

## IGNORING THE POSSIBILITY OF FLOODING, DATA LOSS AND INJURY IS OPTIMISTIC — AND FOOLHARDY

by Sharon Frederick

# Managing Risk

Imagine you own a dry cleaning operation that provides pick-up and delivery service to clients. What happens if the frazzled driver of your truck hits a child as he's backing out of a client's driveway?

Or, you hire a new bookkeeper for your company and are so impressed with her credentials that you don't bother to do background checks, only to find that she's cooked the books to the tune of a missing \$200,000 and done the same thing to two previous employers. What is your liability?

Life is full of risk; those risks can be particularly complex and costly in a business setting. Yet many business owners and executives tend to minimize the importance of or ignore risk, rather than managing it as they would any other aspect of their business.

"Nobody wants to think about risks, and no one likes the idea of buying insurance," says Paul Meyerhoff, a

Sacramento-based certified financial planner. "It's human nature to believe the bad stuff will always happen to the other guy. And spending on insurance feels like wasted dollars. You use it or lose it ... and you don't *want* to use it."

In addition, says Meyerhoff, small-business owners are often more exposed to risk than the average individual. "Even if business owners have shielded personal assets by incorporating in some fashion, they typically bank on the transfer value and/or income from their business to fund personal needs, such as education expenses and retirement," he says. "For sole proprietors and partnerships, there really is little — if any — separation between business and personal risk."

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Whether you're a business owner or not, you would be wise to think about doing more than simply buying insurance, says risk-management consultant Charles Wilson. When he advises busi-

## COMMONSENSE RISK MANAGEMENT

What are the basics of risk management? Focus on these four commonsense principles, says Paul Meyerhoff, a Sacramento-based certified financial planner.

1. Think through the potential risks in your business, family and personal situation. Don't be blinded by the human tendency to think "it" won't happen to you.
2. Look at the big picture. Your risk-management goals should be seen in the larger context of your overall financial goals.
3. Don't risk more than you can afford to lose; find ways to limit your personal liability.
4. Retain the risk wherever it can be covered without financial ruin. Put your insurance dollars where they are really needed.

nesspeople, he takes them through a six-step process, with insurance as the last step.

"The guts of effective risk management," says Wilson, head of RiskSmart Solutions in El Cerrito, "is brainstorming everything that could go wrong in your particular business, figuring out how you can mitigate harm if something does go wrong, and planning for how you'll actually handle the resulting crisis if it does occur."

Start with brainstorming the 20 or 30 risks that are most likely to affect your operations. You can get help from a risk-management consultant, a financial planner, or a professional insurance broker. You can also do it yourself, listing risk sources and then

determining how they apply to you. If you act on your own, don't rely totally on your view of the world: Ask colleagues, employees, customers and vendors what they think could go wrong.

The next step — understanding the financial aspects of the risks you've identified — is harder. "You need to translate the what-ifs into dollars and cents for the identified risks," says Wilson. "Could a fire shut you down for a day, a week, longer? Will you need to alert your customers or vendors so they understand your situation and don't go to the competition? What would it cost to recover data lost from a tech's error? Are you liable for losing a client's business

plan?" It's critical, Wilson says, to think of both hard costs, such as equipment replacement or repair and legal fees, and soft costs: your time and distraction, lost customers and a tarnished reputation.

Once you've calculated the estimated dollar impact of each risk, categorize them by how likely they are and how severe their impact would be. Drop those that are least likely and have low impact; for example, employee theft of office supplies. Set aside those that are unlikely to happen, but would have severe consequences if they did, such as fire or liability lawsuits. These are prime candidates for insurance and merit discussion with a good insurance broker.

Focus on the remaining risks that are more likely but less costly. These are your priority risks and call for prevention, contingency plans and, possibly, self-insurance. "Prevention and contingency planning truly are the central core of risk management," says Wilson, who cites research showing that 80 percent of small businesses that suffer a significant loss without a contingency plan go bankrupt.

