



A RiskSmart Solutions™

How-To Booklet

by Charles T. Wilson

A Proven Six-Step Process To

Get the Best Broker, Service, Coverage and Price

For Your Business

Studies show that 80% of small businesses that suffer a significant loss without a contingency plan go bankrupt.

Most people dislike thinking about insurance. Some people believe nothing will go wrong. And others think that they have all the bases covered. They therefore put risk and insurance permanently on the back burner – at least until there's a real problem. Then it can be too late.

An Overview

Insurance programs, like cars and people, need regular check-ups to ensure their health, fitness and strength when you need them most. A regular check-up can get you improved broker service, coverage, *and* price while lowering your risk.

The benefits of making sure you get the right broker and service, the right coverage and price include: fewer losses, a better risk profile and lower premiums. From fewer losses, or "surprises," come more dependable customer service and more reliability as a business-to-business partner. And over time you will gain greater stability of revenues, more accurate capital allocation, and better operating efficiencies. This will allow you to expand your business or shift priorities with confidence when new opportunities present themselves.

To get the best broker and service, the best coverage and price, with the least risk, follow the six-step process that is outlined below. It is designed so that any business can implement it. Of course, it does take time away from other important activities, so that's why many businesses outsource this process to an objective expert.

The actual process involves disciplined, proactive work to:

- 1) Assess the relevant skills and experience of your broker: Match them to your current and future business needs
- 2) Create and negotiate your service needs: Separate the must haves from the niceties.
- 3) Identify all your key risks: Look for them in your assets and liabilities; leases and contracts; key employees and training programs; key suppliers and

- customers; supply and production bottlenecks; advertising and warranties; web site content; copyrights, trademarks, and licensing, to name a few.
- 4) Understand and prioritize your risks in terms of the financial damage they can cause you: What can go wrong, how long will it take to fix it, and how much will it cost?
 - 5) Create prevention and contingency plans to handle the unexpected: Discuss them with key employees; implement, train, and monitor them to measure the cost-benefits.
 - 6) Decide on the appropriate risk financing techniques, including insurance.

Getting the best broker and service, the best coverage and price is not as difficult as it may seem. With a little discipline – and this proven six-step process – you can save time and hassle if there is a claim or problem. And you save money because in the long run your awareness and prevention planning will mean you have less risk.

Note that a partial Glossary is provided at the end of this booklet.

A Proven Six-Step Process

Now let's take a more detailed look at the proven six-step broker assessment and risk management process. Risk Management ("RM") is both an art and a science. It's an art because risk is uncertain and unpredictable – and experience is an important factor. It's a science because there are definite, tested methodologies and you can only be successful managing risk if you use disciplined processes. In a broad sense, RM is assessing what can go wrong, how often and how badly (and this is no time for putting your head in the sand), then deciding what you would do if the worst happens, and figuring out how to pay for it.

The art and science of risk management includes wisely purchasing insurance, but it's very important to "*buy your insurance last*" as you will see from this discussion.

Step One – Broker Selection

You start by making sure you have the right broker for your business.

What selection criteria will help you to choose the “best” broker? Here are some to consider:

- Responsiveness, availability and a commitment to you as a client: You want an individual and a brokerage firm that you respect and that fit your business style. You may want a certain personality fit and specific personal and corporate values.
- Knowledge and experience with your industry: It’s very important that your broker has a good understanding of the exposures to loss in your type of business. This can only really happen through experience with other businesses like yours.
- A genuine understanding and interest in your unique business: Your business has unique features, and your broker must show an on-going interest in knowing those differences and keeping up with you as you change. Your processes, customers, vendors, and business style may be relatively unique.

You’ll need references to get comfortable with these first three bullet points. Ask the brokers themselves, your colleagues and your industry association. Talk with these firms about their satisfaction and don’t be afraid to ask tough questions.

