Risk Management Guide
for Tourism Operators

Discover our true nature

Canadian Tourism Commission
Commission canadienne du tourisme

Canada


Are you a tourism supplier or a hunter?

Risk Management Guide
for Tourism Operators

Prepared for the
Canadian Tourism Commission

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FOREWORD

The Canadian Tourism Commission (CTC) is committed to promoting the growth and profitability of Canada's tourism industry. To assist tourism operators, the CTC has commissioned RM Solutions, a risk management consulting firm, to develop this risk management guide.

The Risk Management Guide for Tourism Operators contains industry-specific risk management tools that can be practically applied by businesses in all tourism sectors. The guide also provides risk management best practices for the tourism industry that the CTC expects will enhance the capability of tourism operators to manage and insure their prominent business risks.

The CTC wishes to develop a full understanding of the important risk management and insurance issues or concerns of tourism operators in Canada. An evaluation form is posted on our Web site at www.canadatourism.com under Programs/Industry Relations/Publications. We also invite your comments on your risk management program and your interest in attending seminars on risk management and insurance.

Alternatively, you can communicate with us at:

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1. INTRODUCTION

An important aspect of operating a viable tourism business is the ability of tourism operators to manage the prominent risks of their business. Also important for tourism operators is maintaining stable, responsive and cost-effective insurance coverage that will adapt to the legal requirements of a dynamic business environment.

While insurance is a necessary response to many business risks, risk management is required in order to make optimum insurance purchasing decisions. This guide is focused on the best practices and tools for managing risk in the tourism industry and provides a basic understanding of insurance principles.

This guide was developed for all tourism operators, who are referred to as "you" and "your" throughout the document. While applicable to all organizations, this guide is particularly focused on small and medium sized enterprises (SMEs). It contains concepts and principles that must be understood in order to practically apply the risk management process.

It is hoped that this guide will assist tourism operators improve their financial performance and help maintain the international reputation of the entire Canadian tourism industry.

Risk Management and Insurance

Relying exclusively on insurance to cover the risks of your business is no longer viable. Business organizations worldwide have adopted "risk management" principles to address the increasing legal, ethical and financial obligations to manage the principal risks of their business.

For the "emerging" risks (such as environmental liability, liquor liability or employment practices liability) that appear to be particularly prominent in your business, insurance may not be responsive and cost-effective or it may simply not be available. Risk management techniques will improve your ability to identify, analyze, control and finance a broad spectrum of risk faced by your business. Adopting risk management best practices will reduce the frequency as well as the severity of accidents and will enable you to manage a crisis, thus ensuring that your business does not suffer irreparable financial damage. Insurers will offer their best terms and conditions to those businesses that are well managed and considered to be a good risk. In an increasingly complex business environment, managing risk is a core skill that provides an important competitive advantage and is essential for success.

The risks inherent in the tourism industry are significant and recognized by the public. Professionalism and adherence to high standards of care on health, safety and environmental issues are now determining factors that influence consumers in making their vacation decisions. Risk management can enhance the ability of your operation to meet the increasing expectations of your clients and can help ensure the continued prosperity and growth of the important tourism industry in Canada.

2. RISK MANAGEMENT AS AN EMERGING BUSINESS SKILL

Risk management:

- Reduces the likelihood of an unwanted and unplanned event
- Reduces the consequences of the event, and
- Enhances your ability to access comprehensive and cost-effective insurance.

Risk Defined

The Canadian Institute of Chartered Accountants, which has conducted groundbreaking research into the subject of risk, defines it as "the possibility that one or more individuals or organizations will experience adverse consequences from an event or circumstance." The Economist Intelligence Unit considers the consequences in its definition of risk: "the threat that an event or action will adversely affect an organization's ability to achieve its business objectives and execute its strategies successfully."

Risk can be assessed in a mathematical function or model as the product of the probability of an event occurring and its consequences. Probability refers to the likelihood of the event, and the consequences refer to the impacts. An event with significant consequences may not be judged as a "prominent risk" if the probability of occurrence is extremely low, and vice versa.

Risk = probability x consequence

The output from the risk model is a risk rating or score that can be used to judge the relative level of risk among various risk scenarios. This is a very simplistic model.

The "probability x consequence" rating criterion implies a facts-based approach that will not completely define each risk. Most events cannot be predicted in this way because even when there is relevant and complete data available, it is obtained from previous experiences that surely will not mirror current circumstances. More complex models include "related impacts" that are more value-based to provide a better understanding of the order of magnitude of the risks.

These value judgments of related impacts are an inherent feature of decision-making and the risk assessment process is most successful when the insight and experiences of a multi-disciplinary group are applied.

Dr. Christian Kirchsteiger of the European Commission, in a draft report entitled "A Compass for Risk Analysis," gives examples of value-based criteria that may be used to characterize risks:

- Incertitude – related to statistical uncertainty, ignorance or a lack of confidence in our assumptions
- Ubiquity – the geographic dispersion of potential damages; affecting several locations simultaneously
- Persistency – the temporal extension of potential damages
- Reversibility – the possibility to restore the situation to the state before the damage occurred
- Delay Effect – the time or latency between the initial occurrence and actual damage impact
- Political/social factors – direct and indirect consequences of reactions from other stakeholders including individual, social or cultural interests
- Interdependencies – internal (within operational activities, such as process "choke points") and external, such as reliance on key suppliers.

Risk Management Defined

Risk management has been defined in many ways over the years. The following comprehensive definition demonstrates the value of risk management to every organization.

"Risk management is a strategic process that will protect the assets and ensure the financial stability of an organization from the consequences of competitive business decisions. Risk management will reduce uncertainty and the potential for accidental or unanticipated loss and will provide the basis for maximizing opportunity.

Risk management is a core skill for any business, and most effective when it is promoted at the senior management level and practised throughout the organization."[1]

> A primary responsibility of the board of directors of a listed company is the identification and monitoring of the principal risks of the business.
>
> *The Dey Report to the Toronto Stock Exchange, 1994.*

An effective risk-management program has the following basic elements:

- Owners and senior management are committed to a broad-based, strategic risk management process. This commitment must be practised at all levels of the organization, but particularly at the operating level
- Written risk management policies and procedures are established for the most prominent risks, with specific objectives and targets
- Roles and responsibilities for managing and controlling risk are clearly designed
- Performance evaluations include specific risk management objectives to ensure accountability
- Adequate resources and tools are allocated to ensure goals and objectives can be met
- There is ongoing employee training
- All programs and procedures are tested and monitored, particularly crisis response and business recovery plans, with continual improvement as the goal

[1] RM Solutions

- Regular reports include independent audits prepared for senior management and owners. These reports provide concise information regarding the status, including deficiencies, of all risk management programs.

Risk Management Mission Statement

Successful risk management programs include a mission statement signed by the owner and president, outlining the overall philosophy and dedication of the company towards risk management and its implementation. The risk management mission statement should be posted prominently where employees and the public will see it and where it will be a constant reminder of its importance.

The mission statement is a declaration of the guiding principles on which the business will be operated. It imposes a level of performance and public accountability.

Sample Risk Management Mission Statement

The ABC Company acknowledges that risks and uncertainties are inherent in every aspect of its business activities. ABC is committed to adopting the highest standards of business responsibility, which include:

- Providing a safe, healthy and enjoyable vacation experience for its customers
- Ensuring a safe and healthy working environment for its employees and business partners
- Minimizing the impact of its activities on the environment
- Conducting its business as a responsible and cooperative corporate citizen in the communities in which it operates, and
- Complying with all laws and recognized standards.

The ABC Company is committed to following a disciplined risk management process in which business risks are assessed and managed on an ongoing basis with a goal of continual improvement. The ABC Company is committed to adopting best risk management practices throughout the organization.

The Risk Spectrum

There is a broad range of risks facing all commercial and industrial organizations – each in varying degrees depending on the nature of the business and the activities. Effective risk management programs begin with an understanding of the types of risks facing an organization – a risk profile. The spectrum of risks has been depicted in figure 1. The spectrum represents risks that can be reasonably anticipated. The challenge is to identify in relative terms, those risks that must be managed for the overall benefit of the tourism operation.