"So focus on your top five to seven risks, where prevention and planning can make a difference. Keep the plans simple and practical. You don't want just another thick manual on the shelf."

If you decide to use outside help, how do you go about identifying a

TYPES OF RISK	TYPES OF INSURANCE
Strategic	Property
Technological	General Liability
Legal/Regulatory	Auto Liability
Operational	Contractual Liability
Financial	Workers' Compensation
Employee	Errors and Omissions
Natural	Media Liability

SOURCE: RISKSMAST SOLUTIONS

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good risk-management consultant or insurance broker? The person should know and understand your business, either because he has similar clients, or because he forces you to articulate your business in detail.

“A good consultant or broker should be a fact finder, asking good questions that may even make you think about your business in a fresh way,” says Steve Bertino, head of

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Steven R. Bertino Inc. Insurance Associates in Orangevale. “How’s a dollar go in and out? Is your cash flow stable, or on a roller coaster? Do you have a lot tied up in receivables?”

It is often a mistake to simply use your personal-insurance broker to deal with business risks, says Wilson, because you are not apt to get someone interested in, or knowledgeable about, business issues.

Two years ago, Mary O’Connor (not her real name) branched out from her original retail business into what has become a fast-growing Internet store. In addition, she’s

begun training in her area of expertise, using rented hotel space for her seminars. Her personal broker had only recommended the liability insurance required in her original lease: she had no workers’ compensation, no insurance on her equipment, and no liability coverage for the hotel space she uses for seminars. The broker had never visited her place of business and didn’t ask for details. Nor had he called to review her business in the three years since their original conversation.

“This is a classic case of choosing the wrong person,” says Wilson. “If you use a consultant, that person should show a real and continuing interest in your business, with annual or at least biannual reviews. Your insurance broker should be an independent who can offer plenty of different possibilities and solutions.”

Another attribute of a good broker or consultant is one who consistently brings you up to date on new opportunities that can save money and/or increase your coverage. “More than half of the small-business people I see complain that they are ‘insurance poor,’” says Bertino. “My question to them is, ‘Are you really insurance poor, or do you have poor insurance?’”

A good broker should comb through your business data and your coverage with an eye on reducing or holding the line on costs while giving you more protection: for example, by increasing your deductible to fund higher-liability coverage, or by taking advantage of new offerings like health savings accounts.

With a good consultant or broker and a thorough risk analysis, says Wilson, “you can make certain that the crucial building blocks of risk management and prevention planning are a solid part of your financial plan — instead of a gaping hole that’s likely to trip you up.”

## Disability Insurance

The most overlooked risk is a disabling accident or injury, say risk-management and insurance experts. But the odds of becoming disabled during one’s working years are much greater than premature death — and often more devastating, since you still need an income stream.

“If you had a moneymaking machine in the garage, wouldn’t you insure it?” asks Steve Bertino, head of Steven R. Bertino Inc. Insurance Associates in Orangevale. “You are that moneymaking machine.”

Often, says Bertino, clients have insurance on their house, their car, their boat; maybe even on key employees. But they ignore the risk to themselves and their companies if they become disabled.

Bertino recalls a client in his 30s who had built a successful PR business, then married and started a family. He was hit with a brain aneurism that left him struggling to recover for months. “He called to thank me for talking him into buying disability insurance, which was paying out about \$1,700 a month. Thirteen years later, he’s still collecting. I only wish I had convinced him to buy more.”

There are a number of reasons why disability insurance is often overlooked. Part of it is human nature: None of us like to think that we might become incapacitated in our most productive years.

In addition, says Bertino, many insurance brokers don’t recommend it to clients because of strict underwriting standards. “Insurers want to make sure you look as good on the inside as you do on the outside, so they put you through a lot of tests. And some clients also go into sticker shock when they see a price tag of \$300 or \$400 a month in premiums.”

Bertino uses cold, hard figures to show clients what would happen if the family’s major wage earner could no longer work. “That’s usually a pretty convincing way to get over the psychological and financial hurdles that prevent individuals from seeing the importance of disability insurance.”