ART GALLERY FOR JULY

What to do about risks beyond our reach

By Dick Goff

Some questions just seem beyond the reach of ordinary people. Such as how to achieve world peace, what to do about Lindsay Lohan or whatever happened to rock and roll? For business organizations, the impossible questions often center on the unique and specialized risks that the enterprise could face.

That's why enterprise risk management (ERM) has taken on a life of its own as a corporate specialty. Big companies may face risks of weather, war or warped reputations. But enterprise risks are not limited to the great and large. Small to midsize companies can be even more vulnerable to quirky risks because just one adverse event can put them out of business.

ERM has emerged as a vital strategic function of the C-suite rather than just another assignment for the business-as-usual risk management staff department. That's because of two vital differences from ordinary risk: first, major enterprise risks can only be managed on an organization-wide basis and, second, you can't usually protect against such risks by dialing up your traditional insurance broker. For the kinds of risks I'm citing, conventional insurance is unavailable or only available at massively exorbitant premiums.

ART offers defense against enterprise risks. I know of captive programs protecting against each of these examples:

Regulatory risks **–** All kinds of emerging government regulations can cause a business to lose or reallocate capital. In a recent KPMG survey of corporate executives 70 percent said regulatory changes have caused either substantial or moderate changes in their risk profile in the past two years.

The fear of regulators (now cited as the "fourth branch" of government with little or no accountability or oversight, but that's another column) is widespread among the industries of healthcare (see ACA), manufacturing, technology, energy and many others.

Reputational risks – All kinds of companies find themselves in the crosshairs of snipers in both mainstream and do-it-yourself media, and the public appears more gullible than ever in believing the worst. A company doesn't have to do anything wrong to have lies circulated about it on websites and social (some would say anti-social) media.

Managing a company's reputation has become vastly more complex in recent years, according to a recent presentation by *Business Insurance* magazine. In addition to possible loss of sales, reputational damages include legal and public relations defense costs that can quickly escalate to the millions.

Supply chain interruption – A manufacturer that depends on key specialist suppliers would face high losses if one of them goes out of business or is otherwise interrupted by a catastrophic event.

Government contracts – Somewhere in most government contracts for goods or services is fine print indicating that the issuing agency may cancel the contract at any time. This vulnerability to agency reneging on promised purchases has plagued organizations and has sent more than a few young companies into bankruptcy.

Judicial and administrative game changers – At anytime, your customer that is regulated by a federal or state agency, or subject to the precedent of legal proceedings, can be forced to change its way of doing business, and leave you to comply despite additional unrecoverable costs.

Loss of license/certification – This is an obvious enterprise risk that can affect all organizations that rely on government sanction to do their business.

Loss of contract – In one tragic example, an entertainment promoter contracted for a performance by Mexican-American singer Jenni Rivera, but the performer and her troupe died last December in an air crash following her concert in Monterrey, Mexico. The promoter was covered by a captive insurance policy and recovered $300,000.

A captive insurance plan is really the only way to cover the specialized, unique risks that can plague any organization, with the smaller enterprises being the most vulnerable.

Without ART intervention, every potential risk faced by any organization is either covered by an insurance policy – very unlikely! – or is self-insured by default. An organization that goes bare through the risk minefield will pay its own losses through depletion of either its capital or its entire enterprise.

Preparing for risks does not include losing sleep at night worrying about them because that never does any good. For most of the kinds of risks I have cited, an actuarially sound captive program is the only lifeline. In a future column I'll discuss the step-by-step process to protect against risks that seem impossible to cover.

As always, I welcome all feedback and opinions. Please feel free to comment to me personally via e-mail or send it in article form to our editor at ggrote@sipconline.net.

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