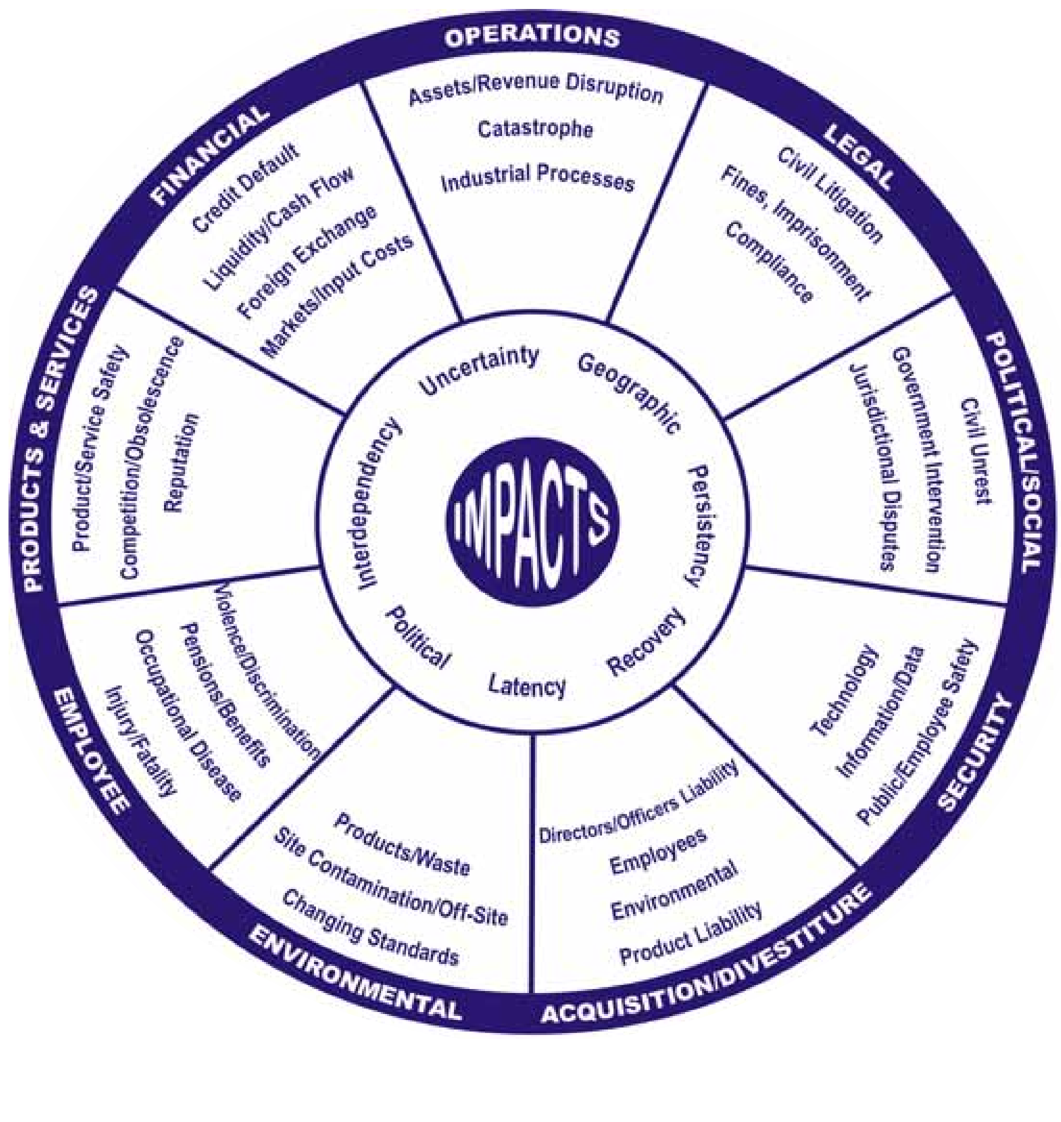


Figure 1: The Risk Spectrum[2]

[2] Property of RM Solutions

The Risk Management Process

The risk management process involves both the assessment and management components. The assessment component includes risk identification and risk analysis. The management component involves risk control and risk treatment. The stages are depicted in figure 2.

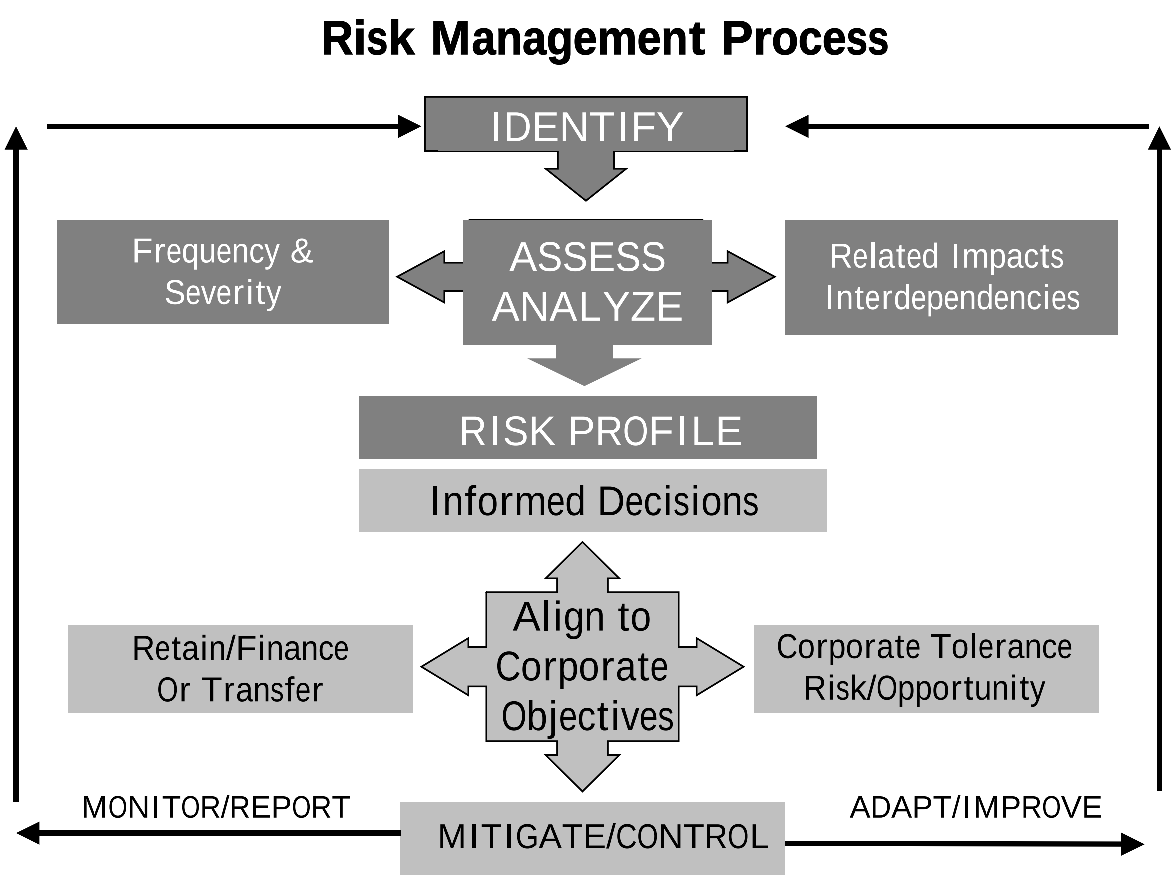


Figure 2: The Risk Management Process[3]

[3] Property of RM Solutions

Stage 1 - Risk Identification

As shown in figure 1, risks to any operation or organization can be identified in a broad range of categories. In this process an attempt is made to create categories narrow enough to facilitate analyses but broad enough to encompass all risks. These categories are not definitive and there is some overlap. Consider the categories simply as a way to assist in identifying risks.

Risk identification involves knowledge of the exposures. Information is gained through:

- On-site inspections and discussions with management and staff
- Review of products, services, processes and contracts
- Review of historical activities and losses, and
- Identification of possible risk scenarios.

Risk Assessment Adds Value

A "destination" hotel is located in an environmentally sensitive area within a national park. It has determined that its reputation is critical to success. This international reputation has been earned not only on its high standards of service and quality but also on its commitment to protect the sensitive environment of the national park.

Stage 2 - Risk Analysis

The analysis involves an evaluation of identified risks. There are numerous methods to analyze risk, each with different inputs and outputs. The simplest method to assess risk is brainstorming (what if…) among people associated with the operations. The insurance industry looks at MFL (maximum foreseeable loss) and MPL (maximum probable loss) to estimate loss expectancy for fires and physical hazard scenarios. More in-depth assessment methods are analytical. HAZOP (hazard and operability) studies offer a creative method as do fault or event tree analyses (logic trees), failure mode and effect analyses and others. These methods are generally applied to complex processes such as chemical reactors, but can also be applied to processes that involve human factor issues. Regardless of the method selected, risk rating will require an estimate of probability (frequency) and consequence (severity). The outcomes from analysis can either be numbers, scaled to measure the degree of risk, or maximum possible or probable loss scenarios in dollars.

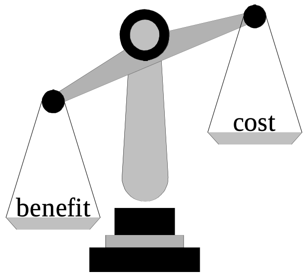
A qualitative method to identify and assess risks to your organization has been included in the section titled "Guide for Self-Assessment of Risk."

Identification & Analysis

Because of its remote location, the hotel is required to operate a potable water treatment system. Poor water quality could result in illness or death to guests and permanent damage to the hotel's reputation.

A risk analysis has determined that the treatment facility is not automated and is therefore particularly dependent on sound management practices such as regular monitoring of chlorine levels.

Stage 3 - Risk Control



Where there is high confidence in the results of the risk assessment, the organization will want to take corrective or preventive action for risks with high severity. The degree of control varies with the severity. Options are developed and the costs and benefits weighed. Typical actions involve some changes to the way the issue is managed and do not necessarily involve capital expenditures or physical changes to the operations. Specific types of programs may be implemented, such as occupational health and safety or product safety programs. Fire protection systems might be upgraded, crisis and emergency plans might be developed. Other risk management programs that can be implemented might include business recovery plans, claims and litigation management procedures, risk communication strategies, continual monitoring or periodic independent audits. The organization might consider adopting an internationally recognized management system such as ISO 14001 (environmental management system) or ISO 9001:2000 (quality management system).

Control

The hotel experienced two incidents when chlorine levels were low. These incidents did not result in any illnesses, since the incoming water quality at the time was adequate. The root cause was determined to be inadequate training of staff resulting in improper operation of the chlorinator. Management systems were upgraded through improved training and sampling procedures. Supervisors now monitor performance more closely.

Stage 4 - Risk Treatment

Once the prominent risks are identified, analyzed and controlled where possible, the remaining or residual risks must be properly treated. This may involve transferring the risk to others either contractually or by way of insurance. For some risks, insurance deductibles may be increased or self-insurance programs implemented. Some risks may be deemed tolerable and simply retained or financed internally. In all cases, risk treatment implies that informed decisions have been made on the prominent risks of the business.

