

Do you ever have that vague, nagging feeling that your organization faces risks you don't fully understand? That it's just a matter of time before something goes wrong?

My father always says, "I expect to be lucky." He also says, often under his breath, "The harder I work, the luckier I get."

Business owners have the prime responsibility to identify and manage their organization's risks - both those that accompany business and strategic opportunities (new product launches, joint ventures and acquisitions), and the ones that arise from natural and human causes: fires, theft, loss of goods in transit, earthquake, customer dissatisfaction, defective products or services, worker injury, and errors in design, to name a few.

The risk management conclusions may vary for different firms but the methodology is usually the same. In phase one, risk management professionals - often employed full-time by larger firms - assess the qualitative and quantitative aspects of a long list of potential exposures in order to identify the possible impacts on their firms. They know this impact can vary over time and with different strategic initiatives. They can then design additional risk controls in certain departments in order to ensure success in the new area.

Then the most important scenarios or potential problems are analyzed more fully, and plans are made to avoid or transfer risk, prevent or mitigate losses. Crisis management, including public relations and disaster recovery, are also addressed. It's a good idea in both this

step and the identification stage to involve a number of people with different experience and points of view: your lawyer, accountant, insurance professional, Advisory Board. And don't forget the front line people who usually see the safety and product defect problems first hand, and are intimately involved in "cleaning up the mess."

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Finally "the buck stops here" phase addresses how to pay for the various fixed and variable costs of risk. The basic options include deciding to pay for the losses yourself (retention or deductibles), or to transfer the risk costs to someone else. This can be either a third party contractor or tenant via a hold harmless/indemnification clause, or an insurance company.

The trick to effective risk management is to make your insurance decisions *last*. Prevention and contingency plans are the vital keys to making your organization safe, efficient and resilient to both change and the inevitable operation of Murphy's Law.

Insurance is a valuable tool, but it's only one in your risk management toolkit. And it doesn't pay for everything (think about a ruined reputation, a disabled worker with key skills, customer dissatisfaction).

Do your risk assessment and contingency planning first. Make your risk financing and insurance decisions afterwards.