Understanding risk exposure with the Risk Breakdown Structure (RBS)

Dr David Hillson PMP FAPM MIRM MCMI

This article is based on a double-award-winning paper presented at the Project Management Festival in Cannes in June 2002, which won the best-in-track Palme d’Or prize, and was also voted by delegates as the best-in-conference Prix du Public winner. The full paper is available from David Hillson at dhillson@PMProfessional.com.

Introducing the Risk Breakdown Structure (RBS)

We all know that risk management is essential for project success, and that in order to manage risks effectively we first need to identify them and assess their importance. The key factor linking the identification and assessment of risks with their management is understanding. The problem is that risk identification techniques often produce nothing more than a long list of risks, which does not directly assist the project manager in knowing where to focus risk management attention. Qualitative assessment can help to prioritise identified risks by estimating probability and impacts, exposing the most significant risks, but this deals with risks one at a time and does not consider possible patterns of risk exposure, and so does not provide an overall understanding of the risk faced by the project as a whole.

In order to understand which areas of the project might require special attention, and whether there are any recurring risk themes, or concentrations of risk on a project, it would be helpful if there was a simple way of describing the structure of project risk exposure.

Structuring is an important tool for turning raw data into useful information. We know all about this in project management, since we use the Work Breakdown Structure (WBS) to structure the work to be done to accomplish project objectives. The Project Management Institute defines a WBS as “A deliverable-oriented grouping of project elements that organises and defines the total work scope of the project. Each descending level represents an increasingly detailed definition of the project work”. The WBS presents project work in hierarchical, manageable and definable packages to provide a basis for project planning, communication, reporting and accountability.

In the same way, risk data can be organised and structured, to provide a standard presentation of project risks which facilitates understanding, communication and management, and we might call this a Risk Breakdown Structure or RBS. We can define this in the same terms as the WBS, as “A source-oriented grouping of project risks that organises and defines the total risk exposure of the project. Each descending level represents an increasingly detailed definition of sources of risk to the project.” The RBS is therefore a hierarchical structure of potential risk sources.

The value of the WBS lies in its ability to scope and define the work to be done on the project; similarly the RBS can be an invaluable aid to understanding the risks faced by the project. Just as the WBS forms the basis for many aspects of the project management process, so the RBS can be used to structure and guide the risk management process.

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The Need for Business Continuity Management
By Diana Thompson

As an Information Technology Professional, Disaster Recovery Planning and Testing regimes have been part of that industry for many years. Back in 1984, I joined Westpac Banking Corporation as a Graduate Programmer. I have memories of many of us as new recruits being scheduled to work on weekends to participate in Disaster Recovery testing of major applications. The effort was also considerable in the same industry in the lead up to Year 2000 due to the threat of that potential disaster. Consequently, I was dismayed earlier this year, when I attended the Penton Business Continuity Summit in Sydney, to hear that less than 10% of companies test their Business Continuity Plans and many organisations have even not got a Business Continuity Plan in place at all. I had assumed Disaster Recovery Planning and Testing were activities that were done across the full scope of business operations and not just restricted to a few departments and disciplines.

In November 2002, the annual Conference for the professional association of Australia’s Risk and Insurance Managers (“ARIMA 2002: Limiting Liability: Legislation and Litigation”) was held in Perth. The conference attracted academics, all levels of government from around Australia and some corporates. Two of the Sydney based Councils presented a paper on their first-hand experience as a result of two natural disasters that resulted in harm to their properties. In early 1997, New South Wales had a total of 177 Councils. Every two years, one of these councils experienced a significant insurable property loss. However, no loss had been that significant and consequently many Councils had not developed formal Business Continuity Plans. Neither Council had a thorough Business Continuity Plan prior to the disaster occurring, however both Councils later identified that many of the elements of such a plan were already in place at the time of the disasters. Some of the difficulties experienced as a result of these disasters included:

- Software recovery problems from hardware enhancements implemented over the preceding years
- The rebuilding of employees leave entitlement data took over 12 months
- IT system enhancement costs were excluded by the underwriter. Recovery of these costs are still outstanding from the contractors, 5 years after the disaster, and compensation is being sought through legal channels.
- Most files on desks were destroyed due to saturation and asbestos exposure

Up to five years later, these organisations are still recovering from their losses and some losses will not be recovered from completely.

Within a few days of the tragic event of September 11, 2001 in New York, some companies appeared on world-wide television coverage situated in temporary offices. They were carrying out business operations as usual, despite the scale and interruption caused by this tragedy. Other companies that experienced similar losses had not been able to restart their operations. The losses incurred were too overwhelming for them to recover from. Many of the companies that resumed operations soon after this disaster attributed their business continuance to planning and testing well before the event and putting the plan in place soon after the disaster occurred.

