

# Blades, Crout & Proulx LLC

*Risk Management Consultants - Established 1926*

## **The Wheels of Business Do Not Turn Without Insurance**

### **Introduction**

Insurance is frequently the last item that a new business considers and the first item that they need to have evidence of. It's often necessary to close a client contract or get a product into the market. Most entrepreneurial, innovative and disruptive businesses, whether product or service driven, leave this important discussion point out of the initial business conversation. With the exception of a budget entry (inaccurate at best), rarely is commercial insurance part of the deeper conversation about business risk, business development and the concept to exit strategy.

It is much more exciting to nail down a concept, to model it, do the development, create the back office foundation, construct the brand and marketing program. In reality, the wheels of business generally do not begin turning until evidence of insurance is provided to the client, customer or players within the distribution mechanism.

Frequently, the leadership team is overwhelmed by their first exposure to insurance requirements and broad contractual indemnification obligations. So many coverages are imposed upon them by others who are utilizing their services, putting their product in to the marketplace, or incorporating software, a component part or ingredient into their own product. One simple misstep in failed insurance considerations can wreak havoc on financial projections and lead to poor decision making. Rushing through the complex process of securing the multiple insurance policies necessary to address exposures and contractual insurance requirements is unwise at best and distracting at a time when focus and composure is required.

### **Why don't the wheels of business turn without insurance?**

It is a simple matter of risk. Identifying risks associated with business activities and where possible transferring risk to the parties creating it and finally documenting that the risk transfer is supported by an adequate and comprehensive funding mechanism. Typically, transferring risk is done through contracts and insurance or both. A stand-alone contractual obligation to indemnify is only as good as the financial strength of the party agreeing to indemnify without the backing of reliable insurance. Companies need an insurance program incorporating policies that address risk through quantifying exposures and addressing transfer opportunities.

### **Perspective**

The product placement that you desire, the service contract that you want to win, the target market that you seek to penetrate - require that you work with successful organizations. While these organizations are interested in gaining a further advantage and enhancing their own brand and bottom-line, they will hesitate or reject the assumption of risks and potential for financial losses or

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business disruptions presented by new products or services of others. These businesses have a lot to protect, and with success comes a keen awareness of balance sheet and asset protection, and the need for risk transfer. They will have thought through and developed supplier risk management including specific insurance requirements, which means that few products or services get into the market without insurance. Appropriate insurance is a key factor to moving forward since emerging risks and poor-quality insurance coverage has caused successful organizations to rethink and further expand their insurance requirements protocols for evidencing compliance.

## **Why isn't insurance part of the entrepreneurial conversation?**

Most businesspeople assume that insurance is a necessary evil and/or commodity that is purchased based on price. The right insurance professionals coupled with a thoughtful and well-designed insurance program will make insurance an important asset for:

- Business development and contract compliance

The best organizations are going to put your insurance program under a magnifying glass; either internally, through their risk management department, or, externally, using a third-party compliance vendor. The right insurance makes a statement about the quality of your decision making, risk awareness and general business housekeeping and management.

- Protecting your Intellectual Property (IP)

Your IP is only valuable if it remains your IP, unconstrained by challenge or duplication. Many organizations, rightfully so, feel empowered by the validation of their idea through the awarding of a patent, trademark or copyright; however, the value of IP is limited if you do not have the funding and intellectual resources to protect your concept, formulation or process. IP insurance is a resource unlike any other insurance coverage, Due to its uniqueness and complexity, too few organizations are aware of its value.

- Good will and reputation

The vision of your brand can come tumbling down in a fraction of the time you took to develop it. Liability happens and others expect responsible compensation and timely communications. Think about the companies who recovered from catastrophe versus those that succumbed to it. Risk management and insurance play an important role in protecting good will, reputation and ongoing operations. They provide crisis management, legal support and, if necessary, financial settlement.

- Funding and growth

C-suite executive, investors and board members will require a directors & officers liability insurance (D&O) program be in place. Putting a quality D&O insurance program into your portfolio of insurance coverage adds to the compelling story that you will tell potential board members, investors and lenders.

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## - Exit Strategy

Having addressed the risk and exposures during the business cycle of your company with a quality insurance program will turn your business transition into multiples. This due diligence will once again put your insurance under a microscope. Interestingly, the hard data from your insurance program (claim data, experience modification data, loss control and risk management information) is useful and desirable for the buyers decision making process. When used effectively, this information can justify higher asset values and provide buyers with proof of a well thought out risk transfer/insurance program. An insurance professional with experiences on both the acquiring and selling side of this equation facilitates this process and the transaction.

## **Internal dialogue – friction and implementation**

Another fundamental constraint impacting insurance decisions that cannot be over emphasized is internal decision-making conflict due to balance sheet friction. Specifically, I refer to moving dollars from marketing initiatives to insurance. Visionary founders want product awareness to reach far and wide with every dollar spent on marketing expanding sales while insurance and risk management are perceived to be expenses without a corresponding return on investment. It is accurate that insurance resides within the balance sheet category of expense, making this thought process relatively accurate; with an important exception: the ability to get your product or service accepted into the stream of commerce is predicated upon meeting specific insurance requirements. What is the value of insurance when framed in terms of market access? While insurance is a balance sheet expense, it is clearly an important and inseparable part of your product or service!

## **Summary and conclusion**

It can be difficult to get a new product or service into the marketplace. A properly designed insurance program can help. Emerging risk and failed insurance expectations focused successful organizations to tighten their contract and insurance requirements and pushed compliance issue to the forefront. Supply chain risk management and specified insurance requirements have become important baselines. Entrepreneurs, disruptors and innovators must address these prior to the acceptance or delivery of products and services. This will cause heartache and headache if a commodity mentality is the foundation of decision making in this critical area. It makes it likely that an opportunity for an effective long-term solution and the insights of a quality advisor will not be used. Partnering with the right insurance and risk management professional is critical to rounding out an executive team. Over time their ability to anticipate, navigate and negotiate on key points of insurance, risk management and complex contractual insurance requirements is critical to help drive your companies individual wheels of business.

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