The Practical RiskMAP

A practical guide to managing small business risk in Texas

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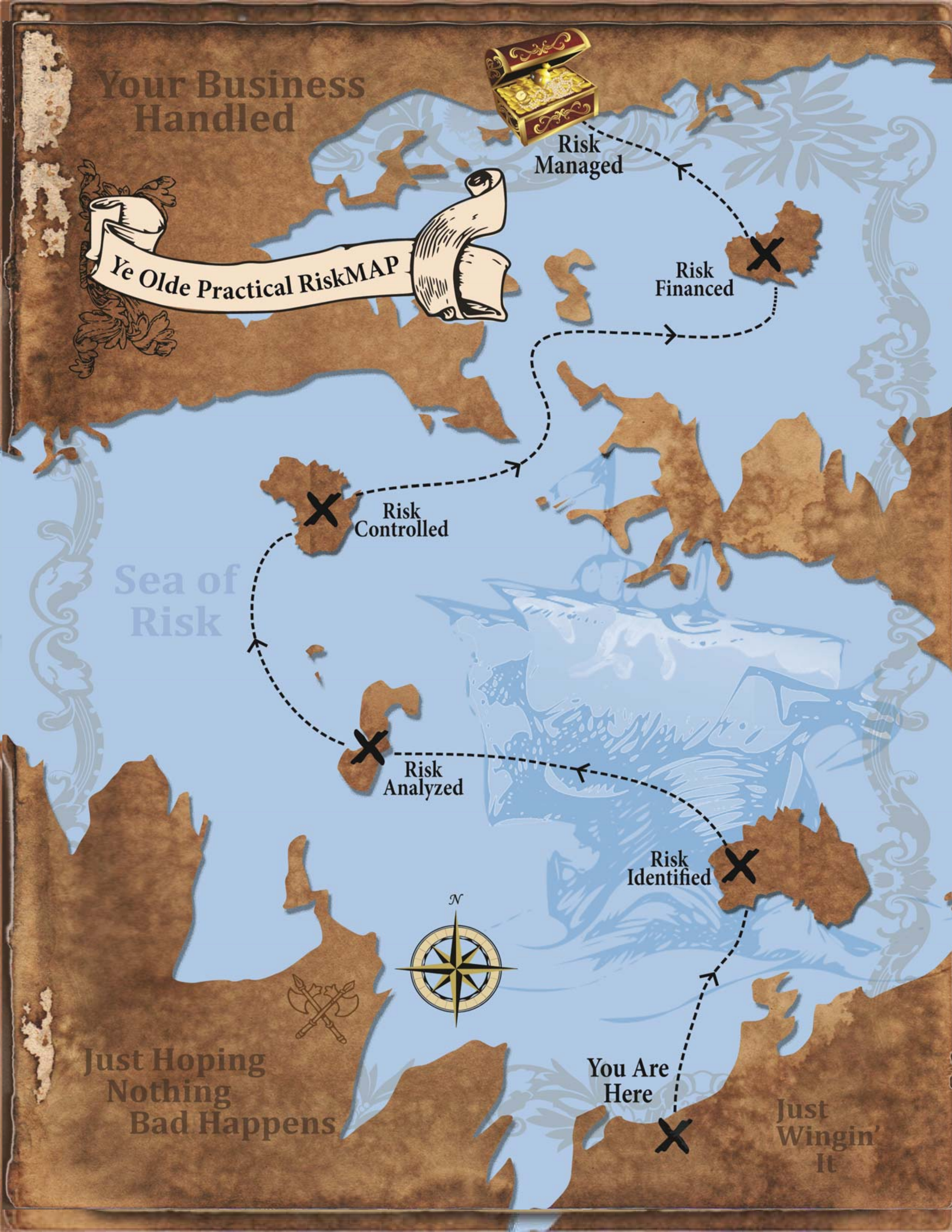
Your Business Handled
Ye Olde Practical RiskMAP
Risk Managed
Risk Financed
Risk Controlled
Sea of Risk
Risk Analyzed
Risk Identified
N
You Are Here
Just Hoping Nothing Bad Happens
Just Wingin' It

The Practical RiskMAP

The Skinny

The Practical RiskMAP is designed to boil down Risk Management processes into a simple and understandable framework that every business owner can and should apply. Protecting your business the right way shouldn't be an option for anyone serious about their long term success.

Implementing the principles outlined in the Practical RiskMAP is an affordable way to protect your business the way it should be protected. Until now these processes have not been readily available to small and medium sized businesses in an affordable and practical format.

Expected Results

At the end of your exploration of the Practical RiskMAP process, you will have taken a very important step in handling a part of your business that frankly a lot of your competitors haven't even addressed.

