

A quarterly special report published by:  
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This report is one of a series produced for faculty members. In each report we give a review of a topic within finance and management, offering both analysis of the relevant theory and a review of the practical application of appropriate management techniques.

If you have any comments or suggestions for future topics, please contact [robert.russell@icaew.com](mailto:robert.russell@icaew.com)

The information contained in this and previous issues of this publication is available (to faculty members only) on the faculty website at [icaew.com/fmfac](http://icaew.com/fmfac)

#### F&M SPECIAL REPORTS

... are produced on behalf of the faculty by Silverdart Publishing  
[www.silverdart.co.uk](http://www.silverdart.co.uk)  
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ISBN 978-1-78363-148-3

**Price: £20.00**

This report is provided free to members of the Finance and Management Faculty.

## FOREWORD

# RISK AND RECOVERY

Risk is something that we accommodate very well on a daily basis, both at home and in business. The statistical probability of injury or death that we face in simply going about our day-to-day lives might be disturbing, but this doesn't (or shouldn't) prevent us from carrying on with our lives. The knowledge of statistical probabilities of an event occurring is interesting, but these statistics can be misleading if not focused; care should be taken if taking an overview rather than a more detailed approach to individual probabilities. Take for example, the risk of death by execution in the US which, however small, does exist. Once you look closer at it, however, the statistical probability of receiving the death penalty is very high for a very small number of individuals and fortunately nil for 99% of US citizens.

Assessing all activities and ascribing them probabilities of failure sounds tedious, but you've probably already done this informally to identify the biggest risks in your business. Having a more formal process does require more work at the beginning but would prevent the kind of risk listing where almost every activity in the company is assessed and you need to have a record somewhere to prove that you have assessed your risks.

Aon conducted a survey of the risks perceived by business in April 2013 (The Global Risk Management Survey). The first three of the top 10 risks which businesses identified (see below) were areas over which we have little (if any) control – and expectations for ranking of 2016 risks are shown in brackets:

1. Economic slowdown/slow recovery (1)
2. Regulatory/legislative changes (2)
3. Increasing competition (3)
4. Damage to reputation/brand (8)
5. Failure to attract or retain top talent (5)
6. Failure to innovate/meet customer needs (4)
7. Business interruption (11)
8. Commodity price risk (7)
9. Cash flow/liquidity risk (10)
10. Political risk/uncertainties (6)

Acknowledgement of the existence of risk doesn't always lead to a solution to reduce the probability of it happening, but noting risks shows that you have at least considered the potential impact.

We hope that you find this report interesting and informative. Please contact [robert.russell@icaew.com](mailto:robert.russell@icaew.com) or [stephen.ibbotson@icaew.com](mailto:stephen.ibbotson@icaew.com) if you have any suggestions or ideas which you would like the ICAEW Finance and Management Faculty to explore.

Robert Russell

These reports are produced quarterly and are sent to members of the Finance and Management Faculty. You can join the faculty at [icaew.com/fmjoin](http://icaew.com/fmjoin) or call +44 (0)1908 248 250. Cost for one year is from £90.



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