

Think You're Covered?

Think Again

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The economic landscape is far different today than it was two years ago. Many organizations considered to be mainstays of the U.S. economy have closed their doors, merged with others or are barely clinging to life, supported by taxpayer dollars. Unless you are too big to fail, there are many lessons to learn from these difficult times.

Many of these lessons focus on the need to mitigate risk. This naturally leads most to examine their insurance and other financial methods of risk transfer. However, failing to address risks not covered by insurance could leave you waiting for another round of bailouts (don't hold your breath!).



What's not covered?

Ask yourself the following questions to begin to reveal the scope of your risks not covered by insurance:

1. What are our top ten uninsured risks?
2. Do we have a process in place to identify our uninsured, underinsured or uninsurable risks?
3. If this process exists, who is responsible for managing it?
4. What contingency plan do we have in the event of catastrophic loss?
5. Is insurance the most cost-effective and practical way to manage our exposures?

Do you believe everything you hear?

Most clients hope—and many insurance agents give the impression—that their current insurance policies will protect them from most business risk. A number of insurance policies cover what are commonly known as hazard risks, which protect against risks to property (e.g., your medical office catches fire) and against liability for harm to third parties (e.g., a lawsuit alleging failure to properly diagnose a patient).

What many organizations do not realize is that even if you purchase every insurance policy available, it is estimated only 1/3 of all risks are insurable.* You must address the other 2/3 of risk through proactive identification, measurement, control and other financing mechanisms, most often through self insuring the loss for the business.

The economic events of the past two years have revealed that hazard risks, many of which are insured, are not the most common cause of business failure. Rather, failure of risk management decision making in the areas of strategic, operational and financial risk are more likely causes of business failure. One explanation for this is that these risks are harder to quantify and are fundamentally more difficult to address than traditional hazard risks. Going forward, political/legal changes also will challenge the ability of your business to stay ahead of emerging risks, many of which insurance companies will decline to cover until they can quantify the exposure. The situation, however, is not hopeless. Creating a process to address these risks can help you avoid the mistakes made by the owners of many failed businesses.

RISK



The process can set you free

Enterprise Risk Management (ERM) is a hot topic that focuses on addressing an organization's full range of risk, whether insurable or not. With the exception of Fortune 500 companies, few organizations have the resources to effectively implement an ERM system. Even fewer insurance brokers have successfully applied ERM principles when assessing their clients' risk. There are, however, some simple ways that even a small business can apply this process to more effectively manage its system-wide risk and protect the organization's assets.

The problem is compounded by the fact that the things not covered are often the very situations that pose the greatest danger to your business.

A simple way to initiate this process is to examine the risks that are excluded from your current insurance policies. These risks generally fall into two categories: things that are not insurable due to their source (e.g., war, riot or insurrection) or business errors that are not insurable due to the nature of the loss.

Once uninsured and uninsurable risks are identified, you must prioritize them. The most urgent risks to address will vary with every business; it is important to isolate a select few to address initially. This will allow you to have the greatest impact in the shortest period of time.

After the top risks are identified, the next steps involve measuring, controlling and, in some cases, financing the risk. Working with a third party who can assist in measuring risks and offer ideas on how to control or finance them is useful during this process. The final step is to implement proactive strategies to address the risks and lower the threat they pose to your business.

SilverStone Group has helped many organizations develop a process to examine uninsured, underinsured and uninsurable risks. Through efficient information gathering and analysis, we are able to apply unique risk control measures based on the priorities established and agreed upon by the client.

A surprise, but perhaps not the one you expected!

When SilverStone Group first works with a business client, many are surprised to find that some of the risks they thought were covered were, in fact, limited by their inforce insurance policy. Unfortunately, it is easier for many in the insurance



Healthcare Enterprise Risk Management



Strategic	Operational	Financial	Hazard
Patient Demand	Regulatory Environment	Receivables	Natural Events
Industry Reform	Talent Management & Acquisition	Cash Flow	Products & Services
Competitive Pressures	Accounting Controls	Market Risk (equities, commodities)	Properties
Mergers & Acquisitions	Quality Control	Interest Rates	Employees
New Services	Information Systems	Credit	Interaction with Public
Research & Development	Community Relations	Liquidity	Contracts
Marketing	Supply Chain	Currency Exchange Rates	Vendors & Suppliers
Intellectual Capital	Board of Directors	Reimbursement Rates	Availability of Resources

industry to talk about what *is* covered, as opposed to what *is not* covered. The problem is compounded by the fact that the things not covered are often the very situations that pose the greatest danger to your business.

The Healthcare Enterprise Risk Management chart (above) depicts a sample of ERM categories and lists, some specific to the healthcare industry. Beginning with a simple chart can help organize your company's global risks. This is also an effective way to help prioritize the limited time, resources and finances available to cover these exposures.

The following list includes many common risks for which you likely have no coverage:

- Identity theft and fraud
- Breach of contract
- Insured vs. insured disputes
- Pandemics
- Business errors / Regulatory compliance
- Punitive damages
- Loss of revenue due to utility interruption
- Cyber liability
- Mold, fungus and mildew

While some of the exposures noted may not be relevant to your business, it is important to identify the risks that have the greatest potential to affect your organization and to develop a process that identifies, prioritizes and addresses those risks.

In looking at failed financial organizations over the past few years, one history they have in common was an excessive willingness to take risk without a corresponding process in place to monitor and mitigate that risk when certain thresholds were met. These organizations surely could have benefited from a more robust system of identifying and measuring risks.

Your organization may not sell complex financial instruments, but the lessons learned by failed companies are important to remember. These tips are critical to remain successful:

- Create a process to identify uninsured / uninsurable risks
- Proactively address your top risks
- Work with an expert who can help you do more than just purchase additional insurance

The experts at SilverStone Group specialize in all major industries and can help you develop a process to manage the risks your organization faces. You should work with a risk management partner who can help you do more than just purchase insurance.

*Business Insurance, April 7, 2008, page 11.