Improved Insurance Cover

In addition to the risk control measures taken, the hotel reviewed its insurance coverage for business interruption. The service interruption clause in the policy limited recovery to three days, which the hotel believed was insufficient to deal with a risk scenario involving loss of potable water services. The hotel negotiated insurance enhancements that now provide 10 days of service interruption and extra expense coverage to insure the cost of providing an alternative, temporary water supply.

Strategic Risk Assessment

The Self-Assessment Guide will assist you in identifying and analyzing risks associated with the operations of your organization. You may apply it to one business activity or your entire organization. There are six steps in the guide. A workshop setting involving a multi-disciplinary group of employees from various departments is a good way of "brainstorming" throughout the process. The first step is to identify the risks associated with your organization. Steps 2 and 3 involve rating each risk in terms of probability and consequence as explained below in detail. Step 4 is calculating the risk rating score and step 5 involves calculating the score for each risk category. Step 6 involves implementing the appropriate control and treatment measures for your prominent risks. It is essential that you obtain the support of all internal and external stakeholders by communicating the risk management strategies. These strategies should also include continual monitoring to improve risk management practices.

Rating Probability

Step 2 in the guide refers to probability. A common rating system needs to be adopted to ensure consistency and provide confidence in the outcomes. As an example: low probability receives a rating of 1-3 (risk is considered remote, perhaps 1 in 1000 years); medium probability receives a rating of 4-5 (risk is considered unlikely, perhaps 1 in 100 years); high probability receives a rating of 6-8 (considered possible, perhaps 1 in 10 years); an extreme probability receives a 9-10 rating (risk is considered likely, 1 or more each year). The rating criteria should be relevant to your organization. When setting the rating, consider the degree of control you have over the activity, as this affects your level of vulnerability.

Your degree of control should consider management programs like planning, management involvement, training, policies and procedures, internal audits, inspection programs, assignment of responsibilities and any other factors that may affect the likelihood of the event. Obviously human intervention does not apply to risk scenarios like natural disasters, but the controls may mitigate the consequences or severity.

Rating Consequences

Step 3 in the guide refers to consequences, which are more difficult to rate. It is necessary to look at direct and subsequent or related impacts to arrive at a rating. Impacts may be interdependent and may be related to the degree of control. For example, an event could occur, but the effects may be mitigated by insurance or sound emergency response systems. Consider financial impacts and impact on reputation.

Again, a consistent rating system that is relevant to your organization is required. Low consequences are rated as 1-3 (for example minor injuries, low cost, no media involvement). Medium consequences receive a rating of 4-5 (for example moderate costs, minor injuries requiring hospital treatment, local or regional media coverage is likely, but with no negative impact on reputation). High consequences receive a rating of 6-8 (severe injuries are likely, high costs can be expected, extensive media coverage is likely to harm reputation, there is the potential for a political response that will affect your business). Extreme consequences receives a 9-10 rating (multiple fatalities, extreme costs affecting the future viability of the business, negative political repercussions for your business and the entire industry sector, international press coverage that damages reputation).

Example: Guide for Self-Assessment of Risk:

An example of a guide to self-assessment of risk is presented on the accompanying worksheets. The example is based on ABC Company, a hotel resort located in a national park. The hotel can accommodate 80 guests and has a licensed dining room. There are three full-time managers and a seasonal staff of 30. A diesel emergency power generator, potable water treatment system and septic system service the hotel. The hotel also operates a marina with boat rentals and guided fishing excursions. Hazardous materials include solid chlorine pucks (one drum inventory) for the potable water system, 1000 litres of gasoline in an above-ground storage tank and 300 litres of diesel fuel for the emergency generator. There are various small quantities of marina supplies and maintenance chemicals including oils, solvents, cleansers and paint.

Step 5 results of the sample assessment (steps 4 and 5) indicate that the hotel has prominent risks (scores over 25) associated with:

- Potential release of hazardous materials
- Potential non-compliance of health, safety and environment law with enforcement actions
- Physical safety and security of employees and customers
- Potential remedial costs from on-site contamination by the previous owner
- Potential for employee injury in the kitchen and marina operations
- potential illness or injury of staff and guests from contaminated potable water, fire or other event that could affect the company's reputation.

The hotel should consider corrective and preventive actions to control these risks.

Guide to Self-Assessment of Risk: blank work sheets

Would you like to calculate your own assessment of risk?
You may download blank work sheets at:

www.canadatourism.com under

Programs/Industry Relations/Publications

Note: A Guide to Self-Assessment of Risk is proprietary to RM Solutions.

GUIDE TO SELF-ASSESSMENT OF RISK

INSTRUCTIONS	EXAMPLE OF OPERATIONAL RISKS						
Step 1 **Risk Identification:** Identify risks associated with the organization's sites or operations. If you believe such an event or issue could occur, provide notes that outline each risk scenario in the comments section below each risk category. This information is necessary to assess probability and consequence.	Severe weather, including hurricanes, tornadoes, floods, severe ice and snow storms, electrical storms.[1]	Natural disasters, including forest fires, landslides, earthquakes, avalanches, tsunamis.[2]	Fires, explosions on-site.[3]	Releases of hazardous materials to land, water or air, arising from industrial processes.[4]	Utility failure.[5]	Acts of terrorism or other criminal acts; riots, civil unrest. Strike.[6]	Medical emergencies.[7]
Comments: (Specific Risk Scenarios)	The hotel operates in spring, summer and fall only. Severe thunderstorms occur about thirty times per season. Boat rentals and excursions are cancelled when severe weather is forecast. No incidents involving severe weather have ever occurred. Lightning is the threat not high waves as the lakes are small.	Forest fires have occurred in the vicinity in the past. The hotel was evacuated on one occasion resulting in a loss of $15,000 in revenue over two days.	1000 litres gasoline is stored at the marina and 200 litres of diesel at the emergency power unit. Personnel are trained in fuel transfer and fire safety.	Materials include fuels, solid chlorine and maintenance materials. Fuel tanks are new with secondary containment. Personnel have not been trained in spill response and no outside assistance is available for the first 12 hours of a spill. A minor spill of 5 litres occurred this summer. The lake is a sensitive receptor.	Emergency power is available.	The site is remote and not a likely target of terrorism. Summer students represent 90% of the workforce and no strikes have ever occurred.	Employees are young and healthy. There have been no recent medical emergencies aside from those requiring first aid. Three employees are certified in first aid and CPR. The first aid room is fully stocked. Air ambulance is available.
Step 2 **Rating the Probability:** Rate the probability of occurrence (1-10, with 1 being least likely and 10 most likely).	1	3	1	3	1	1	1
Step 3 **Rating the Consequences:** Rate the consequences of occurrence (1-10, with 1 having least effect/impact and 10 most effect/impact).	1	7	5	9	3	1	7
Step 4 **Rating the Severity of Risk:** Determine the score for the severity of the occurrence by multiplying the probability times the consequence.	1	21	5	27	3	1	7
Step 5 **Adding the Results of the Assessment:** Calculate the total score for Operational Risks by adding the numbers in step 4. Note that any individual score greater than 25 indicates corrective and preventive actions are required.	**Operational Risks Score** **65**						

[1, 2 & 3] Occurrences might affect your sites and access to your sites.

[4] Operations that involve large quantities of hazardous or dangerous substances are high risk. Consider the nature and number of receptors (e.g. sensitive receptors like facilities for children or seniors, ecological preserves, animal habitat, potable water supply etc.)

[5] Utility failure may result in disruption of business and inability to operate. May interrupt loss prevention systems, controls that could result in injury or illness, disruption of business.

[6] Included here are acts by disgruntled employees or local citizens. Criminal actions like theft or break-in are related to the nature and location of the business and its attractiveness to criminal activity.

[7] Medical emergencies involving customers or employees. The potential for accidents causing medical emergencies is directly related to the level and nature of hazards associated with operations.

Guide to Self-Assessment of Risk

	Instructions	Example Of Legal Risks		
Step 1	**Risk Identification:** Identify risks associated with the organization's sites or operations. If you believe such an event or issue could occur, provide notes that outline each risk scenario in the comments section below each risk category. This information is necessary to assess probability and consequence.	Non-compliance with statute law, including federal, provincial and local laws concerning activities, products and services.[1]	Negligent acts in common law.[2]	Liabilities associated with acquisitions or divestitures, arising from products or services, pension and worker's compensation obligations, environmental legacies.[3]
	Comments: (Specific Risk Scenarios)	No compliance audit has been conducted. Knowledge of occupational health, safety and environmental law is minimal among managers and staff. Ministry inspectors have never visited this site although similar sites have been inspected. A phase I study did reveal some contamination of soil around the gasoline storage tank. Studies are underway to reveal the extent of the contamination. Government enforcement action could result.	Risks to guests and visitors, resulting in lawsuits, are most likely to arise from improper maintenance of boats and grounds or fishing excursions. Professional guides are employed to operate the excursions. There are procedures and training of all staff for grounds maintenance and inspections are done daily by supervisors. There have been no lawsuits in the past.	The hotel resort is a new acquisition of ABC Company. Extensive review was conducted prior to the acquisition including a phase I site contamination assessment, review of pending lawsuits, previous worker's compensation cases. A financial audit was conducted by an accounting firm.
Step 2	**Rating the Probability:** Rate the probability of occurrence (1-10, with 1 being least likely and 10 most likely).	9	2	2
Step 3	**Rating the Consequences:** Rate the consequences of occurrence (1-10, with 1 having least effect/impact and 10 most effect/impact).	8	6	6
Step 4	**Rating the Severity of Risk:** Determine the score for the severity of the occurrence by multiplying the probability times the consequence.	72	12	12
Step 5	**Adding the Results of the Assessment:** Calculate the total score for Legal Risks by adding the numbers in step 4. Note that any individual score greater than 25 indicates corrective and preventive actions are required.	**Legal Risks Score** **96**	[1] Environment, Health and Safety: Federal law covers such issues as crime, transportation of dangerous goods, transboundary releases of contaminants, importation or manufacture of new chemicals, fire code, hazardous products, foods, drugs, medical devices, and pesticides. Provincial laws govern occupational health and safety, first aid, fire codes, environmental permits, air emissions, waste management (hazardous and non-hazardous), hazardous products and materials, water discharges and permits. [2] Inability to prove prudence and due diligence may subject the business and employees personally to liability as a result of negligence. Obligations under liquor control laws can expose the business to suits. [3] Liabilities include pending lawsuits.	

