



# Environmental risk management

## What is risk management?

Environmental risk management is a broad term applied to any program or business that helps individuals, companies and communities manage the technical and financial risks involved in creating environmental benefits.

## What does risk management involve?

Risk management is a relatively new tool for environmental managers. One format may involve providing insurance for landholders as a means of reducing the risks associated with implementing sustainable farming practices.

The feasibility of this type of scheme was investigated in the Conservation Insurance project—a national MBI pilot. It researched land degradation issues, management options and potential constraints within a target region. A questionnaire examining the favourability of various risk management strategies was also administered to a number of landholders.

In order for an insurance scheme to be successful, a number of factors must be considered:

- Some sort of risk classification system should be applied, so that high risk participants are not supported by lower risk members.
- A means of ongoing risk monitoring may be necessary to prevent landholders from implementing practices that increase risk after taking out insurance.

- Losses must be easily measurable.
- In order to develop a premium rate, insurers must be able to estimate both the average frequency and average severity of a loss.

It is critical to consider the potential uptake of an insurance service by landholders. Uptake can be quite specific to particular regions and industries.

A further consideration is that landholders may have little interest in purchasing insurance or seeking advice if they have already adopted sustainable or conservation related activities. Marketing these schemes to areas where uptake of sustainable and conservation practices has been limited may prove more successful.

Another style of risk management involves consultancy services. For example, Environmental Risk Management Australia is a company that provides comprehensive environmental and occupational health and safety consulting to both the private and government sector in the construction industry

Risk management strategies are generally undertaken by businesses rather than natural resource management agencies. However, because agencies have an understanding of the nature of risk associated with adopting sustainable practices in a particular region, they may be able to promote the development of such enterprises and provide advice to those planning to establish a risk management business.

## Resource requirements

Environmental risk management programs are typically run by businesses. Resource requirements for government agencies are generally limited to those associated with providing information to potential businesses regarding the nature of natural resource issues and the risks associated with their management.

Businesses intending to run a successful risk management enterprise must have access to adequate natural resource and scientific information, as well as financial and agribusiness management skills. This, in turn, may require the services of consultants.

## Related information

The Conservation Insurance project  
[www.napswq.gov.au/mbi/round1/index.html](http://www.napswq.gov.au/mbi/round1/index.html)

Environmental Risk Management Australia  
[www.erma.com.au](http://www.erma.com.au)

Other factsheets in this series include:

- What are Market Based Instruments?
- Auctions or land management tenders
- Conservation agreements
- Tax incentives
- Cap and trade
- Offsets
- Leveraging private investment
- Revolving funds
- Product differentiation.

### For more information on Market Based Instruments please contact

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[www.daff.gov.au/natural-resources/  
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