Continued on page 8
RBS - Continued from p.1

### RBS structures - generic or specific?

Is it possible to produce a single RBS that applies to all projects? The Risk Management Specific Interest Group of the Project Management Institute (PMI Risk SIG) and the Risk Management Working Group of the International Council On Systems Engineering (INCOSE RMWG) recently produced a list of "universal risk areas" which might apply to any type of project in any sector of industrial, government or commercial activity. Although this work did not explicitly use the RBS concept, in fact the "universal risk areas" can be structured into a hierarchical format as a generic RBS, as shown in Fig. 1.

Generic versions of the RBS might be useful as a starting point, but they are unlikely to include the full scope of possible risks to every project. An alternative is to produce a specific RBS structure relating either to a given industry or to the types of project undertaken by a particular organisation. We have done this for consultancy clients in various industries with different project types, including defence software development, energy supply, pharmaceutical vaccine development, construction management, general engineering, and telecommunications. An example of a specific RBS for a contracting engineering company is presented in Figure 2.

Once the RBS has been defined, it can be used in a variety of ways. Some of these facilitate the risk management process on

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**Figure 1 – Generic RBS for any project**
RBS - Continued from p.3

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Figure 2 - Specific RBS for engineering contracting organization

A particular project, while others are relevant across projects. The main uses and benefits of the RBS are as follows:

**Risk identification aid** - The higher levels of the RBS can be used as a prompt list to ensure complete coverage of risk identification, or lower levels can be used as a checklist. In addition the RBS can be used to structure lists of risks identified by other methods. This enables gaps or blind spots in risk identification to be seen and addressed, and reveals any double-counting or duplication.

**Risk assessment** - Identified risks can be mapped into the RBS and categorised by source. This exposes the most significant sources of risk to the project, and indicates areas of dependency or correlation between risks. Risk response development can then be focused on high-risk areas, with generic responses for root causes or dependent groups of risks.

**Comparison of alternatives** - Risks associated with competing bids and tenders can be compared directly if the same RBS is used to structure their associated risks. This can also provide input to trade-off studies examining alternative development options or investment decisions. Risk exposure on different projects within a programme or portfolio can also be directly compared since the RBS presents a common structure and terminology to describe the risks. This can help in development of a risk-balanced portfolio.

**Risk reporting** - Different project stakeholders need different levels of reporting, and the RBS can be used to roll-up risk information to a higher level for senior management, as well as drilling down into the detail required to report on project team actions. It also provides a consistent reporting language for risk, reducing the potential for misunderstanding, even when used for cross-project reporting.

**Lessons learned** for future projects - Risk management on completed projects can be performed using an RBS as a common framework. This can reveal common or generic risks, allowing development of preventative responses, and feed-forward of effective actions into future projects.

Successful and effective risk management requires a clear understanding of the risks faced by the project and business. This involves more than simply listing identified risks and prioritising them by their probability of occurrence and impact on objectives. The large amount of risk data produced during the risk process must be structured so that we can understand it and use it as a basis for action. A hierarchical Risk Breakdown Structure (RBS) framework similar to the WBS provides a number of benefits, by decomposing potential sources of risk into layers of increasing detail. The RBS is a powerful aid to risk identification, assessment and reporting, and the ability to roll-up or drill-down to the appropriate level provides new insights into overall risk exposure on the project. It also provides a common language and terminology to facilitate comparison of alternatives, cross-project reporting and lessons learned.

Used in these ways, the RBS has the potential to become the most valuable single tool in assisting the project manager to understand and manage risks to the project.

Dr David Hillson is a Director of Project Management Professional Solutions Limited (PMPProfessional) in High Wycombe, UK. He is active in the Association for Project Management (APM) in the UK and the Project Management Institute (PMI®) further afield. David is recognized for his pioneering and practical contributions to risk management, both through his work as a consultant and trainer, and through his regular conference presentations and papers. He was a founder member of the PMI Specific Interest Group on Risk Management, and is past chairman of the APM Risk SIG. He is also an elected member of the UK Institute of Risk Management (IRM), and is active in the Risk Management Working Group of the International Council On Systems Engineering (INCOSE RMWG).
Unevaluated Assumptions
By Paul Royer, PMP

In contrast to identifiable risks, unevaluated assumptions are neither visible nor apparent as potential risks and can be very dangerous. As a colleague David Hulett states, “The risks associated with an assumption would be the uncertain possibility that the assumption is wrong or not well provided for in the project plan, with impact on an objective.”