Guide to Self-Assessment of Risk

	Instructions	Example of Political and Social Risks	
Step 1	**Risk Identification:** Identify risks associated with the organization's sites or operations. If you believe such an event or issue could occur, provide notes that outline each risk scenario in the comments section below each risk category. This information is necessary to assess probability and consequence.	Social unrest resulting in disruption of operations.[1]	Local or widespread opposition to activities, services. Government intervention or expropriation, political instability or jurisdictional disputes.[2]
	Comments: (Specific Risk Scenarios)	No local unrest in the past. There is easy access to the site on provincial, municipal and private roads. Some guests arrive from the U.S. by road and air. Employees reside on site.	The land is owned by the hotel and there are no disputes over title. Some unrest has occurred nationwide over sport fishing, including the impacts of catch and release; however, this has never manifested into local opposition to hotel activities. The area is politically stable.
Step 2	**Rating the Probability:** Rate the probability of occurrence (1-10, with 1 being least likely and 10 most likely).	1	1
Step 3	**Rating the Consequences:** Rate the consequences of occurrence (1-10, with 1 having least effect/impact and 10 most effect/impact).	1	1
Step 4	**Rating the Severity of Risk:** Determine the score for the severity of the occurrence by multiplying the probability times the consequence.	1	1
Step 5	**Adding the Results of the Assessment:** Calculate the total score for Political and Social Risks by adding the numbers in step 4. Note that any individual score greater than 20 indicates corrective and preventive actions are required.	**Political and Social Risks Score** **2**	[1] Disruption may involve restriction of customers/employees access to operations, activity site, services or products. [2] Organized opposition due to environmental concerns, aboriginal rights, etc. Government intervention in operations, activities or customers by legislated requirements. Expropriation or nationalization of operations. Political instability or jurisdictional disputes resulting in inability to obtain access/necessary permits.

Guide to Self-Assessment of Risk

	Instructions	Example of Safety and Security Risks	
Step 1	**Risk Identification:** Identify risks associated with the organization's sites or operations. If you believe such an event or issue could occur, provide notes that outline each risk scenario in the comments section below each risk category. This information is necessary to assess probability and consequence.	Security of information (electronic or otherwise) including customer and employee data, financial or proprietary information.	Physical safety and security of employees and customers.*
	Comments: (Specific Risk Scenarios)	All electronic data including financial data, customer lists and employee files are password protected. Virus software is updated on an ongoing basis over the Internet. All files are backed up daily with off-site storage. Employees sign confidentiality agreements. Hardcopy files are in a fireproof, locked cabinet.	Physical safety of customers is jeopardized when alcohol and boating are mixed. Employees are advised of this danger and policy is not to rent boats to intoxicated people. Bar staff have policies concerning cutting off patrons. Boating safety is a concern. Boaters must pass a test to rent boats or have an operator's license from the province. Two accidents have resulted in minor injury to guests involving boating.
Step 2	**Rating the Probability:** Rate the probability of occurrence (1-10, with 1 being least likely and 10 most likely).	1	6
Step 3	**Rating the Consequences:** Rate the consequences of occurrence (1-10, with 1 having least effect/impact and 10 most effect/impact).	1	8
Step 4	**Rating the Severity of Risk:** Determine the score for the severity of the occurrence by multiplying the probability times the consequence.	1	48
Step 5	**Adding the Results of the Assessment:** Calculate the total score for Safety and Security Risks by adding the numbers in step 4. Note that any individual score greater than 20 indicates corrective and preventive actions are required.	**Safety and Security Risks Score** 49	* Workplace violence arising from domestic disputes or harassment by other employees, sexual or otherwise. Injuries and fatalities to customers as a result of inadequate crowd control at a public event or dealing with unruly patrons. Terrorism or civil unrest or protests.

Guide to Self-Assessment of Risk

	Instructions	Example of Acquisition or Divestiture Risks			
Step 1	**Risk Identification:** Identify risks associated with the organization's sites or operations. If you believe such an event or issue could occur, provide notes that outline each risk scenario in the comments section below each risk category. This information is necessary to assess probability and consequence.	Product liability.[1]	Directors and officers liability for breach of fiduciary duties to shareholders & employees.	Employee pensions/benefits, worker's compensation.[2]	Environmental liabilities.[3]
	Comments: (Specific Risk Scenarios)	The hotel is a new acquisition of ABC Company. There are no pending lawsuits involving hotel operations. An extensive review was conducted prior to acquisition.	The roles and responsibilities of directors and officers are documented. The Board comprises four outside people including one lawyer. External financial audits are conducted annually. ABC Company is a limited company.	All past employees were covered by Workers Compensation. There are no residual claims associated with operations prior to acquisition.	A phase I study did reveal some contamination of soil around the gasoline storage tank. Studies are underway to reveal the extent of the contamination. There are no neighbours that could be affected.
Step 2	**Rating the Probability:** Rate the probability of occurrence (1-10, with 1 being least likely and 10 most likely).	2	2	1	5
Step 3	**Rating the Consequences:** Rate the consequences of occurrence (1-10, with 1 having least effect/impact and 10 most effect/impact).	2	2	1	6
Step 4	**Rating the Severity of Risk:** Determine the score for the severity of the occurrence by multiplying the probability times the consequence.	4	4	1	30
Step 5	**Adding the Results of the Assessment:** Calculate the total score for Acquisition or Divestiture Risks by adding the numbers in step 4. Note that any individual score greater than 25 indicates corrective and preventive actions are required.	**Acquisition or Divestiture Risks Score** 39	[1] Liability claims arising from products/services acquired or divested. [2] Employee obligations unresolved or improperly quantified in acquisition or divestiture. [3] Site contamination that may manifest at some future date after divestiture. Suits from neighbours due to pollution emanating from a site, unknown at the time of acquisition or divestiture.		

Guide to Self-Assessment of Risk

	Instructions	Example of Environmental Risks	
Step 1	**Risk Identification:** Identify risks associated with the organization's sites or operations. If you believe such an event or issue could occur, provide notes that outline each risk scenario in the comments section below each risk category. This information is necessary to assess probability and consequence.	On-site contamination involving owned property only.[1]	Off-site liabilities related to past or present releases and discharges. Environmental liabilities arising from products/services and wastes.
	Comments: (Specific Risk Scenarios)	A phase I study did reveal some contamination of soil around the gasoline storage tank. Studies are underway to reveal the extent of the contamination. Water quality could be affected with some impact on fish habitat.	There are no neighbours. The lake is isolated. Past spills from the gasoline storage tank have resulted in soil contamination. Studies will reveal the extent and nature of contamination in soil and water. Off site liabilities (excluding government) are expected to be minimal.
Step 2	**Rating the Probability:** Rate the probability of occurrence (1-10, with 1 being least likely and 10 most likely).	8	2
Step 3	**Rating the Consequences:** Rate the consequences of occurrence (1-10, with 1 having least effect/impact and 10 most effect/impact).	9	2
Step 4	**Rating the Severity of Risk:** Determine the score for the severity of the occurrence by multiplying the probability times the consequence.	72	4
Step 5	**Adding the Results of the Assessment:** Calculate the total score for Environmental Risks by adding the numbers in step 4. Note that any individual score greater than 25 indicates corrective and preventive actions are required.	**Environmental Risks Score** **76**	[1] Contamination from past (historic) and present (ongoing) operations. Changing standards may result in non-compliance.

Guide to Self-Assessment of Risk

Step	Instructions	Example of Employee Risks		
Step 1	**Risk Identification:** Identify risks associated with the organization's sites or operations. If you believe such an event or issue could occur, provide notes that outline each risk scenario in the comments section below each risk category. This information is necessary to assess probability and consequence.	Pensions and benefits.[1]	Occupational injury or fatality or illness.[2]	Workplace violence or harassment.[3]
	Comments: (Specific Risk Scenarios)	The previous owners did not have a pension program. Three managers have a benefits package.	There has never been an occupational illness recorded. Injuries have involved first aid only. The risk of injury around the kitchen and marina are high due to the hazards. Health and safety training is minimal.	New employees are advised of hotel policies concerning harassment. There have been no incidents of this nature in the past.
Step 2	**Rating the Probability:** Rate the probability of occurrence (1-10, with 1 being least likely and 10 most likely).	2	8	1
Step 3	**Rating the Consequences:** Rate the consequences of occurrence (1-10, with 1 having least effect/impact and 10 most effect/impact).	2	8	1
Step 4	**Rating the Severity of Risk:** Determine the score for the severity of the occurrence by multiplying the probability times the consequence.	4	64	1
Step 5	**Adding the Results of the Assessment:** Calculate the total score for Employee Risks by adding the numbers in step 4. Note that any individual score greater than 25 indicates corrective and preventive actions are required.	**Employee Risks Score** **69**	[1] Pension obligations may exceed investment value of plan. Catastrophic events (i.e. multiple injuries, fatalities) may result in uninsured benefit obligations and unfunded pension obligations. [2] The risk of occupational illness or injury is related to the nature of hazards presented by processes and operations and the level of management control of those hazards. [3] Risk of sexual or other types of harassment are related to the level of awareness of employees about rights and responsibilities and level of management control through policies and policy enforcement.	

