sprinkler systems have become the most widely used and most reliable automatic means of fire protection. Fire sprinkler systems automatically detect a fire, transmit an alarm to the Fire Service as a result of water flow and control or extinguish the fire. They are located in places where people cannot always be present and operate only as needed in the immediate vicinity of the fire. They have important life safety connotations and can prevent fires from reaching destructive proportions, which may mean the difference between a minor interruption and a prolonged or permanent shutdown.

Automatic fire sprinklers provide significant protection for the occupants of a building, as well as the environment, by minimising the effects that a major structural fire could have. Only the sprinkler heads within the vicinity of a fire will activate i.e. all the sprinkler heads do not go off at once. If your building is fitted with either Fire Sprinkler systems or Fire Detection systems these should be maintained regularly by an approved agent.

Fire doors and smoke control doors

If your building has automatic self-closing fire doors or smoke control doors it is important that these doors are kept clear of any obstructions. We also suggest you arrange for regular monthly operating checks (possibly by the building owner) and annual inspection or maintenance to be undertaken and documented by a suitably skilled fire protection contractor.

Fire alarm systems – emergency evacuation procedures

An orderly and efficient response to an emergency can be vital to the protection of property and the safety of people. It is strongly recommended that regular fire drills are held at the premises so that employees, volunteers and other regular visitors are aware of the correct procedures should an evacuation become necessary.

Well performed fire drills will also help determine problems or danger areas, equipment problems or failures, knowledge of likely evacuation times and external meeting areas. Evacuation plans should then be posted internally for each building and, wherever possible, drills should be conducted with the knowledge and support of your local fire service.

Evacuation procedure

In the event of an emergency, the speed which people can safely exit the building can mean the difference between life and death and therefore the internal layout of all your buildings should allow for adequate means of escape.

It is recommended that fire exits, doors relating to fire exits and paths of travel to fire exits be routinely checked to ensure they are not obstructed or impeded in anyway. The final exit doors should be suitably signed and checking of fire exits should form part of your regular hazard inspection regime. To assist with safe evacuation, notices should be displayed at the main exit doors, which provide clear instruction on how to evacuate and raise the alarm.

> *"It is strongly recommended that regular fire drills are held at the premises so that employees, volunteers and other regular visitors are aware of the correct procedures should an evacuation become necessary."*

Security

Intruder alarms

Intruder alarms are designed to both protect the physical assets within unoccupied premises and to provide a safer environment for staff. Intruder alarms deter theft and vandalism and enable a coordinated and rapid response when an alarm is activated. Early detection of an intruder is best achieved by installing a combination of detection devices throughout your premises.

These could include:

‣ Movement sensors

‣ Break glass sensors

‣ Vibration sensors

‣ Duress and hold-up alarms

‣ Door and window devices.

The key to a successful intruder alarm system is the careful selection and configuration of the control panel and detection devices to suit the level of risk and the physical environment. This maximises the ability to detect intruders and minimises unwanted false alarms.

> *"Early detection of an intruder is best achieved by installing a combination of detection devices throughout your premises."*

Safes

If you have valuable items or cash that require storing in a safe it is important to have a quality, leading-brand safe that meets CEN European standards and has UL Rated locks. Your safe should also be permanently and securely attached to the structure of the building, such as bolting it to the floor, to solid walls, to wall studs or encasing it in concrete.

All quality safes are allocated an amount called a 'cash rating' which means this is the maximum amount of cash that should be stored in the safe at any given time. If you are holding more cash than the cash rating of your current safe then you should consider upgrading your safe.

Environmental hazardous substances

All companies have a responsibility to make sure that any environmentally hazardous substances are handled and stored correctly.

## The Environmental Protection Authority

The Environmental Protection Authority administers, monitors and reports on the effectiveness of the Hazardous Substances and New Organisms (HSNO) Act. They also compile and report data on incidents involving hazardous substances and new organisms. The HSNO Act allows them to conduct inquiries into any incident.