- A strong back up team in case he or she isn’t immediately available: Most strong brokerage firms have many people in the office that you won’t see unless you have a particular need. Ask about who backs up the person you’re talking with when he or she is away or may not have all the answers.
- Access to major, relevant insurance companies – and direct access is preferable to a sub-brokering or surplus lines arrangement: A solid brokerage firm will have excellent relationships with a variety of strong, well known insurers. Ask for a list and ask how much business the broker places with each company and what the loss experience is. Larger volumes and better loss experience translates into leverage that may be beneficial to you if there’s ever a problem.

Choose your broker carefully to get the “best” in these key areas. This is where your whole relationship with the insurance industry will be focused.

Step Two – The Right Service

Create a list of service needs. What services do you really need to make your protection program more efficient and more effective? Forget about the niceties (baseball tickets and “free” lunches) and get down to real needs like:

- One comprehensive binder of policies and descriptions? Or do you prefer separate files for each coverage, or for each of your companies? Check with your employee responsible for managing these files if it’s not you. They will have valuable input into how to package the information in the best way.
- An in-depth discussion of coverages and exclusions? Decide when, how often (annually is probably sufficient), who you want present at this meeting (other members of the broker’s “team”?) and what notes you’ll need to take for future reference.
- A loss control inspection by the insurer to detect possible problems and areas of improvement? Decide if you want the broker to be there to assist you in discussing the recommendations that may arise on the spot. There are often several ways an insurer can suggest to remedy a problem. Your broker can be your advocate and perhaps get a larger recommendation broken down into more affordable phases.
- Quarterly or semi-annual visits to check on changes in your operations and staff, discuss your losses, and update you on what is happening in the insurance marketplace? An interested broker will show a definite interest in wanting to stay up to date with your business. He or she can add value by keeping you tuned into what’s happening with other clients and with the insurance market in general.

At the same time as you are preparing your service list, ask the broker to give you a description of what they normally provide to other clients your size. This may give you additional ideas.

Once you agree on the level of service you need, get a written commitment up front. Insurance is a vital business decision and often a major expense. Don’t be vague: it

is much better to have clear expectations and dates on the calendar than to leave it all up in the air. That's how you get the "best" service.

Step Three - Risk Identification

This is the first step in assessing your coverage needs and part of the answer to why you want to buy your insurance last.

Brainstorm everything that could go wrong from the traditional fire and earthquake to the new emerging legal and social challenges like website privacy and intellectual

Types of Risk	What Are Yours?
Strategic	
Technological	
Legal/ Regulatory	
Operational	
Financial	
Employee	
Natural	

property. Thinking about types of risks or types of insurance can help jog your memory (see Tables 1 and 2). Other risks include what could sour relations with customers, suppliers, employees and partners.

New risks or exposures to loss evolve every day. They come from changing operations, new staff, and governmental regulations. And, they come from changing legal climates and customer expectations. Yes, there may be hundreds of risks! But it is important not to overlook anything because in risk management it's what you

Types of Insurance	What Do You Need To Protect?
Property	
General Liability	
Automobile Liability	
Contractual Liability	
Workers Compensation	
Errors & Omissions	
Media Liability	

don't know that can destroy your net worth and your business.

Using your strategic SWOT Analysis can also assist in finding hidden risks (see the examples in Table 3). When you list bullet points applicable for your business, you can begin to analyze the important "what ifs" regarding risks of loss. What if you lose a key employee? What if you can't deliver a promised new service?

Brainstorm with colleagues, employees, customers, vendors, your Board of Directors or Advisory Board, and insurance professionals (broker or objective consultant). Ask them what they think could go wrong to get an objective, outside perspective. Really understanding the risks and how they could impact your business is critical to getting the rest of the RM formula right.