Guide to Self-Assessment of Risk

	Instructions	Example of Products and Services Risks	
Step 1	**Risk Identification:** Identify risks associated with the organization's sites or operations. If you believe such an event or issue could occur, provide notes that outline each risk scenario in the comments section below each risk category. This information is necessary to assess probability and consequence.	Safety of products or services. Crisis response plan is inadequate.[1]	Poor-quality products or services damage reputation; results in loss of market share.[2]
	Comments: (Specific Risk Scenarios)	There are inherent risks associated with operations mainly associated with water and boating. Training and communication among staff regarding hazard awareness and safety could be more rigorous. Emergency plans are out of date. Potable water could become contaminated with resultant illness of guests and staff. Fire is always a threat although fire control facilities are available.	Reputation is critical to financial survival. The hotel is part of a well-known chain, which has a reputation to uphold. A publicized event could have long-term consequences for the site and the chain, especially if it involves safety of guests.
Step 2	**Rating the Probability:** Rate the probability of occurrence (1-10, with 1 being least likely and 10 most likely).	5	8
Step 3	**Rating the Consequences:** Rate the consequences of occurrence (1-10, with 1 having least effect/impact and 10 most effect/impact).	10	9
Step 4	**Rating the Severity of Risk:** Determine the score for the severity of the occurrence by multiplying the probability times the consequence.	50	72
Step 5	**Adding the Results of the Assessment:** Calculate the total score for Products and Services Risks by adding the numbers in step 4. Note that any individual score greater than 25 indicates corrective and preventive actions are required.	**Products and Services Risks Score** **122**	[1] Highest risks are associated with products and services that are inherently hazardous and are used by a large population of customers. Food service could result in illness to customers. [2] Company reputation is most important to organizations in the limelight (e.g. major corporations with well known or trademark products) or those that deal directly with the consumer. Note that reputation in this instance relates to poor services or products and not the effect on reputation of other risk events dealt with elsewhere.

Guide to Self-Assessment of Risk

	Instructions	Example of Financial Risks			
Step 1	**Risk Identification:** Identify risks associated with the organization's sites or operations. If you believe such an event or issue could occur, provide notes that outline each risk scenario in the comments section below each risk category. This information is necessary to assess probability and consequence.	Effect of input commodity pricing on products and services offered.	Foreign exchange fluctuations may restrict access to or from certain countries.	Credit exposure to customers and foreign jurisdictions or access to credit.*	Changes in the marketplace and consumer demands, tastes.
	Comments: (Specific Risk Scenarios)	Commodity prices affect operating costs.	U.S. exchange rate is favourable.	No-shows are billed unless 24-hour notice is received.	Some fluctuations are expected.
Step 2	**Rating the Probability:** Rate the probability of occurrence (1-10, with 1 being least likely and 10 most likely).	2	0	3	3
Step 3	**Rating the Consequences:** Rate the consequences of occurrence (1-10, with 1 having least effect/impact and 10 most effect/impact).	2	0	3	2
Step 4	**Rating the Severity of Risk:** Determine the score for the severity of the occurrence by multiplying the probability times the consequence.	4	0	9	6
Step 5	**Adding the Results of the Assessment:** Calculate the total score for Financial Risks by adding the numbers in step 4. Note that any individual score greater than 25 indicates corrective and preventive actions are required.	**Financial Risks Score** 19	* Relates to the inability to collect bad debt or receive prepaid services. Reservation cancellations may result in under-utilization of services and inability to replace cancellations.		

Step 6

Instructions

Review individual scores from each page to determine your prominent risks. Implement control and treatment measures as appropriate.

Obtain support by communicate the risk management strategies to all internal/external stakeholders.

Continually monitor and improve risk management practices.

Implementing Risk Management, Risk Control and Mitigation Strategies

Step 6 of the Guide to Self-Assessment of Risk involves responding to the prominent risks of your business. The following are accepted risk management, control and mitigation strategies that can be applied:

- Reduce likelihood of occurrence
- Reduce severity or consequences and mitigate related impacts
- Develop and implement crisis response and business recovery plans; plans should be current and regularly tested; training of personnel is required
- Increase resilience – by the transfer of risk through insurance, risk financing and hedging programs; this requires an understanding of a corporation's risk appetite; business recovery plans to restore operations are also a relevant resilience strategy
- Implement the precautionary principle – certain activities should be subjected to rigorous controls or may be avoided or substituted for; this strategy may be appropriate if there are fundamental uncertainties, unacceptable outcomes or intractable opposition
- Adhere to participatory approach and communicate – activities that may have significant cultural, societal or political impacts will require a participatory approach to risk management that will involve all stakeholders early on in the process; this will promote general trust and acceptance of the activity or project.

The risk management process will enable you to make informed decisions about how best to treat business risks that cannot be completely controlled or eliminated. Relying on the law of large numbers to spread risk, insurance remains a cost-effective and reliable risk financing mechanism.

3. BASIC INSURANCE REQUIREMENTS FOR TOURISM OPERATORS

All business owners are likely to purchase various types of insurance that will cover specific risks and events. One of the most prominent risks for members of the tourism sector is liability to others, for which the basic coverage is a commercial general liability (CGL) insurance policy. This section focuses on liability issues and important coverage requirements; it also gives a brief overview of other types of insurance.

Commercial General Liability Insurance

This policy responds to bodily injury or property damage claims made against you by third parties (i.e. clients and the general public), which arise out of your activities or operations. The policy also pays the necessary legal costs to defend your company and your employees against claims.

There is a legal principle that the claimant bears the burden of proving the negligence of the operator and this negligence must be a direct and proximate cause of the injury or damages sustained. Your legal obligation to the public and especially customers, however, is extremely broad and these claims can be difficult and costly to defend. The courts will generally look favourably on legitimate claimants who have sustained injury or other "damages" as a result of the negligence of a tourism operator.

Commercial general liability policies are written on either an "occurrence" or a "claims-made" basis. This is an important distinction to note when purchasing a liability policy.

An "occurrence" liability policy provides coverage for bodily injury and property damage claims brought at any time and arising out of events that occur within the policy period. Regardless of when the claim is made, as long as your liability policy was in force when the bodily injury or property damage event occurred, you would be covered.

A "claims-made" liability policy provides coverage for claims made and reported by you during the policy period, regardless of when the event occurred. If you are no longer a policyholder when a claim is made against you, you would not be covered.

It is therefore recommended that you purchase an "occurrence" basis policy whenever possible.

Policy Limits

Policy limits are usually purchased in layers beginning with a primary layer of $1,000,000 per occurrence. Excess layers (as discussed below) can be added to provide higher limits of up to $100,000,000 or more. Excess layers will usually be priced at lower rates than the primary layer.

Consider the following in determining the appropriate amount of insurance to purchase:

- The likelihood of a settlement or court award
- The potential size of an award, including the potential for multiple claimants, and
- The requirement for protecting the total assets of your company.

A minimum limit of $1,000,000 is recommended.

Deductible

Most liability policies do not impose a deductible on the bodily injury section of the policy. However, a minimal deductible ($250 to $1,000) may be written on the property damage section of the policy. In some cases, it may be more advantageous to you to have a bodily injury deductible. You would have to pay the deductible amount in each claim made against you, but the premium may be significantly reduced. Your insurance broker or a risk management consultant can advise you if this option is worth considering.

Coverage Territory

Although your operations may be solely in Canada, your clients may be from other countries. Since clients may file lawsuits in other countries against you, it is recommended you purchase a policy with the covered territory being anywhere in the world. This is important because the cost of defending a foreign action can be extremely high.

Material Change in Risk

Should your company undergo a material change in risk, this should be reported immediately to your broker. An example of a material change in risk would be a change in the operation of your company that may result in increased claims activity.

For example: you operate a guest ranch that is normally closed in the winter, and you decide to open year round offering cross-country ski trails, hiking and hayrides. These new activities increase your risk and the potential for claims. If you do not report this change immediately to your insurer, you may have coverage problems for losses resulting from the new activities.

Exclusions

General liability policies have basic exclusions that should be understood and reviewed with your broker. Some other risks are also excluded from the general liability policy as they are covered by a more specific policy. The policy will typically exclude damages arising from automobiles; aircraft or watercraft; professional acts of directors and officers; employee injury; pollution; watercraft or cargo while at your dock.

Umbrella Liability Policy

An umbrella liability policy will provide excess limits above a general liability policy and other liability policies such as automobile liability policies. These policies follow the coverage provided in the underlying policy and may offer broader coverage in the excess layers. An umbrella liability policy can provide a "drop-down" feature to provide protection in the primary layer should the primary limits be eroded by other claims.

Excess Liability Policy

An excess liability policy will provide excess limits above a primary general liability and umbrella liability policy to provide the limits required to settle a large claim or claims. The premium should be a fraction of the premium of your first, or primary, policy. Limits of liability can usually be purchased up to $100,000,000.

Important Coverage Extensions

Host Liquor Liability

At times, a company will serve alcoholic beverages at special functions, include them as part of their meal packages or provide liquor service in a licensed bar area on the premises. An operator's liability that arises from providing liquor service may be excluded from liability policies unless the coverage for host liquor liability is specifically added to the policy. All operators who sell liquor in the course of their business activities should have host liquor liability coverage added to their Commercial General Liability policy. The projected annual sales volume will be used to determine the premium.