> *"Make sure that all hazardous substances are labelled correctly."*

Keys to best practice handling and storage of hazardous substances

✓ Store all hazardous substances correctly

✓ Make sure that all hazardous substances are labelled correctly

✓ Segregate substances when required

✓ Use correct procedures when dispensing

✓ If a task can be achieved with a safer substance – use it

✓ Isolate exposures with ventilators at source

✓ Make sure that you use the right safety equipment

✓ Have emergency plans in place

✓ Always dispose of hazardous waste in accordance with the law.

Note that a requirement of the HSNO Act for personnel handling or using hazardous substances in quantities above set trigger limit levels, or regulated degrees of hazard, are required to be certified as 'Approved Handlers'. You should also check whether you require a HSNO Hazardous Substances Location Test Certificate.
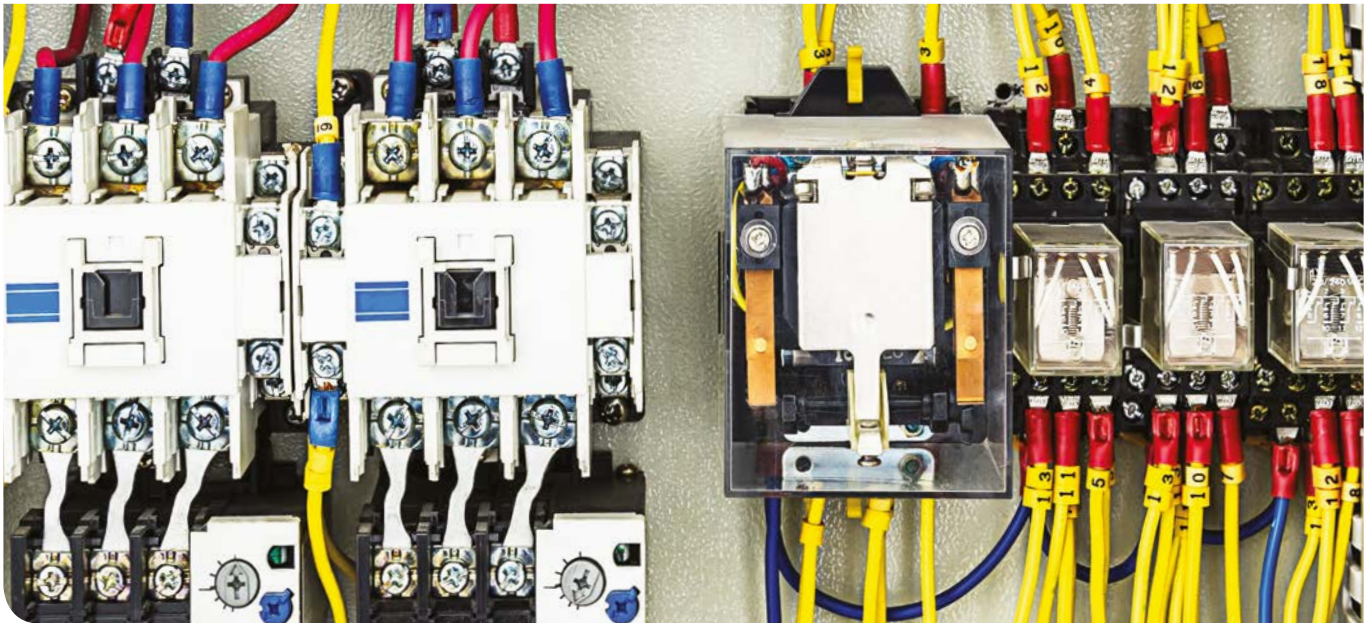
Electrical safety

Electrical fires represent a high percentage of fire insurance losses and often these losses are large scale fire incidents. Fires are commonly caused by loose electrical connections, weakening of insulation and poor maintenance of electrical equipment. Legislation requires specific preventative action – disconnecting, isolating and making safe any defect which constitutes an electrical hazard to persons, livestock or property.