Assumptions are introduced through a project’s scope, requirements definition and solution alternatives. When unknowingly present in the project environment, they bring about incorrect perceptions and unrealistic optimism. Project management classes, methodology and common sense tell us to document our assumptions and to verify their validity. However, after validity confirmation, assumptions are generally considered closed and forgotten; that is, they are not continuously re-evaluated for validity.

Assumptions must be re-evaluated throughout the projects life cycle. Historically, they are not; and, when an assumption proves incorrect or a change in environment negates it, the project typically “cries wolf” and falls back on reactionary behaviors, such as:

- Pointing fingers and placing blame elsewhere
- Begging forgiveness and renegotiating scope when the “unknowable” occurs
- Taking shortcuts in quality assurance activities in an attempt to avoid risk impact or missing milestones
- Eliminating infrastructure deliverables (e.g., training, metadata documentation, etc.)

To avoid this embarrassment, assumptions should be re-evaluated in much the same way as risks; because in fact, they are a potential source of risk.

The PMBOK® Guide 2000 extended Risk Management to include the evaluation of assumptions. The glossary provides the following definition:

“A assumptions are factors that, for planning purposes, are considered to be true, real, or certain. A assumptions affect all aspects of project planning and are part of the progressive elaboration of the project. Project teams frequently identify, document, and validate assumptions as part of their planning process. A assumptions generally involve a degree of risk.”

The PMBOK® Guide goes further and identifies two techniques Assumption Analysis in Risk Identification and Project Assumption Testing in Qualitative Risk Analysis to aid in assumption evaluation. The first explores the accuracy of assumptions and emphasizes that risks to the project because of inaccuracy, inconsistency or incompleteness of assumptions require identification. The second requires that assumptions be tested for stability and consequence of failure.
Consequently, project assumptions should be documented and continuously re-evaluated to ensure that changing circumstances don’t negate assumptions and transform them into realized risks. For every assumption, define and document a metric or trigger to test continued validity. By establishing measures for assumptions and monitoring them, proactive contingency plans can be developed and then triggered when assumption validity fails.

**Assumption Identification Techniques**

Project assumptions derive from two sources:

- experienced-based assumptions from prior project management exposure
- those identified by brainstorming.

**Experience-based Assumptions**

Just as prior project experience gives the Project Manager a source for risk identification and planning, it provides knowledge about assumptions that hold true within an organization and types of projects. For example, experience may show that any new technology implementation effort should have a cost contingency factor of 25% or that sponsor availability can rapidly change during the course of a project. Appropriately documented, these are reasonable assumptions. However, they must be continually re-evaluated and tracked for continued validity as described below.

**Brainstorming-based Assumption Identification**

Using the same risk identification brainstorming technique outlined in PMBOK® Guide 2000, assumptions can be identified, a metric or trigger to aid in re-evaluating continued accuracy defined, and potential mitigation strategies examined. Table 2 below provides an example of some typical assumptions with possible monitoring metric and mitigation strategies.

**Assumption Analysis**

If the probability of assumption failure and severity of impact are not low, then they should be considered active risks and handled as such. For assumptions whose probability of validity failure and impact if it does fail is low, they need to be documented. Table 1 represents a possible format for documenting assumptions, their monitoring metric or trigger, potential mitigation strategy, and their potential conversion to actual project risks.

The most important aspect of assumption analysis is to define an appropriate continued validity monitoring metric or trigger. One way to approach this is to consider the assumption false and to treat it as an actual project risk. Then, the same techniques used to develop monitoring metrics or triggers and mitigation strategies for risks will apply. Table 2 below provides several examples of this technique.

A second approach is to eliminate assumptions as potential risks if they prove false by re-stating them proactively as activities with assigned responsibility and consequences that can be added to the project plan. For example, instead of simply stating “project scope is fixed by requirements definition in the project charter”, create a proactive activity such as “the project manager will monitor scope as defined in the project charter and follow established issue, scope change and risk management processes should changes to scope occur.”

**Assumption Monitoring**

It falls to the Project Manager or designated accountable person to periodically test the monitoring metric and ensure that no environmental change has occurred so the assumption validity is now false. If circumstances change an assumption to a risk, the established risk management process should be invoked.