Table 3: SWOT - examples	
<p>Strengths</p> <ul style="list-style-type: none"> ▪ Your skill and experience ▪ Your long-tenured staff ▪ Etc. 	<p>Weaknesses</p> <ul style="list-style-type: none"> ▪ Your product is out of date ▪ Your training programs are lagging
<p>Opportunities</p> <ul style="list-style-type: none"> ▪ Interest from new clients ▪ New products or services to offer ▪ Etc. 	<p>Threats</p> <ul style="list-style-type: none"> ▪ Competition is heating up ▪ Insurance costs are hurting your margins

Step Four – Understanding The Impacts

Understanding the financial impacts of the risks you have identified means you can prioritize and begin to control them. This step is often harder – you need to translate the “what ifs” into dollars and cents for each of the identified risks. Could a fire shut you down for a day, a week or longer? What data could you lose from a tech’s error? How much will it cost and how long will it take to replace? Are you liable or is your reputation at stake for losing a client’s business plans? Will you need to alert your customers or vendors so they understand your situation and don’t go to the competition? Think about both hard costs (equipment replacement value or repair costs or legal fees) and soft costs (lost customers from your distraction with a lawsuit, loss of key employees, etc.).

Start by calculating the likelihood and impact of losses that could arise from the risks

Table 4: Likelihood and Impacts (financial and time) of Losses				
Risk Examples	1 Likelihood	2 \$ Impact	3 Indirect Cost	Priority 1 x (2 + 3)
1. Fire	3%	100,000	20,000	\$3,600
2. Auto - Injury	1.5%	1,000,000	10,000	\$15,150
3. E&O Lawsuit	5%	500,000	100,000	\$30,000
4.				

you’ve identified. This will determine the key ones that require priority action.

Some risk examples have been added to Table 4. Change them for your situation

How To Get The Best Broker, Service, Coverage And Price

and add your risks as well. This Table will have at least ten to twenty possible risks.

Now you can consider the frequency and severity of possible losses. This will help in the “what are you going to do about it” decision-making you’ll do in Step Five. Set the dollar amount of severity at a level your business can comfortably afford, and map your risks in the four quadrants. After you have created some prevention and contingency plans in the next step, you may want to come back here and re-adjust.

		Table 5: Frequency and Severity of Losses	
		Hi	Lo
S E V E R I T Y	Hi	F R E Q U E N C Y	Lo
	Lo	1 ▪ None, you hope!	2 ▪ Liability Lawsuit ▪ Employee Fraud ▪ Fire
		4 ▪ Theft of Office Supplies ▪ Torn Employee Clothing	

- Quadrant 1 is where high cost losses happen frequently, and is known as the Bankruptcy area! If your business has risks here, you need to have very deep pockets or decide to alter your plans.

- Quadrant 4 is for risks that create infrequent, small losses and are usually not worth bothering with.
- Quadrant 2 is the Risk Transfer/ Insurance area – an insurer can combine your low frequency (which means low predictability) losses with those of other similar firms and calculate a viable premium.
- Quadrant 3 is the most important from a risk management point of view. Here is where losses are regularly frequent so you can predict them, and are not too expensive so they won’t bankrupt you. These risks are prime candidates for prevention and contingency plans and possibly for self-insurance.

The outcome of Step Four will be not only a good understanding of the financial impacts your risks can cause to your business, but also a prioritization of your key risks. The key risks you identify will be your focus in the next step: put your list in priority order.

Step Five - Prevention and Contingency Planning

Prevention and contingency measures will differ by industry, location and business type. Consult with the same people as in Step Three (employees, customers, etc.) to uncover and create practical, effective plans, then document the procedures and include timetables and monitoring for improvement.

Prevention refers to everything you do to try to not have a loss at all – preventing it from happening. Contingency plans are what you create to mitigate or minimize the size or financial impact of a loss that does occur (the ones you are not successful in preventing).

One prevention technique is to avoid the activity that causes the loss altogether. And this would apply to the risks in Quadrant 1 above, and also to those in Quadrant 2 that you decide are too expensive to insure. If you can't afford skydiving insurance, you can prohibit the activity. Then, of course, you consider how to prevent losses as best you can for the risks you decide to accept. For example, a technique to prevent delays in delivering your products might be diligent and careful truck maintenance.

Contingency plans are the steps you need for full recovery after a loss. When prepared in advance, they are much more effective than when you have to act "on the fly." If your delivery truck breaks down in spite of careful maintenance, a contingency plan might have adequate spare parts or even a spare van available to quickly take over.

