

Dealing with Risk It's Really up to you!



TruckSure
By Trevor Toohill

I was pretty much invincible when I was a young fella. Typical Kiwi kid, I would ride bikes without wearing a helmet, spend days at the beach in the sun without sunscreen, play all sorts of sport and generally push the limits as a typical adrenaline junkie totally oblivious to the consequences of risk and reckless behaviour. That is until one day when I was in my early 20's and I came face to face with reality when a mate was killed in a car accident, and then, a nephew got diagnosed with an incurable disease. I knew bad things can happen to good people but didn't understand the consequences until it hit close to home.

It didn't stop me from living. But later in life I realised that it did make me stop and think. What's the risk of something bad happening to me? How can I minimise risk? And if something does happen, what would soften the damage? What's worth protecting? And am I sharing what I learnt?

Risk

Let's define risk. Risk is the possibility of an uncertain outcome. Anytime you don't know the future with complete certainty, there is a risk. The extent of the uncertainty may vary, and the range of outcomes may also vary. Risk is a situation in which you are not sure whether there will be loss of a certain kind, or how much will be lost.

People face risks all the time, literally! You are taking risks with your life on a daily basis when you cross the road or when you take a flight, or when you smoke. You could forget your phone at the café, or get your house broken into. These are all risks that relate to your life, health or property.

However, you choose to do something about some risks, and accept others. Why is this so?

It depends on whether you believe something is very likely to happen or is it a remote chance? It also depends on the consequences. Will it simply cramp your style, or cause you discomfort, or be a complete disaster?

So risk is a combination of the probability of something bad happening, and the magnitude of the consequences of that event.

What are the big risks that everyone faces? The biggest risks are related to the biggest assets. The biggest asset you have is you, i.e. your life, health, or your ability to use your senses, and limbs. You need your health to enjoy life, and to earn a living. As you grow older and start a family you collect physical assets, like a house, investments, the truck, or a business. These are worth protecting because you don't have as much time to re-build these assets as you get older.

How to deal with risk

When faced with a risk, you can do one of the following;

Accept – After working out the probability and magnitude of consequences, you decide you can live with the risk. Most people are willing to accept some risks based on some gut feel, though they probably can't define what their normal acceptance risk level is. For example, you accept that planes can crash but you take flights anyway.

Avoid – You can choose not to put yourself in a position of risk. So eliminate the chance of loss of a certain kind by not exposing yourself to the peril. You can choose to avoid dangerous pastimes like riding motorbikes or skydiving.

Mitigate – You can reduce the risk by using protection, implementing controls, or other measures that have a direct effect on the risk. You can lower the frequency of the identified possible loss or lower the severity. You can wear seatbelts, helmets or sunscreen.

You constantly accept, avoid and mitigate risks – probably without even realising it. But what happens if the worst happens anyway? Would money help alleviate some of the problems? Can you really rely on your family and friends to help you with money?

That's where insurance comes in.

Insurance

The basic concept of insurance is simple: The payments (or premiums) of the many pay for the losses of a few.

Insurance companies collect small premiums from lots of people in good times to form a large pool, and then pay out larger amounts to people who have misfortunes. So long as there are more people contributing to the pool than there are making claims, there will be enough to pay the claims.

Insurance allows you to protect yourself by spreading your risk with a larger group.

You can buy insurance for a number of risks;

Health insurance – for reimbursement to pay for actual medical expenses for when you fall sick or have an accident; increasingly, health insurance packages encourage you to take preventative measures so you don't fall sick in the first place.

Income protection or disability insurance – for a pre-set monthly payment to pay for ongoing living expenses for when you fall sick or have an accident and are not able to work for an extended period of time; you could have a temporary or permanent disability. For example, if you have a heart attack and therefore can't drive your truck or operate machinery for months, but your lease payments are still due for payment.

Major Trauma or Total and Permanent Disability insurance – for a pre-set lump sum to pay for medical expenses, or living expenses if you have been diagnosed with a serious illness, or suffered permanent debilitating damage in an accident.

Life insurance – for a pre-set lump sum for your dependents in case of your death. Your dependents may not just be your family but also business partners and your banker.

General insurance – for reimbursement or a pre-set amount to pay for loss or damage to your physical assets, like your house, car, possessions, truck, business, etc.

You need some, or all, of these depending on your situation. You just have to think about the consequences of bad things happening, and how much money you would need to replace or reinstate the asset. How much risk you take is up to you.

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