You will have the basics of a methodology that you can use to handle risk in all aspects of your life. You can continue to educate yourself on these processes and implement the steps yourself or you can utilize external resources that are available jump start your implementation.

What's This Going to Cost?

The beauty is that even if you utilize external risk resources, it's likely that you can spend less than what you are currently spending on your current insurance program alone. The fact is that many businesses don't allocate their insurance budgets very efficiently because they don't understand that not every risk needs to be insured.

Be Smart!

Simply ignoring your risk and hoping that those unknown "What ifs" just won't happen isn't a smart business strategy! You've spend countless hours growing your business. Take a few to make sure you don't get blindsided.

You lose a key employee?

Your key Supplier shuts down for 3 months due to an earthquake?

You have to Close your business for 9 months due to fire damage?

Your network Is hacked and you are sued for the data breach?

An employee who was just fired brings a lawsuit for wrongful termination?

WHAT IF?

An employee gets in a serious at-fault accident while driving to the bank to do a deposit?

Your passwords are compromised and someone drains your online back account?

You are operating your business as a Sole Proprietor and you lose a lawsuit?

Your laptop is stolen from your car?

A contractor you hire to renovate your office accidentally injures a customer?

The Practical RiskMAP Process

The Practical RiskMAP process can be broken down into the following steps:

1. Risk Identification

You can't manage something you are not even aware exists. A huge portion of the Risk Management Process is eliminating secondary ignorance. Secondary ignorance is not knowing that you don't know something.

You need to identify as many risks that your business faces as you can. Note, this is constantly changing and might never be complete. You don't necessarily need to become a risk management expert, but you do need to know what resources are available to you.

2. Risk Analysis

Risk Analysis is the process of estimating the potential *frequency*, *severity* and *priority* of the risks your business is exposed to. If, for example, you evaluate the exposure of an employee getting in a serious at-fault auto accident while driving to a sales call. The frequency of this occurring is (hopefully) low. The severity measured in dollars can be very high.

There are obviously other "human costs" and implications that can arise out of accidents and exposures, but for our purposes we will measure severity in the financial impact to your company, (and potentially to you as an individual).

3. Risk Control

Risk Control is a process of determining the most economically efficient method of handling the risks your business faces. The word control is a bit of a misnomer because you can never completely control all risks. This step does help you assess which risks you should Avoid, Prevent, and or Reduce.

4. Risk Financing

Risk Financing is determining the optimal financial vehicle to transfer a risk. This can transfer the risk via a contract or by securing an insurance policy. In many instances it makes sense to retain (self insure) the risk. But which ones do you retain and which ones do you transfer?

5. Risk Administration

Risk Administration is the process of implementing and monitoring the program. This is an ongoing process that consists of procedures you implement internally as well as coordinating external resources to help you with loss control.

Step 1 - Risk Identification

Step 1 is to identify what risks your business is exposed to. It helps to break them down into logical categories. There are four major classifications we use to categorize business risk: Property, Human Resources, Liability, and threats to Net Income.

We have identified these categories and provided some examples to help educate you on some exposures that you might not have previously been aware of. Note that this is not a comprehensive list, but meant to point you in the right direction. It is recommended that you have a more formalized risk assessment done to get a more comprehensive viewpoint of your risk.

PROPERTY (1ST PARTY)

This category refers to property that you own, be it tangible or intangible.

Tangible Property

- Buildings
- Business Personal Property (inventory, furniture, fixtures, equipment, vehicles, cash).
- Business Records & Documents

Intangible Property

- Licenses
- Intellectual Property (copyrights, patents, trade secrets, source code, etc.)
- Goodwill
- Leases
- Data
- Legal Interest for Property (easements, bailee)
- Accounts Receivable

Perils – Used to identify Potential Causes of Loss

- Human (e.g. theft, arson)
- Economic (e.g. change in price)
- Natural (e.g. fire, earthquake)

HUMAN RESOURCES (2ND PARTY)

This Category refers to risk issues arising out of relationships between your company and:

Relationships (between entity and…)

- Owners/Shareholders/Partners
- Board Members
- Employees
- Independent Contractors
- Other

Employment Practices & Exposures

- Worker Injury (Employers Liability)
- Business Continuation (buy-sell agreements, key employees, non-compete)
- Statutory compliance
- Employment Practices (Hiring, termination, discrimination, etc.)
- Travel & Overseas exposure
- Benefits Programs

LIABILITY (3RD PARTY)

Here are some examples of areas that liabilities for your business can arise

Torts

- Premises Operations Liability
- Products & Completed Operations Liability
- Personal & Advertising Injury Liability (copyright, trademark infringement)
- Professional Liability
- Environmental Liability
- Auto Liability
- Aircraft Liability
- Internet Liability
- Data Breach Liability
- Liquor Liability
- Bailee Liability

