

MANAGING RISK

YOU HAVE EVERYTHING TO LOSE

Managing business risk is easy to toss onto the back burner. It is a pure cost issue, which converts no profit to the bottom line. On the other hand, we cannot do business without the proper respect, understanding, and prevention of controllable risk. The alternative is to lay awake each night wondering what will happen tomorrow to destroy the business you and your people have built. But what is risk management, and how can you efficiently and cost-effectively deal with it? The risks, the dollar-loss impact, and their solutions are constantly changing. This constant change mandates that you, as a business owner, flex with this unanticipated change by asking:

1. What are the risks surrounding my business?
2. What is the dollar loss impact of each of those exposures?
3. How can the risks be eliminated, reduced, or transferred to others?
4. What amounts of risk can my business financially afford to self-insure?
5. What amounts of risk should be transferred to an insurance company?
6. How can insurance costs (premiums) be minimized?

These are questions with very difficult answers. Irrational court decisions, the legal contracts required to do business, and determining the replacement cost of appreciating-value employees add to the complexity. Couple these aspects with all the innovations in the insurance industry, and many of us are left with obsolete, inefficient, high-cost insurance products covering the wrong risks in the wrong amounts and satisfying the wrong objectives.

Problematic changes include:

- a) The constantly changing property and liability insurance forms, which are full of coverage gaps which, could put you out of business.
- b) Tax law, which makes life insurance, proceeds to a corporation taxable under Alternative Minimum Tax rules.
- c) Key people being grossly under insured for business loss due to their disability, or death.
- d) Escalating medical insurance costs. Control methods do exist!
- e) Over 40 percent of all businesses, which have major fires, go out of business, even though proper property insurance existed. They failed to obtain loss of income or "disability" insurance for the business.

The final problem is the sales intensiveness of some who call themselves "insurance professionals". The complexities of risk management require the technically-intensive advice of well-rounded "risk management" professionals who take the time to understand your business while understanding non-insurance solutions to risk, not just insurance policies and corresponding commissions.

In short, insurance is a financing system in which payments are made by the unwilling to the uneasy, at a price both consider unfair, for an uncertain reason which they both hope will never occur. Concentration on non-insurance solutions to the risks surrounding your business can help reduce the need for such a bewildering financing system.

Written By Nicholas L Gregory, ChFE, CEBA
President and Managing Partner of The Financial Engineering Institute, LLC