

Uninsurable risks

May 2008

There are lots of risks that are considered uninsurable by insurers because –

- They don't want "sure losses" like inventory shortages or fender benders,
- They're afraid of catastrophes like earthquakes that cause many sizable losses all at once, and
- They can't cover things deemed against public policy, like fines and penalties, or fraud and other intentional, deliberate or criminal acts.

Other risks become uninsurable for business owners because of the requirements or the cost. Many small businesses can't afford special "required" safeguards like sprinklers or vaults, expert appraisals for certain property, or audited financials. The minimum premiums insurers want for certain policies can be high. What examples do you have?

A simple cost-benefit comparison will tell you what's "uninsurable" for your business.

So now what? ~

Well, uninsurable means prevention is all you've got. This is not the time to cross your fingers and hope. Let's create some simple plans.

My mantra is Buy Your Insurance Last™, so client projects focus first on prevention. If you can prevent the loss from happening, it's no longer a key issue.

- Take any risk and list all the ways to prevent it from happening. This takes brainstorming and creative thinking. Get input from employees, clients and advisors. For example, think about all the ways you could prevent loss of customer data and the possible identity theft that would damage your reputation and result in lawsuits.
- The second step is contingency plans for when a loss does happen, and it needs to be minimized quickly. The same process applies. You can't prevent an earthquake, for example, so what plans can you put in place to handle the possible fallout – helping employees, being able to contact customers and suppliers, protecting or replacing your critical equipment?
- Then carefully consider which risks you can contractually transfer to others – in a fair and transparent way. You should be able to agree who is better able to manage the risk and costs of prevention and potential losses. Examples include a data or security breach and identity theft lawsuit caused by your computer consultant's error, and copyright infringement caused by your marketing firm.

A better risk profile ~

By this time, your risk profile is in far better shape, and you may even be able to "self-insure" or handle some risks without insurance. Other considerations might include a rainy-day fund to pay for something that does go wrong despite all your efforts. Make sure you negotiate that line of credit before there's a crisis.

Diligent risk management will have you re-consider, test and update your decisions and your plans periodically.