LIABILITY-(CONTINUED)

Contractual

- Leases
- Indemnity Agreements
- Sales Contracts
- Notes, Mortgages, Loans
- Vendor Agreements
- Construction Contracts
- Insurance Contracts

Statutory

- Local
- State
- Federal
- International

NET INCOME

Threats to your Net Income can also arise from the following:

Causes – Your Problems

- Property, Human Resources, Liability Related
- Market (Operational & Business Risk)
- Financial Market Fluctuation
- Weather (without damage to your property)

Causes – Other Entities Problems

- Primary Supplier
- Primary Customer
- Government
- Economy

Step 2 - Risk Analysis

Step 2 is to analyze the risks you've identified to determine the best way to manage them. There are two types of risk analysis, Quantitative and Qualitative. Both can be used, but for smaller businesses most of your issues will be analyzed via Qualitative methods as the Quantitative methods are typically beyond the scope of small to medium sized businesses.

Qualitative Analysis

- Risk Assessment
- Financial Assessment
- Loss Data Assessment

Quantitative Analysis

- Loss Projections
- Cash Discounting/Net Present Value Calculations
- Cost Benefit Analysis

Step 3 - Risk Control

Risk control is an action to minimize, at the optimal cost, losses affect the organization.

Some risks are so severe that they should be avoided. Others that have the potential to occur frequently can be mitigated by implementing preventative measures to reduce the frequency. Yet others that don't happen frequently, but that have severe consequences need to be reduced. And still others need to be retained, transferred or segregated.

Here are some examples or Risk Control methods commonly used:

Pre-Loss

- **Avoidance**
- **Loss Prevention (Reducing Frequency)**
- **Loss Reduction (Reduce Severity)**
- **Exposure Segregation**
- **Transfer (Contractual or Physical)**

Post-Loss

- **Claims Management**
- **Litigation Management**
- **Disaster Recovery**

Risk Decision Guide

So how do you know what risks to retain? Which ones do you transfer and which ones do you avoid altogether?

The Risk Decision Guide will help you apply the correct *Risk Control* technique to each exposure your business faces. For example, If you have a *small* amount of furniture and fixtures it often makes sense to retain (self insure) that. The frequency of something happening to it (theft, fire, etc..) is typically low and the severity is low (since the amount is small).

On the other end of the spectrum, if for example, you are contemplating hiring a driver to make deliveries. You smartly get access to their MVR's (motor vehicle records) and find that one of the potential candidates has four at-fault accidents and three speeding tickets in the past two years. It's more than likely that is in your best interest to *avoid* this exposure and hire a safer driver.

Severity \ Frequency	Low	Slight	Moderate	High
High	Transfer	Reduce or Prevent	Reduce or Prevent	Avoid
Significant	Retain	Transfer	Reduce or Prevent	Avoid
Low	Retain	Transfer	Prevent	Prevent

Step 4 - Risk Financing

The goal of risk financing is acquiring funds at the least possible cost to pay for losses that affect the organization. This typically consists of making a decision to either retain the risk (self insure) or transfer the risk either via insurance or via a contract (non-insurance).

Retention

- **Active Retention (Knowingly self insuring)**
- **Passive Retention (Not even knowing that you had an exposure) – OOPS!**

Transfer

- **Non-Insurance (Contractual Risk Transfer)**
- **Insurance**

Step 5 - Risk Administration

Risk Administration is the ongoing process of implementing, monitoring and revising your risk management strategy.

- **Planning and Policy Development**
- **Implementation**
- **Monitoring**
- **Leveraging Internal and External Resources**

Risk Tenets

- Don't retain more than you can afford to lose.
- Don't risk a lot for a little.
- Consider the odds.
- Don't treat insurance as a substitute for loss control.
- Effective Risk Management Programs utilize at least one risk control and one risk financing technique for each exposure.

Next Step

I hope this has provided you with a basic framework for managing risk. Now comes the piece that will make or break your risk management program. Are you going to actually implement one?

The good news is that help is available and for a limited time it won't cost you a dime.

For a limited time you can get a free Risk Assessment ($249 value) which will help you identify your risks (step 1) and give you some recommendations on steps 2, 3, and 4.

If you haven't already downloaded the Practical Risk Assessment, do so now and complete the worksheet.

www.identifyyourrisk.com

Practical Risk

Chris J. Baumli, CIC is a graduate of The University of Texas at Austin and is a Certified Insurance Counselor.

He has Over 23 years of extensive business experience and specializes in consulting with owners on ways to protect their Texas businesses from unexpected events.

He has been active in youth baseball coaching his identical twin sons and has served on the Board of Directors for Cedar Park Youth League. When not helping clients, he enjoys cooking for his wife and five kids.