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<th>Assumption</th>
<th>Monitoring Metric</th>
<th>Mitigation Strategy</th>
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<tr>
<td>Project scope is fixed by requirements definition in the project charter</td>
<td>Project change requests will not alter defined budget, resource or schedule by more than 5%</td>
<td>Reject additional change requests, Renegotiate budget, resources and/or schedule</td>
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<tr>
<td>Project team has sufficient experience in business area</td>
<td>Milestone deliverables are produced on schedule and meet quality metrics</td>
<td>Provide additional staff training</td>
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<td>Project sponsor is readily available for issue/change request resolution</td>
<td>Issue/change requests are not resolved within two days</td>
<td>Delay project, Reaffirm sponsor availability via Executive Sponsor or Steering Committee</td>
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<td>Change issue/change resolution accountability</td>
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**Bibliography**

Get Ready for Some Unique Opportunities

I know I am always talking about volunteering and getting involved in projects, but I do so for two reasons: First, it's part of my job. Second, I really believe in the value it brings.

The first one is obvious. The second point is one of those things that you have to experience to appreciate. A long time ago, a scuba instructor I had pointed out to the class that learning to scuba dive was not in itself a hobby, but a vehicle to what you really want to do (i.e., photography, wreck hunting, caving, etc.). And if you did not get into one of these others, you would quickly tire of chasing fish and stop diving. Well, he was right! I never got into any other hobbies, and I haven't been diving in years.

Armed with this very valuable "lesson learned", when I joined PMI, I vowed it would not happen again. I got involved. I have been teaching the risk management portion of my chapter's PMP review course for several years now. I have been presenting papers at the PMI Seminar/Symposium, sometimes as part of my affiliation with the College of Performance Management. And finally, I became the President of the Risk Management SIG.

Was it worth it? Unquestionable!

I have gotten to meet many experts in my areas of interest. I have learned numerous new things which have helped me professionally. A week does not go by that I do not get at least a small payback. This is why I find it so interesting when I hear someone say "I am not getting enough value from my membership". A quick check almost always reveals they are investing nothing more than their membership dues! It takes more to get the most value ... it takes involvement.

So what does this have to do with the title of this article? It's simple. We have some very large projects that are getting ready to kick off. Some you might already know of ... others will be new. But if you have ever thought of contributing some of your time and "coming off the bench and getting into the game", this would be the time.

We have three large efforts that are starting up or getting ready to. They are:

1) The Risk Management Handbook
2) Certificate of Advanced Qualification in Risk Management
3) Risk Management Webinars.

I will try not to repeat a lot of things you might have already heard about the project themselves. What I want you to think about is the unique opportunities that each of these represent.

The handbook project promises to deliver a premier risk management reference to the project management community. The Certificate of Advanced Qualification in Risk Management will provide an opportunity for those who wish to quantify their broader knowledge and skill in the area of risk management. Risk Management webinars will deliver current topics at your desktop. Those that utilize these products and services will get one benefit. Those helping to create it will get far more.

Please watch the web page (www.risksig.com) and the emails coming out of the list server. As volunteers are needed, you will see solicitations for assistance. Get involved, and get so much more from your membership and for your career.

Craig D. Peterson, PMP
President, Risk Management SIG
President@RiskSIG.com
The recent bombing at the Sari Club in Bali, Indonesia last October caused significant human distress. Suddenly a catastrophic event in our own region has raised our alertness to the need to proactively manage risk that society and business now face. This increased level of awareness needs to be capitalised upon to maintain the current momentum. Risk concerns include security, safety and business continuity. While Insurance is important to restore financial position, it does nothing for providing consolation or restoring business reputation.

Obviously, without a Business Continuity Plan, how can business facilitate a speedy return to business following a significant disaster resulting in loss?

According to the finding of Standards Australia OB/7 Working Group, in recent years our understanding of Business Continuity has evolved from the narrow concept of Business Continuity Planning in specialised areas such as Information Technology and Crisis Management to a more holistic Risk Management Framework incorporating both strategic and operational organisational levels. In 1999, Australia was the first country to publish a Risk Management Standard (AS4360) - a guideline to formal Risk Management.

Proactive Risk Management underlies the establishment of effective Business Continuity Management at the operational level in organisations. At the strategic level, these disciplines create an effective environment for Corporate Governance.

The process of creating an effective Business Continuity Plan (BCP) is not that complex. It involves the creation of an organisation structure of all business functions with their criticality to the organisation, the key personnel and other resources required to restore each business function, the associated service levels indicating when service should be restored and succinct plans to restore business operations as soon as possible. The role of external parties to the organisation needs to be considered, so that their failure to supply does not cause significant disruption. A Risk Assessment is an excellent way to determine the possible risk exposure that the organisation may face as a result of a disaster. Risks, Consequences, Preventive Controls (to avoid the disaster if possible) and Corrective Controls (to minimise the disaster’s impact) should be identified.