A form of contingency plan that some businesses will need is crisis management or disaster planning which often refer to larger loss scenarios. Communication plans are an important aspect to crisis management. They prepare you to respond to the media, employees, customers and vendors with appropriate messages after a loss. The right messages delivered by the right people will go a long way to reduce fear and uncertainty surrounding a major or highly publicized loss.

Prevention and contingency planning truly are the central core of risk management. You'll need both for each of your priority risks. And it's important to keep the plans simple and practical. You don't need another manual on the shelf. Anyone who has

suffered a major loss will agree that an ounce of prevention – and contingency planning – is worth twenty pounds of cure.

Step Six - Financing

The final step in this Review process is financing – how will you pay for losses and your total cost of risk? There are three things to do here, and you want to make purchasing insurance your *last* decision, because then you will know what you *really* need and want to buy.

First, your financial size and the stability of your business and earnings will determine how large your deductibles can be and if self-insurance is even an option. This is your “risk tolerance” – and is comprised of both your financial situation and your psychological nature. Even if you have lots of extra cash, don’t take high deductibles if it will cause you to lose sleep.

Second, your competitive situation with vendors and suppliers will dictate whether risks can be legally transferred via contract to others who may be responsible for causing a loss. For example general contractors often use blasting subcontractors for this specialized work. And to get the job the sub will contractually accept the responsibility of any losses arising out of the blasting procedures. Get good legal review to set up your contracts appropriately.

Third, and finally, you can deal with residual risk – what’s left over after all your prevention and contingency planning. This is usually an insurance decision (another form of risk transfer). This is also the time to consider other financial tools like a line of credit to be used in an emergency. You don’t want to negotiate that *after* a loss.

For insurance, you’ll need to complete a detailed review of your coverages, policy wordings, options, limits, deductibles and other terms and conditions (including exclusions and restrictions). Look especially for gaps and overlaps and compare with your list from Steps Three and Four. Discuss industry norms for limits and deductibles with colleagues or association members. If a particular coverage is key to your business, get copies of policy wordings in advance and discuss any changes you need with legal, risk or insurance experts.

Make sure you are telling a great story about your business. This will be a well-written description of your operations, your buildings and equipment, and your customers. It will highlight your commitment to quality, customer service, employee training and welfare, safety and loss prevention. And it will reveal your attitude toward insurance in general, and your desire to partner with your insurer to have a positive risk profile and loss record. Don't leave this to chance: a good story like this really counts in an insurer's evaluation and can bring your premium costs down. Finally, get recommendations for appropriate insurers (strong, reliable, local) and authorize your chosen broker to request several quotations so you can compare prices. They can vary widely – but don't automatically choose the cheapest price. Like in any business transaction, you usually get what you pay for.

Ask your broker about the commission or fees to be charged and about any special bonus arrangements with insurance companies that might uncover a conflict of interest. Remember that brokers are middlemen between you, the insured, and the insurance company. Some insurance companies offer brokers special payments to increase the business the broker places with the company. Others offer profit sharing plans. These arrangements may color a broker's decision of which insurer is best for your risks. Transparency about income and good reasons for recommending one company over another are important.

Conclusion

In our personal lives we handle most risks automatically and after they happen. We manage to get by because many risks are small, we've experienced them before so we've built in protections or we know what to do, or they unfold slowly and we can adjust our course to avoid the worst consequences.

Business is more complex and the risks can be much more unpredictable. Our cars now have seat belts and air bags for protection: these are the types of protection that need to be put in place for your business. Risk management in business must be proactive and disciplined for the most success.

Remember the benefits of following this Six-Step Process are:

- Fewer losses, a better risk profile, and lower premiums;
- More dependable customer service and more reliable business-to-business partnering; and
- Greater stability of revenues, more accurate capital allocation and better operating efficiencies.

This allows you to expand your business with confidence or move quickly when new opportunities or customers present themselves.

Perhaps the greatest danger is avoiding the subject altogether (putting your head in the sand) or blindly delegating your protection planning (for example, solely to your insurance broker). If you abdicate this key role of making sure you get the best broker and service, the best coverage and price, how can you be sure others will take care of it satisfactorily?