Example

Two guests of your hotel consume alcohol in your bar and are later involved in an automobile accident in which one of the guests is the driver at fault and found to be impaired. The guests sustain serious injuries, as does the driver of the other vehicle. Your hotel as well as you and your employees may be faced with a claim advanced by the driver of the other vehicle (or the estate) as well as claims from both guests of your hotel including the impaired, at fault driver. The claims would likely be advanced on the basis that your hotel and staff breeched their legal obligation to refuse to serve alcohol to guests that were obviously impaired or could be assumed to be impaired because of the amount of alcohol they consumed in your hotel bar.

In such circumstances, you would seek coverage under a host liquor liability endorsement of a CGL policy.

Advertiser's Liability

This is coverage for claims arising out of your advertising activities, provided this is incidental to your business and not a service provided to the public for a fee. The coverage is for claims made against you for libel, slander, copyright infringement or plagiarism.

Product Liability

There is coverage when an "occurrence" takes place away from your premises resulting in bodily injury or property damage to another caused by one of your products or services after you have relinquished control or ownership. For example, guests at your resort launch their boat and dock it at your marina. During their stay, the boat is fuelled and serviced at the marina, after which the engine seizes on an outing on the lake. After inspection by your mechanic in your repair shop, it becomes clear that the engine was damaged due to faulty servicing at the marina. You authorize repairs at no expense to the guests and immediately notify your insurance company of a claim that you will submit for the repair costs, seeking coverage under the product liability section of your commercial general liability policy. The insurance company sends an adjuster to verify the cause and the amount of damages.

Contractual Liability

This means liability that you have assumed under a "contract," for example in a "hold-harmless" agreement that you enter into with a tour operator or landlord.

It is important that liabilities you assume under contract should not extend beyond what would be normal under common law or a statute. Further, you should never assume liability for the sole negligence of another party. You may be required to disclose these types of contracts to the insurance company. If in doubt, seek advice from your legal counsel, risk management consultant or insurance broker.

Non-Owned Auto Liability

For rental vehicles, this policy extension provides additional liability coverage that is "contingent" on the statutory limits carried by the rental agency as the primary insurance.

Tenant's Legal Liability

If you lease property, tenant's legal liability coverage is required, as property in your care, custody or control is not covered under your commercial general liability policy.

Voluntary Medical Expenses

The insurance company will pay for certain "reasonable" medical expenses incurred by your guests or the general public, at your request. The types of expenses covered are the cost of an ambulance, crutches and emergency medical treatment. The extension permits an operator to authorize payment of immediate treatment and ambulance charges. The policy will likely carry a sub-limit, or an amount less than the overall policy limit, for each person. For example, the limits of liability of the overall policy may be $1,000,000, with a sub-limit of $2,500 per person for this coverage.

Incidental Medical Malpractice

This is coverage for damages arising out of the rendering of, or failure to render, professional medical services, such as first aid. This not only covers the liability of your company, but also the liability of any employees and medical professionals or first aid persons you employ, who render first aid or medical services.

Claims Reporting

The following steps guide you through the process of what to do when an accident or injury occurs:

- Provide necessary help and assistance
- Make a report of the circumstances that includes witness names and statements
- Report the incident immediately to your insurer or broker, and
- Do not admit liability nor fault to third parties, as this could compromise your insurer's investigation or defence.

Insurance companies insist on prompt reporting of claims and may deny coverage if they can demonstrate that the defence of the claim has been adversely affected by late reporting. Few policies have specific reporting requirement timelines, but in all cases, you cannot go wrong by reporting all incidents that may result in claims to your insurer as soon as you learn of them.

Once a claim has been reported, you should closely monitor its progress until conclusion. Co-operate fully with the insurance company and the claims adjuster assigned to investigate. Do not provide information to any other parties unless authorized to do so by your insurance company.

Other Insurance

Marine Liability Insurance

The *Marine Liability Act* (MLA) imposes a comprehensive system of liability on shipowners to passengers. Owners and operators of all commercial watercraft are governed by the Act, which Transport Canada administers.

The Act provides a uniform method of establishing liability that balances the interests of shipowners and passengers. Shipowners and their insurers will now have a clearer indication of what they may be liable for and to what degree. Passengers in Canadian waters will now be assured that there are clear rules upon which to make a claim and that the claim will be settled promptly.

For owners and operators of commercial watercraft in Canada, the most important features of the MLA are as follows:

- The limit of liability is capped at $350,000 per passenger for loss of life or personal injury. This compensation limit is comparable to the limits required by carriers in air transportation.
- A limit of liability for passenger claims is established per vessel/per incident based on the maximum passenger capacity of each vessel. At the time of publishing the *Risk Management Guide for Tourism Operators*, regulations under the MLA were being drafted. Please consult Transport Canada's Website provided below.
- The MLA does not recognize the use of waivers of liability. As in the past, the claimant must demonstrate that the carrier is at fault, unless death or injury is caused by shipwreck, collision, grounding, explosion, fire or defect. In these cases, the carrier bears the burden of proving it is not at fault. To date, there are no court cases available to indicate how courts will interpret these stipulations for the tourism industry.
- All passenger vessels operating in Canadian waters, irrespective of size and mode of power, are subject to the provisions of the MLA. Thus, not only will operators of large cruise ships need to demonstrate appropriate insurance, but also operators of canoes used on guided trips, of white water rafts and many other vessels used for similar purposes.
- The MLA does not apply to owned or rented pleasure craft that are used for pleasure and not for a commercial purpose.

Transport Canada is evaluating the impact of the Marine Liability Act on the tourism industry and has undertaken consultations, particularly with small and medium sized operators. Concerns relate to the ability to ensure compliance with the insurance or financial guarantees and to the availability of cost-effective and responsive insurance, particularly as marine insurance markets are experiencing shrinking capacity and increasing rates.

As a related issue, Transport Canada is also looking at the possibility of introducing mandatory safety management systems on small vessels.

Current information on these evolving issues and contact information for feedback appear on the Transport Canada Website at: www.tc.gc.ca.

Accounts Receivable Insurance

Canadian tourism operators and suppliers can also access accounts receivable insurance for inbound travel services through Export Development Canada (EDC).

EDC will insure up to 90 per cent of your receivables from creditworthy buyers if a U.S., foreign or even receptive Canadian tour operator does not pay because of insolvency or default. This is a "pay as you go" insurance service, with premiums based on export type, the foreign buyer's country, and credit terms. Premiums are calculated monthly, based on outstanding eligible receivables.

Insured accounts receivable would allow tourism operators and suppliers to offer favourable credit terms to more foreign tour operators, thus making their product more attractive and internationally competitive. Insured receivables could also be deemed a bankable asset that would allow an operator to secure loans or free up existing working capital to expand or improve their business.

Further information on this program is available from EDC at 1-866-339-4487 or at: www.edc.ca/tourism.

Automobile Insurance

Automobile insurance provides coverage for third party liability and accident benefits liability arising out of the use, ownership or operation of an automobile. If you are an operator who regularly or occasionally transports members of the public, sufficient policy limits are required.

Additional limits can be obtained through an excess/umbrella liability policy, with the automobile insurance scheduled as underlying. The commercial general liability policy should be extended to provide contingent coverage on non-owned autos such as rental cars. The section of this guide titled "Commercial General Liability Insurance," offers detailed information on commercial general liability insurance.

Policy Coverage

- Third party liability
- Accident benefits (where mandatory)
- Uninsured automobile (where mandatory)
- All perils or collision and comprehensive.

Property Insurance

Property insurance responds to losses from damage or destruction of business property. A basic "fire and extended coverage" policy can usually be broadened to cover "all risks," except for certain excluded perils. Some policies have a co-insurance clause that specifies a certain percentage of insurable values that must be reported and insured. If you do not report at least this percentage of insurable values, you may be subject to a co-insurance penalty when a claim is presented.

Example

You have a co-insurance clause in your property policy requiring that you declare at least 80 per cent of the total value of your insurable property. Your insurance values are $1,000,000, but you mistakenly report only $500,000. You have a loss in the amount of $50,000 and seek coverage under your policy. Unfortunately, you only reported 50 per cent of your insurable values. Therefore, your insurance company will cover only 50 per cent of your loss, or $25,000.

Policy Coverage

- Property of every description, including all buildings, contents, stock and equipment, written on a blanket basis (i.e. you do not have to list every item insured)
- Written on a replacement-cost basis (optional)
- Business interruption insurance, which protects against loss of income in the event of damage to your property, if it is covered under the property policy
- Boiler and machinery insurance.

You should make an annually updated list of all insurable values.

Crime Insurance (3-D – Dishonesty, Disappearance and Destruction)

3-D crime insurance provides you with a wide variety of coverage against employee dishonesty, mysterious disappearance of money and the destruction that sometimes occurs in the commission of a crime such as robbery, burglary or theft of your property. There are several additional coverages that can be added to this policy by way of insuring agreements.

Policy Coverage

- Employee dishonesty
- Premises coverage (for crime on the premises)
- Transit coverage (for crime en route to the bank)
- Forgery or alteration
- Counterfeit currency.

Professional Liability or Directors' and Officers' Liability Insurance

This insurance provides coverage against liability arising out of the negligence in rendering professional services. For directors and officers, claims arising out of decisions or wrongful acts are covered.

Worker's Compensation

Provincial and territorial worker's compensation boards cover workplace injuries and illnesses sustained by employees. Worker's compensation is a "no fault" system in Canada, meaning that compensation claims are paid to injured workers regardless of fault and workers, in turn, lose the right to bring a civil action against the employer.

All employers in Canada are assessed annual premiums based on risk and payroll. The employer's annual premiums are then adjusted for claims experience relative to other employers in that rate group. In addition, poor performers will be subjected to health and safety audits of their management systems and face the possibility of annual levies or fines.

To reduce the cost of risk, employers should first ensure they are placed in the proper industry rate group and assessed the correct rate. Employers should implement health and safety programs that ensure compliance with law and are effective in preventing workplace injuries and illnesses. Employers should also implement claims-management and return-to-work programs that will reduce claims frequency and severity.