The need for electrical installation inspection and maintenance

All electrical installations need regular maintenance. Switchboards wear and need replacement as time progresses and demands on the installation change or network system upgrades can affect fault-trip levels. Related electrical shortcomings continue to account for a high number of fire losses in New Zealand. To minimise the potential for such losses, it is necessary to complete regular ongoing inspection and maintenance.

Electrical safety inspection items classified as 'requiring urgent attention' means the safety of those using the installation may be at risk and arrangements should be made for an electrically qualified person to undertake the necessary remedial work without delay.

"Electrical fires represent a high percentage of fire insurance losses and often these losses are 'large scale' fire incidents."

Electrical regulatory safety obligations

Under health and safety legislation, business owners and operators have a responsibility to ensure a safe work environment for all employees and visitors. The Electricity (Safety) Regulations 2010 specify a range of documentation that should be kept on-site to record electrical work on electrical systems (including electrical system maintenance). Take a look at your record management practices to ensure they're up to date and compliant.

Computers and IT systems

A good power protection strategy is required by all businesses to control, reduce or eliminate AC mains power supply conditions such as AC noise, surges, spikes, under voltage, over voltage and supply failure.

Power surges, spikes, under and over voltage electrical supply failure

If any of these conditions reach the insides of electrical equipment, malfunction, failure or damage can sometimes occur. Protection devices are available to minimise these situations.

As a minimum, all IT and large industrial electrical devices should have a good quality surge protector unit between the AC mains and the device. The protector unit eliminates spikes, surges and most power noise. The next level of protection for sensitive equipment is an automatic voltage regulator or line conditioner. These devices eliminate spikes, surges and most noise and corrects under and over voltage conditions.

Computer back-up tapes and storage

In today's commercial environment computer data back-up is important for any business to survive. It is imperative that small businesses arrange for regular, daily back-up of computer data. It is also equally important that this electronic back-up information is kept off-site.

For some businesses, this may mean taking home a back-up computer tape or disc in case anything happens at their offices. For other small businesses this may mean using an external company that can provide a secure storage arrangement for back-up tapes.

> *"In today's commercial environment computer data back-up is important for any business to survive."*

Deep fryer cooking

Deep fryer appliances are typically found in restaurants, fast food outlets, staff canteens and other commercial cooking facilities. When deep fryers are used incorrectly and poorly maintained, they pose a substantial fire risk. Outlined below are some key steps you can take to prevent this type of fire on your premises.

Safety cut-out switches

The fitting of automatic cut-out mechanisms is essential to prevent deep fryer appliances from overheating. Here are a few tips when using your appliances:

✓ Deep fryers must be fitted with separate external cut-out switches that are non-adjustable as well as mechanisms that can be manually reset, to prevent overheating.

✓ To be effective, the cut-out switch needs to disconnect the deep fryer from the energy supply when the cooking oil or fat reaches the maximum temperature set.

✓ All deep fryer units, cut-outs, thermostats, heating elements and controls should comply with the relevant NZ Standard and Code of Practice.

✓ Fryers need to be maintained in a safe working condition and checked at least annually – this work needs to be carried out by an authorised service technician.

Isolating the energy source

Electrical elements or gas components provide the energy source to a deep fryer and it's important that these energy sources are turned off after business hours. This is best achieved using a separate isolator switch located by the electricity or gas supply. It's also important that the deep fryer is also switched off at the appliance.

Fire extinguisher protection for deep fryers

To protect your premises you should provide a minimum of one fire extinguisher, which is Class F-rated in accordance with the latest standard, AS/NZS 1850: (Portable Fire Extinguishers – Classification, rating and performance testing). An F-rated fire extinguisher is specifically designed to extinguish fires caused by overheating cooking oil or fat.