About the Author

Charles T. Wilson is a consultant, advisor and speaker. He is an expert in insurance and risk management who doesn't sell insurance. Advice to clients is totally objective.

Charles helps business owners save time and money by understanding their risks and creating practical prevention plans. This fulfills the goal of obtaining the best broker and service, best coverage and price, with the least amount of risk.

Clients benefit from proven strategies that were developed over a 28-year career in the insurance industry and extensive experience starting, growing and fixing small business units in Europe, Canada and the US.

As Principal of RiskSmart Solutions, Charles is often asked to lead workshops for small and mid-sized business leaders who have given high marks for his inside advice on how to lower their companies' insurance costs and risk exposure.

Glossary

Agent – an insurance representative who offers products from one insurance company only. Examples might be State Farm, GEICO, AAA, etc. The value of advice must be taken with care because they have no alternative options to offer.

Broker – an insurance sales representative working for a firm that offers policies and programs from several insurers. The best will “buy” on your behalf. Watch for potential conflicts of interest: commission income goes up as you buy more coverage, bonus arrangements with insurers might color a policy or claim recommendation, time restrictions and sales pressures can push you to buy too quickly.

Commissions and Fees – A broker’s income usually comes from a percentage of your premium paid directly to the broker by the insurance company. Brokers may also charge you fees – either in addition to or instead of commission. Fees must be explicitly identified on your policy but commissions in most cases are not.

Contingency Plan – an important “what if” plan that lays out the steps needed to fully recover from a loss that has happened, while mitigating the financial impacts. Plans can be simple, but need to be comprehensive. They will designate certain people to take charge of an incident and others to communicate with various audiences (media, employees, customers, etc.).

Cost of Risk - includes insurance premiums, deductibles, broker fees or risk management advice, and the full cost of uncovered losses. In some firms the cost of management and some staff time may be included. Large firms (over \$10b in sales have a cost of about \$1.75 per \$1000 of revenue. Small firms (under \$500m) have a cost of over \$18.00.

Crisis Communication – The messages you or your PR agent create in advance for different audiences and the decisions you make about who is your designated spokesperson in a major loss scenario.

Crisis Management – the plans to effectively handle a major loss to your company and get you back in business quickly and effectively. This is part of risk management and includes crisis communications.

Frequency – the number of times a certain kind of loss occurs in a given year, for example the number of auto accidents for all your vehicles.

Insurance Program – a broad, generic term encompassing all insurance policies, broker and service agreements and risk management/ prevention plans.

Mitigation – reducing the financial impact of a loss; returning the business to full operations quickly and at the lowest cost after a loss

Prevention – preventing a loss from occurring through effective planning, training, etc.

Replacement Value – the full cost to repair or replace damaged or lost property at today's market prices.

Risk Analysis – an audit or review of business risks (insurable and not) – often including the impacts of potential damage and recommendations for prevention and mitigation.

Risk Profile – the picture an insurer sees when looking at a business including management attitude, loss experience, prevention plans, operations, assets and liabilities.

Risk Transfer – transferring risk to others via contract: either a contract with another party who agrees to assume the risk(s) in question or an insurance contract. Both are subject to specific terms and conditions regulating the contract or policy.

Risk Management – the art and science of identifying risks, determining financial impacts of loss, creating efficient and effective prevention plans and contingency plans to mitigate losses that occur, and deciding on how to best finance risk for overall value.

Risk Tolerance – the financial and psychological ability to deal with losses – both actual and potential – to an enterprise

Severity – the size or dollar amount of certain kinds of losses, for example the average cost to defend an employee discrimination lawsuit. This is usually the average size of a possible loss, but could be the maximum possible loss for a very conservative plan.

Sub-brokering – when a broker uses the services of another broker to place an account – meaning the first broker does not have direct access to the preferred insurance company. This is usually not a desirable situation.

Surplus Lines – when a broker places an account (or a part of an account) with an insurer that is not licensed in the state of the insured and is able to use different policy forms and rates (yes, higher) from those approved by the Insurance Commissioner. Great care must be taken to fully understand that if the insurer goes bankrupt there is no protection from the state guaranty fund.