4. KEY PLAYERS ON THE RISK MANAGEMENT AND INSURANCE TEAM

You, the "Risk Manager"

- Know your business, your clients and the risks
- Must develop and lead the risk management team
- Are responsible for providing the tools and resources to ensure success.

Risk Management Consultants

- Are seasoned professionals with management experience and specific expertise in: risk financing and insurance; health, safety and environment; operational processes; loss prevention and control; internal audit and control.
- Can assist you with:
    - Risk assessment and risk profiling
    - Risk management programs and systems
    - Risk tolerance and retention strategies
    - Developing insurance and other risk financing solutions
    - Strategic use of insurance brokerage and risk management services
    - Due diligence management reports.

Insurance Brokers

- Work with the insured client and risk management consultants to identify areas requiring insurance coverage
- Negotiate the insurance premium, terms and conditions with the insurance markets
- Place the insurance coverage with appropriate insurance companies
- Review the financial rating of the insurance company to ensure there will be funds to pay claims
- Provide insurance and risk management support services.

Insurance Companies

- Provide insurance policies to cover your business against loss
- Provide fire prevention support services and advice
- Investigate, defend and pay on your behalf the claims covered under your policies.

Other Risk Management Service Providers

- Insurance adjusters investigate and settle claims on behalf of the insurance company
- Lawyers manage the litigation process for claims made by or against you
- Management consultants assess operational processes and provide strategic business advice
- Engineers provide loss prevention and control advice and can assist in accident investigations
- Accountants document and prove complex claims
- Investment bankers access capital markets to finance certain risks.

5. STRATEGIES FOR REDUCING INSURANCE COSTS AND CONTROLLING TOTAL COST OF RISK

No matter how good your risk management program is, your business needs insurance and the premiums for property and casualty and worker's compensation insurance can be a significant expense. However, there are certain steps or strategies that can be taken to try to reduce your overall insurance costs and your total cost of risk.

These strategies should be discussed with your insurance broker or risk management consultant well in advance of your insurance renewal.

Multi-Year Policies

Multi-year policies may reduce or stabilize insurance premiums, as they guarantee premiums for a set time period. They also reduce the time spent negotiating policy renewals. However, multi-year these policies may be somewhat difficult to negotiate in a market of increasing rates.

Deductibles

Deductibles can be set at various levels, generally with premiums being lower if deductibles are higher. You must evaluate the cost-benefit of assuming higher deductibles.

Positive Underwriting Profile and Best Business Case for Insurance Renewal

Developing a positive underwriting profile is one of your most effective tools for a successful insurance renewal. An underwriting profile is information on your operations that is provided to your broker. It must be comprehensive, accurate and delivered well in advance of your insurance renewal. It is a time to gather glossy brochures that show off your business, develop background profiles on your professional staff and provide as much information as possible to demonstrate how well organized your business is. The Business Profile Checklist below outlines important tools that can be used to deal with significant situations that may arise, such as how to handle a medical emergency or evacuation, or general tips and procedures on how to prevent losses from occurring.

Insurance companies need to feel confident about the risks they underwrite. They are dependent on information from several sources, including the insurance broker, risk management consultant and loss prevention or safety engineers. The engineers can inspect the physical premises, assess the sprinkler and alarm systems and provide safety audits.

Business Profile Checklist

The following business profile checklist will assist you in gathering and preparing all the information necessary to develop a positive underwriting profile:

- Insurance questionnaires and application forms
- Claims experience for the previous five years
- Brochures and advertising literature
- Description of all business activities
- Client profiles
- Maintenance procedures
- Automobile listings
- Schedule of values for buildings, contents, equipment and stock
- Business interruption value worksheets
- Engineering inspections
- Background profiles of all professional staff
- Membership in professional associations
- Risk management mission statement
- Health and safety mission statement
- Safety standards, procedures and programs
- Insurance and risk management manuals
- Loss prevention manuals
- Environmental standards, procedures and programs

- Hazardous materials handling manuals
- Crisis response plans, resources and training
- Business recovery plans
- Emergency medical plans and equipment
- Copies of signage, waivers on tickets, contracts and agreements showing the transfer of risk to another party.

Casualty Loss Prevention Strategies and Contractual Risk Transfer

As indicated throughout this guide, loss prevention plays a significant role in the risk management process. Along with surveys, questionnaires and physical inspections, there is another important piece of a loss prevention program called "risk transfer." This refers to an attempt to transfer all or part of the risk through indemnity and "hold harmless" clauses in written agreements or waivers on tickets or signage.

When developing or reviewing these types of wordings, it is best to involve a lawyer, insurance broker or risk management consultant in the process. Each will have a slightly different perspective on the verbiage, while the goal is the same: to transfer risk for payment of losses to another party. Remember all signage, waivers and contracts, etc., should be reviewed on an ongoing basis to ensure they meet changing industry and legal requirements.

The following are a few ways that risks can be transferred:

Signage

The use of proper signs can significantly reduce accidents, as the public will make note of the warning and will usually obey the rules. Signs will also demonstrate your due diligence, which is an important defence to allegations of negligence and may reduce your liability or impose contributory negligence on the claimant if the rules are not followed or signs are ignored. The following are examples of signs and when they should be used:

To point out the obvious dangers of the activities or operations, e.g.:

- Shallow end – 1 metre – no diving
- Not responsible for items left in this area
- No lifeguard on duty – children should not be left unattended.

To point out any unusual dangers, e.g.:

- Expert ski runs only from this lift
- Dangerous undertow
- Keep arms and legs inside the vehicle at all times.

To point out dangers to specific population, e.g.:

- Children under 140 cm not permitted
- Children under 12 years must be supervised at all times by an adult
- This trail requires a high level of expertise, experience and physical stamina.

Generally, it is up to the facility owner or operator to draw the attention of a guest or third party to risks inherent in the activity, operation or property. The greater the risk or the more hazardous the activity or operation, the greater the onus is on you to alert anyone likely to be exposed to that risk.

The existence of a sign that was read by the third party or that was placed where it was impossible to miss can assist you in defending claims made by third parties arising out of activities that were forbidden or reckless.

A loss prevention or safety specialist can assist with the location of signs that may be appropriate to your operation.

Waivers

More effective than signs, waivers can provide a legal defence to claims that arise out of the activities you provide. Participants in all dangerous activities, sports or operations should be asked to read and sign a waiver form before undertaking the activity. The same waiver form may be used, where appropriate, for spectators who may be exposed to injury.

The wording of the waiver form is important and legal or risk management advice should be sought when developing the wording. The waiver should be reviewed periodically or at the beginning of each season.

If a signed waiver form is inappropriate or impractical, a waiver clearly printed on a ticket issued, in conjunction with clear visible signage on the property, can assist in the successful defence of claims. Attendees at a professional baseball or hockey game enter into such waivers by purchasing a ticket. Ski lift tickets contain such waivers. Waivers might be of more value if they are easily visible and on the front of the ticket, preferably on a portion that is not surrendered.

It is important to remember that waivers, signed or unsigned, can be a legal defence to a provable claim. As such, it is up to you, the defendant, to prove that they could be easily understood, were adequate and are applicable to the claim.

A good risk management practice is to combine the use of signs, waivers on tickets or bills of sale, and signed waiver forms, at the same time. In certain circumstances, waiver forms are ineffective or not allowed. For operators of commercial watercraft carrying passengers, the *Marine Liability Act* disallows the use of waivers of liability.

Transferring Risk to Others

There are several other ways of transferring risk to others, such as hold harmless agreements used in contracts and contracting others to perform services that carry higher risk. These concepts are explained further below.

Hold Harmless Agreements

One method of transferring risk is by contract or agreement. A hold harmless agreement or a hold harmless clause in an agreement can impose a legal obligation on one party to assume liability and pay claims that another party may be legally liable for.

Example 1

As the owner/operator of a golf course, the local municipality asks if they can hold a winter carnival on your golf course. In order to protect the golf course from claims arising out of the winter carnival, you should ensure there is a hold harmless clause in the agreement with the municipality. The clause should state that the municipality agrees to hold harmless, defend and indemnify (pay on behalf of) the golf course from all claims arising out of the winter carnival activity.

Example 2

You are the owner of a resort offering water sports and are approached by a water ski manufacturer to have guests try out a new type of slalom ski. To be prudent, you have the ski manufacturer's representative provide a demonstration and you allow one of your most experienced instructors try the new ski. Your instructor recommends that adult guests rated "expert" be allowed to try out the ski at the resort. You also request the ski manufacturer agree to hold the resort harmless in writing.

Example 3

You contract out snow and ice removal on your parking lot to a maintenance company. As part of the tender process, you request that the contractor provide a hold harmless clause in the contract for damage to owned property and claims made against you for damage to the property of others arising out of the snow removal activities.

You should remember that a contractual agreement such as a hold harmless agreement is only as good as the ability of the other party to pay to carry it out. If an entity has no insurance coverage, it may be difficult to enforce the agreement; hence, a hold harmless clause should require that the contracting party demonstrate proof of insurance by providing a certificate of insurance.

The clause should also agree to add your business as an "additional named insured," particularly for ongoing or permanent contractual relationships. Even with all precautions taken, be prepared to defend yourself and access your own insurance coverage.

Assuming Risk From Others

Great caution should be exercised in signing agreements where you are providing the hold harmless agreement and agreeing to indemnify or defend the other party. Business practices may dictate that in order to be permitted to operate, you must enter into contracts that have such clauses with various parties.

Your risk management consultant and lawyer can assist you in deciding when to enter into these types of contracts and what wording would be appropriate. It is necessary to confirm with your broker and insurer that your insurance policy will respond to agreements of this nature.