One point often missed by organisations is that it is possible to register the organisation’s BCP with its insurer. Underwriters can agree to recovery procedures starting immediately after a disaster with expenditure incurred able to be reimbursed under the policy without referring to the client. The insurance brokers plays a pivotal role in negotiating such terms for your organisation.

A clear testing programme for the Business Continuity Plan, including maintaining the plan, should also be developed to ensure that the plan will work if it is ever required. The Plan should be a living document, owned by the management responsible and not one sitting on a shelf for long periods of time without review and maintenance. Remember that there is usually another organisation willing to do business with your clients.

Diana Thompson is a Principal Consultant at Prudentia Pty Ltd. Prudentia specialises in the implementation of proactive Organisational Risk Management for major organisations, including the implementation of a world-class Risk Management software solution. Diana is a member of the Australasian Institute of Risk Management and the Project Management Institute (PMI) and an experienced Project Manager.

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Have your business card or small ad inserted here.
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Mathew Rude
Michael Ernest Sands
Ellen Schulz
Alan Sharf
Kathleen Short
Marcelo Silva
Chin Tee Teo
Andrew Trump
Filiz Tunaboylu
Guy Vezina
Victor Villar
Fred Wiegener
Sandra Wilhite
Piotr Zielinski

Renewals:

Bikshapathi Adepu
Reyad A/Latif Al-Tourah
Daniel Anderson
Stefania Aoun
Karen Ashcraft
Benita Ayala
Nils Bagge
Aletha Lynn Barnes
Francois Barret
Felix Beldi
George Belev
Steven Bell
Gunmar Bohlin
Bahram Borhani
Etienne Bossard
Nathalie Bourque
David Bowser
Fok Lae Chin
Kathy Chung
Steven Conwell
Lawrence Andrew
Deckenaanu
Alfredo Del Cano
Maureen Dunne
Christopher Eaton
Robert Eyers
Paul Fantom
Christopher Farquhar
Chad Feeney
Robert Feldman
Mike Fontaine
Randall Franks
Gabriele Galli
Richard Goulet
Wayne Hadril
Dionne Harvey
Marc Hellemans
Carolyn Hodych
Michael Holmes
Peter Hurst
Meghan Johnson
Andrew Joseph
Peter Vikor Kohut
Elmar Kutsch
Ronald Lutes
Patrick Michael Mackey
Dennis Main
Bobbi Markley
Kevin Marriott
Donald Martinelli
Jorg Masing
Alan McLoughlin
Soni Meckern
Terri Melchior
Edward Miller
Roger Moore
Terry Murphy
Roula Page
Richard Parker
John Kirt Pearce
Joseph Praydis
Chance Reiche
Scott Reider
Abraham Samuel
Steve Seliner
Terry Sietmann
Derrick Smith
Seweryn Spalek
Brian James Sweeney
Alex Kwok-Kuen Tang
Clifford Thompson
Richard Edwin Tulley
Robert Voetsch
Samantha Jane Walker
Samuel Ware
Andrew Raymond Wright
Nigel Young

New Members: 50
Renewals: 76
Total members: 1485

The Risk SIG would like to congratulate those of its members who have recently achieved their PMP certification:

Nils Bagge  PMP # 57322
Anthony G. Gray  PMP # 57359
Nils Ihlen  PMP # 57412
Stein V. Larsen  PMP # 57368
Melva Lyde  PMP # 57329
Jon-Erik Troften  PMP # 57299
A M Johnson  PMP # 57253
Yu Sing Chew  PMP # 57111
Danut Besleaga  PMP # 56865
LG Karathanass  PMP # 56877
William Sneddon  PMP # 56947
Marsha Aguilar  PMP # 56831
J A Da Silva  PMP # 56726
C D Felstead  PMP # 56715
M D Amerson  PMP # 56525
Karen L Hall  PMP # 56487
Ellen Klein  PMP # 56431
B J Thaker  PMP # 56237

Project Management Institute - Risk Management SIG

Visit our web site for the latest information on Risk: http://www.risksig.com
Mail List Server http://groups.yahoo.com/group/RiskSIG

The RM SIG Board of Directors is trying to keep communications to our members flowing as informative, while trying to keep costs as low as possible. We understand that not all of our members have a connection to the Internet and may not have access to email; however these are the most cost effective way of communication. We will continue to mail the newsletter to those who require this means of communications, however when other information is provided, we may not be able to provide this service. If you have received this issue through the post, please contact a Board member or your local liaison and provide us with your email address.