

## **“WHAT IF” QUESTIONS ANSWERED BY A COMPREHENSIVE RISK MANAGEMENT AND INSURANCE PROGRAM**

Business owners must recognize and accept the fact that there are unavoidable risks that exist when they operate their businesses. These risks however, can neither be ignored nor should they be underestimated

While knowing that certain risks are unavoidable, the astute company will nevertheless anticipate what can go wrong and what is likely to go wrong. In turn they will also evaluate what tools and techniques can be deployed to minimize any adverse impact to the company. The anticipation and evaluation of risks as well as determining the tools and techniques to deploy as a result of such risks, is a crucial part of the risk analysis that all companies should go through.

One part of this type of risk analysis begins with asking “What if” type questions. An acceptable answer must then be developed to each “What if” question. For example: “What if my quality control department fails to catch mistakes and I see less than quality products or services?” Another example: “What if I am sued, do I have the resources in place to pay for competent attorneys?”

Many “What if” questions are often answered through the buying of insurance, revising the type of insurance coverage that may exist, modifying insurance limits, or negotiating away certain exclusions or endorsements contained within existing insurance policies. Lets look at a few examples of “What if” type questions involving insurance.

QUESTION: What if a fire destroys all or a part of my operating facility? Do I have sufficient commercial property insurance coverage to rebuild the facility and refurbish it with ample equipment and inventory?

QUESTION: What if my operating facility is damaged to such an extent I am unable to conduct business for the upcoming busy spring and summer seasons? Does my existing insurance cover my loss of sales for that time period?

QUESTION: What if I decide to use a third party trucking company to deliver products to my customers? What kind of insurance should I require this trucking company to maintain? Do I have sufficient insurance in the event the trucking company is involved in an accident seriously injuring someone and my company is sued?

QUESTION: What if I hire a laborer as an independent contractor from a temporary placement agency? What if this person is injured? Will my Workers Compensation Insurance cover such injuries? What if this person injures a third party while working for me—will my Commercial General Liability insurance cover the claim?

QUESTION: What if one of my technicians makes a mistake in determining the design parameters for a particular product or service and an accident occurs causing serious personal injury? Do I have adequate insurance coverage for such a loss?

QUESTION: Do I need to carry professional liability or errors or omissions insurance in addition to commercial general liability insurance?

It is best that these, and many more “What if” type questions be posed and answered by all companies as part of what PDH would refer to as an effective risk and liability management best practices program.

Buying an insurance policy, changing how a policy may read by adding or subtracting exclusions or endorsements or increasing insurance limits will resolve many of the “What if” questions that exist involving insurance. However, too often buying insurance is either viewed as being too complicated or the company employees responsible for this undertaking will pass this responsibility off and rely entirely on their insurance broker. Either result is bad for the company buying the insurance.

The fact of the matter is that insurance does not need to be complicated and no company should rely on their insurance broker as their sole source of insurance information. Not only can insurance be more easily understood, with some proper education and training, insurance buyers can begin to have more control over the process if they choose to do so. Your

insurance broker may be someone you have used for years with whom you have confidence—but how much do you know about how he or she works, what experience they have, what other insurance customers they serve, how they are compensated and many other questions.

Here are some additional questions to be considered?

- Do you feel that you adequately understand the nature and purpose of business insurance?
- Do you know what insurance policies cover which type of claims and why?
- Do you understand the types of claims that are not covered by insurance?
- Do you understand the terminology that is commonly used in insurance policies?
- Do you know how to read an insurance policy?
- Have you reviewed your business risks to determine whether you are adequately insured?
- Do you know how a property policy is different than a liability policy?
- Do you periodically review insurance policy limits for adequacy?
- Do you understand the meaning of, or carry, “excess” or “umbrella” insurance protection?
- Do you periodically review your insurance coverages in relation to the scope of your business activities?
- Have you considered some of the new insurance policies and coverages that exist as applicable to your company?