Other Risk Transfer Methods

As an alternative to transferring the risk contractually, you may consider having certain guest services and activities provided by an experienced organization that specializes in the activity.

Example

You operate a summer resort that offers water sports and activities such as water skiing, parasailing and scuba diving to your guests. You contract with a company that has considerable experience to run the programs at the resort for these popular activities. The programs also offer your guests certification courses with qualified instructors.

Good business practices dictate that, where possible and practical, you balance your expected profit from an activity against the risk of loss from claims. If the risk/reward appears positive, you take on the activities, but you reduce your remaining risk through risk control techniques and by contractual risk transfers.

6. RISK SERVICES PURCHASING ASSOCIATION

Risk services purchasing associations have been successful in providing competitive insurance for companies and organizations with similar risk profiles that individually have experienced problems purchasing insurance and risk management services.

A risk services purchasing association can offer purchasing leverage in negotiations with insurers on rates, terms and conditions. An insurance purchasing association has the option to create a "pool" of premiums that would enable it to self-insure its risk in primary layers and access excess insurance or re-insurance for exposures of a catastrophic nature. An association can also offer other services that will benefit members such as risk management programs, safety and loss prevention engineering services.

The main advantages of a risk services purchasing association are:

- Lower insurance premiums for the group than individual members can normally achieve
- Common policy language that provides unique coverage tailored to the exposures of the members, and
- Stable insurance capacity, meaning that the policy is less susceptible to cancellation or premium increases because of individual losses.

A risk services purchasing association requires a common set of business objectives, a relatively homogeneous group of members and adherence to certain standards established by the association and the insurance company.

Forming a Risk Services Purchasing Association

Forming a risk services purchasing association is not difficult, but does require a commitment to the process and some resources. A trade association or affiliation of members can provide the necessary co-ordination and resources.

Some of the issues to consider are:

- The use of a consultant to co-ordinate and manage the process
- The development of a members' survey that will identify common problems and issues and will determine the members' interest and commitment of resources
- The identification of common objectives to be achieved
- The establishment of minimum standards for participation in the program
- The development of a business profile to promote the risk purchasing association to the insurance markets
- The selection of an insurance broker to market the risk and obtain competitive premiums, terms and policy conditions, and
- The selection of an insurance company and agreement on price and services.

Another important advantage members may derive from a risk services purchasing association is the ability to obtain cost-effective risk management services that are focused to the dynamic requirements of the group and might otherwise be impractical for members to obtain individually.

Such services may include:

- Risk management seminars and training
- Risk management programs and procedures including health, safety and environment standards and protocol
- Risk management audits and property loss prevention services
- Crisis response plans, training and resources
- Business recovery plans, and
- Loss adjusting services and claims supervision and support.

7. SUMMARY

Relying exclusively on insurance to cover the risks of your business is no longer viable. Business organizations worldwide have adopted risk management principles to address the increasing legal and financial obligations to manage the principal risks of their business.

A sound risk management program will assist you in managing your risks and will lead to reductions not only in the cost of your insurance premiums, but also in other costs associated with operating your business.

Adopting risk management techniques will improve your ability to identify, analyze, control and treat a broad spectrum of risks faced by your business. Implementing best risk management practices will reduce the frequency as well as the severity of accidents and will enable you to manage a crisis, thus ensuring that your business recovers. Insurers will offer their best terms and conditions to those businesses that are well managed and considered to be a good risk.

It is important to review your insurance coverage with your broker or risk management consultant on a regular basis to ensure that your business is adequately covered. You should immediately report any significant changes in your business to your broker, as they may constitute a material change in risk.

Because tourism operators deal with the public at all times, using signage, waivers and/or contractual agreements is not only good business practice, but is also a prudent way of dealing with your legal obligations to the public.

Risk services purchasing associations can be an effective way of obtaining insurance, especially in cases where coverage is difficult or costly to secure. Consider a group insurance approach and discuss this with other members of your industry to determine if there is an interest.

8. GLOSSARY

The following terms are either used in this guide or are terms you may encounter in dealing with risk issues, including insurance.

Accounts Receivable Insurance

A policy that insures against the insolvency and default of a creditworthy buyer. The policy will reimburse the outstanding accounts receivables.

Adjuster

An insurance adjuster represents the insurance company in the investigation and settlement of claims. An insurance adjuster may be a salaried employee of an insurance company or may be an independent adjuster hired by the insurance company.

All Risk Policy

A property policy that insures against loss by all perils not specifically excluded as opposed to one that insures against named perils.

Broker

An insurance broker acts on behalf of insurance buyers to obtain insurance from insurance companies. The insurance company usually pays the broker a percentage of the premium, as a commission. An independent broker is distinct from an insurance agent who is a direct representative of an insurance company.

Business Interruption Insurance

Insurance against business expenses and loss of income that may result from a fire or other insured peril. Usually included in a property insurance policy.

Commercial General Liability Policy

A policy of liability insurance providing broad coverage for claims made against an individual or company arising from bodily injury or property damage sustained by others for which the company may be liable in law or contract.

Comprehensive Dishonesty, Disappearance and Destruction Policy

A broad form of blanket fidelity bond extended to cover many crime risks, such as burglary, robbery and employee dishonesty. Frequently called a "3-D" policy.

Directors' and Officers' Liability Insurance

Provides personal insurance coverage for officers and directors of a corporation for the damages sustained by others resulting from the negligent or wrongful acts of directors and officers in the course of their duties. This insurance covers your legal expenses and the damages of the corporation.

Due Diligence

Acts of reasonable care that a prudent person would and would not do. In defending claims and legal actions, due diligence can be demonstrated by documenting the management systems that ensure legal compliance and that reasonable care has been taken.

Hold Harmless Agreement

Risk transfer by way of a contract or agreement. Imposes on one party a legal obligation to assume liability and pay claims for which another party may be legally liable. A hold harmless clause should require that the contracting party demonstrate proof of insurance by providing a certificate of insurance.

Legal Liability

The liability imposed by law for damages sustained by others as a result of your negligence. Legal liability may also be imposed under the terms of a contract.

Marine Insurance

Insurance specific to a watercraft or vessel. Covers damage to the vessel (hull insurance) and cargo as well as the liability of owners and operators to others.

Named Peril Policy

A property policy in which the perils insured against are specified or listed, as opposed to one that insures against all risks.

Occurrence

An accident or event. Liability policies are usually written on an occurrence basis, in which case the policy in force at the time of the occurrence will respond.

Peril

The event that caused a loss covered by the policy, e.g., fire, windstorm.

Physical Hazard

The exposure to loss arising out of the physical features of the risk, such as location, construction, heating, protection, etc.

Policy

Legally binding contract of insurance, including all clauses, riders, endorsements and renewals.

Policy Limit

The maximum that the insurance company is obligated to pay. Legal costs may or may not be included in the policy limit. Policy limits may apply per occurrence or as an annual aggregate limit.

Policy Period

Duration of a policy, most often one year in property or casualty insurance.

Professional Liability Insurance

Protects professionals against liability for damages and the cost of defending claims based upon alleged professional errors, omissions or mistakes.

Property Insurance

Covers insured property against damage, destruction or loss by a covered peril.

Real Property

Land, equipment, stock and buildings.

Rent Insurance

A form of loss-of-use insurance, protecting against loss of rental income. It is particularly valuable where a landlord may depend upon a rental income from his various premises to pay the mortgages.

Rental Value Insurance

Insurance that reimburses the owner or occupant of a building for the cost of renting other premises if her building is rendered unusable by some peril insured against.

Risk

The possibility that one or more individuals or organizations will experience adverse consequences from an event or circumstance. The threat that an event or action will adversely affect an organization's ability to achieve its business objectives and execute its strategies successfully.

Risk Management
A strategic process that will protect the assets and ensure the financial stability of an organization from the consequences of competitive business decisions. Risk management will reduce uncertainty and the potential for accidental or unanticipated loss and will provide the basis for maximizing opportunity.

Risk Management Process
Involves the assessment and management of risk. The assessment component requires risk identification and risk analysis. The management component requires risk control and risk treatment.

Risk – Consequences of
The impacts of an event, including direct and indirect impacts.

Risk – Probability of
The likelihood of an event occurring.

Risks – Emerging
New risks and threats typically arising from increased legal obligations, changing technologies or new business activities. Examples of emerging risks for tourism operators may be environmental, liquor or employment practices liabilities.

Sub-limit
A limit of coverage found in a policy that is less than the overall limit of the entire policy.

Surety Bond
A contract guaranteeing that the principal will carry out the terms of the contract if the contracting party fails to perform the contract.

Tenant's Policy
A package policy specially designed to meet the normal insurance requirements of a private tenant covering personal belongings and liabilities.

Underwrite
Insurance companies that agree to finance or support certain risks of a given activity are said to underwrite the risk. An underwriter considers the risk that is submitted (the underwriting submission) to the insurer and decides whether to accept the risk, setting the terms and premium.

Umbrella Policy
A special form of liability policy designed to broaden the normal coverages found in the commercial general liability policy and to provide excess insurance limits over and above those found in the commercial general liability policy and other liability policies.

Utmost Good Faith
A legal principle that imposes the highest standard of integrity on both the insured and the insurer when entering into an insurance contract.

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Notes

Notes

WE WANT YOUR FEEDBACK

To help us serve you better, it is important that the Canadian Tourism Commission receive your comments on our publication, *Risk Management Guide for Tourism Operators.* Your input will help us improve the quality and utility of the information that the CTC provides. Please take a moment to answer this short questionnaire.

You can communicate with us at:

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Risk Management Guide for Tourism Operators

1. How do you rate this publication in terms of the quality of information that it contains?

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Thank you for answering the questionnaire!