We recommend you take the following steps when installing a Class F-rated extinguisher to ensure that it is:

✓ Labelled correctly and features a sign above the extinguisher to show its classification and type

✓ Located approximately two metres from the deep fryer

✓ Regularly inspected and maintained in accordance with the NZS 4503:2005 Standard (Hand Operated Fire Fighting Equipment)

✓ Operated by adequately trained staff.

Extraction hoods and filters

A metal extraction hood should be installed directly above the fryer, with an externally venting metal flue fitted with grease filters. Here are some factors you should consider when installing this equipment:

✓ The kitchen fume extraction ducting should be inspected on the inside to check the level of grease deposits. This should be carried out at least annually and cleaned as necessary. Remember that in multi-storey buildings, fires in extraction hoods can adversely impact not only the café or restaurant where the machinery is installed, but other premises as well.

✓ Metal grease filters need to be easily accessible for cleaning at regular intervals.

✓ Consider using disposable pre-filters over the metal filters. These largely stop grease entering the metal filters and extraction flue which means they require less cleaning.

> *"Remember that in multi-storey buildings, fires in extraction hoods can adversely impact not only the café or restaurant where the machinery is installed, but other premises as well."*

Risk management programmes

Good housekeeping plans

Having a good housekeeping plan (and regularly carrying it out) may save your business from a major loss, which can be caused by careless use of equipment, tools or processes. Keeping premises tidy is vital to reducing risk. For example, a cabinetmaker that has piles of sawdust within their premises is at risk of creating a fire hazard and a dust explosion if ignited. Equally a chemical company with lots of flammable liquids stored incorrectly is also at risk.

General maintenance plan

Your maintenance plan will relate directly to your type of business and usually includes all of your machinery and equipment. Note that your equipment also includes all of your office equipment such as computers and communication devices.

Remember that your general maintenance plan should also include your building. Regardless of whether you are a tenant or building owner, it's important to have a plan that regularly checks all areas of your building e.g. gutter cleaning (to prevent flooding) and roof inspections (in case of losses due to high winds and/or heavy rain).

Smoking policy and controls

We are constantly reminded that smoking is a health hazard. However, it's also important to remember that smoking can also cause fires leading to loss of life and property damage.

Make it clear to staff and visitors what the smoking policy is and why it has been implemented. While signage can be instructive, it is not enough to ensure that smoking will be appropriately controlled. Make sure your smoking policy is included in your site induction training.

When visitors sign-in are they given instructions on your smoking policy? If you permit smoking at your facility it's important that you provide suitable controls to prevent fire. Designated smoking areas are a common means of providing such a control. Make sure that smoking areas are fitted with ash trays and are located well away from materials that can burn, including vegetation.

"Every year the NZ Fire Service attends hundreds of fires that have spread from rubbish skips and bins. These fires are almost always deliberately lit and result in significant direct and indirect costs."

Rubbish skips and wheelie bins [1]

The New Zealand Fire Service attends hundreds of fires that have spread from nearby rubbish skips and bins every year. These fires are almost always deliberately lit and result in significant costs in property loss, injuries and loss of business. In dollar terms the indirect economic loss is about $100m annually. Rubbish and cardboard stored in skips or bins near buildings are an easy target for opportunists seeking to start a fire. These fires can quickly spread to your building, plant and other equipment associated with your business, threatening your trade temporarily or permanently.

The New Zealand Fire Service has provided a nine point checklist to help reduce the risk of rubbish fires damaging your business as follows:

1. Locate bins well away from building.
2. Store combustible waste in metal rubbish containers with self closing lids.
3. Products and materials that need to be stored outside must be in limited pile sizes and well away from buildings, inside and outside the boundary fences.
4. Arrange to have waste collected weekly to minimise rubbish on site at weekends.
5. Ensure public access is limited to your building and yards.
6. Define safe designated smoking areas for staff.
7. Lock bin lids when not in use.
8. Install and maintain adequate perimeter fencing and lock and secure property at night.
9. Provide security lighting and surveillance equipment.

