

## **Small businesses skimp on risk management**

BY Laura M. Toops, American Agent & Broker editor  
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Although they're more exposed than ever to litigation, catastrophes and natural disasters, American small businesses are more concerned with survival than risk management. Worse, insurance agents and brokers –best suited to help mitigate those risks – are the last people they turn to for advice.

A survey sponsored by Travelers and conducted in-person at the U.S. Chamber of Commerce America's Small Business Summit indicated that 41 percent of respondents from small businesses of all types said they were "extremely confident" their businesses were protected against insurable risks that could result in significant financial losses. Ironically, 44 percent of respondents did not have a written business continuity plan, and 64 percent had never spoken with their insurance agents about developing one.

This presents both a challenge and an opportunity to agents, said Kelly Stacy, vice president of distribution and field management for the small commercial business segment at Travelers.



"The survey information provides a great set of talking points for any producer out there working with potential new or existing clients," he said. "With the economy as it is now, there has never been a better time to focus on spending time with clients, whether large or small."

Most respondents – 56 percent – spent less than 10 percent of their time on activities associated with identifying and preventing business risk, and 39 percent said they didn't have the time necessary to do so.

However, small businesses were more likely to rely on their attorneys (28 percent), peers (25 percent) and themselves (23 percent) for advice on managing risk. Only 10 percent looked to their insurance agents for advice.

Small business tends to be "sticky," with higher retention rates and less competition, Stacy said. "Our advice to agents is to really work the next 2 to 4 months of renewals and go beyond the issue of price. All too often that becomes the process for small business, but given the results of this survey, it makes more sense to really examine the problems that keep small business owners awake at night. Outreach is a proactive process, and sometimes agents and brokers treat small businesses on reaction compared with the outreach they do on their midmarket and larger accounts."

He added that the small businesses in the survey – which encompassed virtually all segments of business, most with less than 25 employees– were less concerned about pure survival in a poor economy, but rather had a sense that although they may be small today, their ability to deal with critical business issues and risks will allow them to grow in the near future.

"We didn't hear anybody talking about just hunkering down or waiting it out; these were entrepreneurs who were very excited about the opportunities in front of them," Stacy said. "What I walked away with is they are reaching out for help but don't know what it looks like."

One agent who understands the needs of small businesses and is tapping into those needs is Richard Zande, president of Zande & Associates Inc., Northbrook, Ill., part of The Rockwood Company.

Zande believes the Travelers survey is a true reflection of today's small business marketplace: "If they're not in survival mode, everybody is scrambling to increase the bottom line," he said. He noted that with the exception of contractors, small businesses appear to be moving away from the desperation of a year ago and more toward growth. "We are seeing very few returns of premiums these days, and additional premiums at the end of audits are outnumbering flat audits 2 to 1, so there has been a little bit of an upturn." Payrolls and sales are also up, either due to overtime or addition of a new person or two.

Although he agreed that small businesses tend to turn to attorneys for risk management advice, "it's only until you teach them the value of your input," he said. "We have to be competitive, but we also need to offer a multitude of services, and part of that is to the extent of reviewing contracts with attorneys, lease agreements, contractor agreements, whatever's necessary to protect the insured from entering into agreements they shouldn't."

Small businesses are loyal – which doesn't always prove best to the small business, Zande said.

For example, his agency learned about a small software development firm that had coverage with a direct writer who happened to be in the same building as the firm when it was a two-man start-up business. Twenty years passed, and the firm grew to 60 employees, more than \$20 million in revenue, and overseas operations. The direct writer agent was getting ready to retire so the firm was reevaluating coverage. It turns out that the firm had been going without professional liability insurance and directors & officers coverage for the past 20 years. "They never saw the need for that coverage, and the reason they didn't buy it is because nobody told them about it," Zande said. "Our approach is not to go in there and sell them, but to gain their trust and explain what the risks are."

Zande agreed that most small businesses he sees don't have business continuity plans, which is something the insurance agent should be working on with them. For example, a small printing operation could be devastated if one of its massive Heidelberg presses was out of commission. "You have to talk to them about planned production alternatives, such as outsourcing work to a competitor if they have to. Having a proactive agent to walk through the process with them is very useful for them," he said.

Another example of the need for a contingency plan was a large financial firm client that moved to New York right before 9/11. Although their building was not damaged in the terrorist attack, because the whole area was shut down in the aftermath they lost access to their office and \$2 million in equipment. The firm ordered replacement equipment and set up offices in New Jersey, only to find there was no insurance coverage for the move or the replacement equipment. "Today if a customer is located in a 'target zone,' we offer additional coverage for civil authority shutdown, which provides business interruption coverage if the building is shut down, even though the client's property is not damaged," Zande said.

The key to successfully advising small business customers is to stay abreast of changes in your carriers' products and services, and to continue self-improvement through insurance CE. "It's important to educate yourself so you can educate your clients," Zande said.