1. Source: *Preventing rubbish fires. Fire safety advice for businesses. NZ Fire Service FS1522*
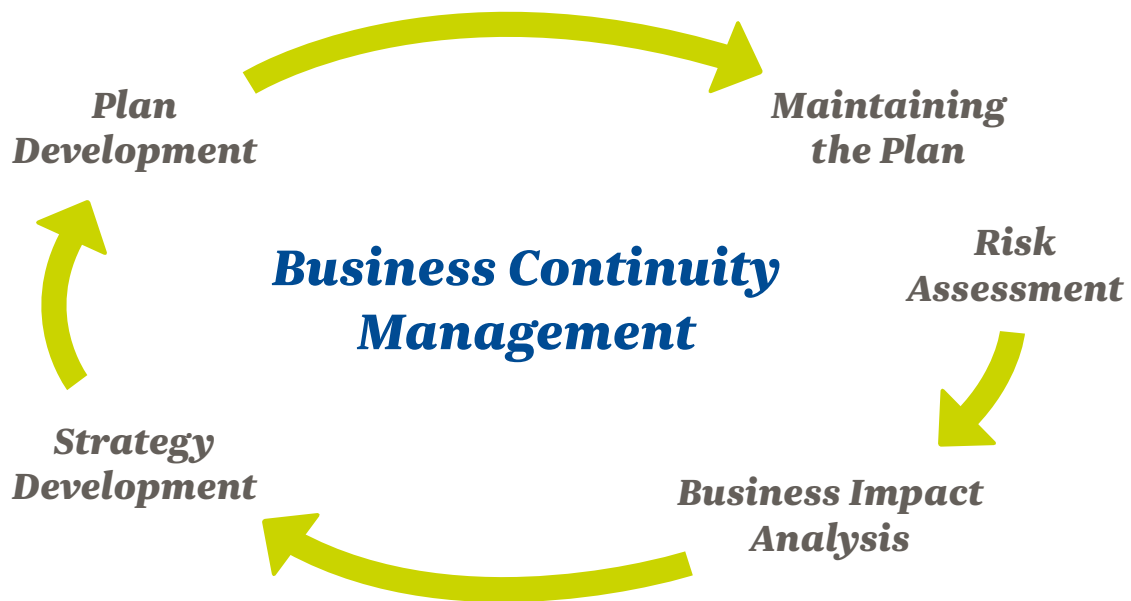
Wooden pallet storage

It is *extremely important* that wooden pallets are not stored against a building. NZI advises they must be stored at least 10 metres away from *any* building. Fires are often deliberately lit in pallets by arsonists. Wooden pallets have air gaps, which combined with their highly combustible timber construction allows a fire to escalate rapidly. Buildings can easily become involved in these fires when pallets are stored too close to commercial premises. If the 10 metre rule cannot be physically met you should store idle pallets as far away as practical from the building.

Health and safety programme

The biggest reform of the health and safety system in 20 years is currently underway. Pike River is the catalyst for *Working Safer*, the programme of change that has created the new Health and Safety at Work Act. The new Act is due to come into force in the second half of 2015 and will replace the Health and Safety in Employment Act 1992 and the Machinery Act 1950.

One of the key aspects of the reform, which is closely modelled on the Australian legislation, is the allocation of duty and responsibility. It is proposed that the primary duty for ensuring workplace health and safety will be allocated to a 'person conducting a business or undertaking', a PCBU.

Small business owners are considered to be a PCBU and they have immediate responsibilities, in so far as is "reasonably practicable", to the health and safety of workers directly engaged by them and others affected by the work.

Business Continuity Management

Plan Development → Maintaining the Plan → Risk Assessment → Business Impact Analysis → Strategy Development → Plan Development

Developing a business continuity plan

A business continuity plan (BCP) is one of the best investments any small business can make and is one of the most critical components of any recovery strategy. A BCP details how to get your business back on track after a disruption in the most effective way possible. The main objective of a BCP is to recover all business critical processes and minimise the impact for employees, customers and your reputation.

From the Canterbury earthquakes to storms and flooding in Wellington and tornadoes in Auckland, companies that proactively consider how to respond to events are the first to get back to business, often at the expense of competitors. A predefined BCP, combined with the proper insurance coverage, maximises the chance of a successful recovery by eliminating hasty decision-making under stressful conditions.

Withstanding a major loss event

Did you know that 25 percent of businesses do not reopen following a major loss event? This is because it doesn't take a major catastrophe to shut down a small business. In fact, seemingly minor disruptions compared to widespread natural disasters can often cause significant damage such as power failures, broken water pipes, or loss of computer data etc.

What's in a business continuity plan?

A business continuity plan should contain all of the information you need to get your business up and running again after an incident or crisis. The size and complexity of the plan will depend on your business and good practice suggests it should form part of your overall business plan.

Generally a BCP will include a list of roles and responsibilities during an incident, an emergency response checklist and key contacts for all staff and for contractors and suppliers, including out-of-hours numbers.

Develop, implement and maintain

Developing the plan is the obvious first step, but implementing it is essential. Appointing a person who will ensure that a BCP is created, developed, tested and maintained is your best approach to this business critical activity.

> *"Given that twenty five percent of businesses do not reopen following a major loss event, a business continuity plan is one of the best investments you can make."*

*These guidelines are of a general nature only. They are not intended to be a comprehensive list of all the risk management steps you should consider taking to reduce the risk of damage and financial loss, nor is it intended to be legal advice.

Self-assessment risk management checklist

Fire safety	*Yes*	*No*
Do you have fire extinguishers or hose reels?	☐	☐
Is the annual servicing up to date? (Check the inspection tag on the extinguisher/hose reel)	☐	☐
Have you and your staff been trained to use fire extinguishers?	☐	☐
If you have a fire sprinkler system has it been serviced in the past 12 months?	☐	☐
If you have a fire alarm system has it been serviced in the past 12 months?	☐	☐

Security	*Yes*	*No*
Do you have an intruder alarm?	☐	☐
Has the intruder alarm been serviced recently?	☐	☐
Is the intruder alarm monitored by an external monitoring company?	☐	☐
Do you have security patrols?	☐	☐
Do you have security locks on doors?	☐	☐
Do you have security locks on windows?	☐	☐
Are your valuable items and cash stored in a safe?	☐	☐

Environmental hazardous substances	*Yes*	*No*
Do you have any hazardous substances on site?	☐	☐
Are the hazardous substances stored in a hazardous goods store?	☐	☐
Do you have HSNO Approved Handlers for hazardous substances?	☐	☐
Do you require a HSNO hazardous substances Location Test Certificate?	☐	☐

Electrical safety	*Yes*	*No*
Have you had an electrical safety check by a registered electrician in the last 12 months?	☐	☐
Do you have an electrical installation Certificate of Verification?	☐	☐
Is the electrical installation certificate up to date?	☐	☐

Computers and IT systems	*Yes*	*No*
Are your computers protected from power surges?	☐	☐
Are your computers secured against theft?	☐	☐
Do you have daily back-up systems for your IT systems and processes?	☐	☐

Deep fryer cooking	*Yes*	*No*
Do you have a deep fryer in your kitchen?	☐	☐
Have you had the safety cut-out switch checked on the deep fryer?	☐	☐
Do you have an F-Rated fire extinguisher 2m away from the deep fryer?	☐	☐
Do you have a cleaning programme for your extraction hood and flue?	☐	☐

Risk management programmes	*Yes*	*No*
Do you have a housekeeping programme?	☐	☐
Do you have a maintenance programme?	☐	☐
Do you have a smoking control programme?	☐	☐
Do you have a waste management programme?	☐	☐
Do you have a health and safety programme?	☐	☐
Do you have a business continuity plan?	☐	☐

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