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Taking a broad view handling risk

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Since William K. Austin and Craig F. Stanovich founded the consulting firm Austin & Stanovich Risk Management LLC in 2002, the firm has picked up about 160 clients in 21 states. Austin has served as an expert witness in New Orleans in the wake of Hurricane Katrina, and the firm is currently consulting on construction sites in Florida and California.

Austin recently spoke with Providence Business News about risk management and insurance trends and how they are tied to the economy.

PBN: What interesting trends are you seeing now in the risk management and insurance fields?

AUSTIN: The good news right now, especially for businesses, is that insurance is pretty plentiful – rates are softening so people can get coverage today probably for a little less than they paid a year ago. That's the good news.

The challenge that businesses have is not to get caught up in the pricing of an insurance program. But they should be making sure they still fully understand any changes in exposure …that they have the appropriate insurance in place. People can sometimes get so caught up in looking at the price that they forget about the risk itself. So, while there is good news, the challenge is making sure you're still aware of what you need this for.

PBN: Do the economy and the foreclosure crisis relate back to business insurance and commercial developers?

AUSTIN: The economy – if it's cooling down on the sale of homes – obviously it's also going to have a tremendous effect on the ability to build homes and that will have an effect on builders. And ultimately I think that will have an effect on insurance. Can they still afford to maintain the insurance programs even though their housing count, their payrolls and their estimated receipts are going down? To a certain extent, insurance costs follow the exposure basis, so if payroll goes down 10 percent, your workers compensation [premiums] should go down about 10 percent. If you're selling fewer homes or doing less renovations, the cost of general liability insurance should go down as well.

Sometimes, what happens is people become challenged and they look and there are other expenses that maybe they can't manage as well so they take deeper cuts in insurance by dropping coverage, reducing limits. In some ways, their overall exposure stays the same, but now they've assumed more risk than they did before because the overall insurance program doesn't really mirror the exposure.

PBN: How would Austin & Stanovich assess such risk?

AUSTIN: We've seen a spike lately, in that we're doing more audit-type work, looking at business insurance programs and helping people decide, number one, whether they've identified all the obvious risks of loss. And, if so, does the insurance program follow that? Is the insurance program put together on a reasonable basis to provide coverage for these types of risks? In some cases, we find that people may have overlooked some things and haven't done a lot to stay abreast of their companies. As companies evolve, their risk profile changes and the need for insurance – the type and limits – can change as well.

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PBN: How often does a company need to reassess those issues?

AUSTIN: I would say it's an ongoing thing and that would play in nicely with a trend that's been emerging for six or seven years … It's referred to as enterprise risk management. Enterprise risk management is the thought that, "let's not just worry about the things that are typically subject to insurance – fire, product liability claims, things of that nature – but let's think in terms of what can happen to the organization in total."

So a college, as an example, might say that they have coverage in place if someone sued because a student fell out of a dorm room. An enterprise risk model would look at this and say, "Let's not just worry about having insurance, let's figure out how this happened. How did we fail as administrators to have the proper safeguards in place?" At the end of the day, even though you might have insurance to cover that one claim, a prospective parent might come on the site and look at things and say this is not a very safe premises. So even though there was coverage for that one student falling out of a window, maybe 10 parents decided that they would send their kid someplace else. So there's a financial risk beyond the insurance risk.

In enterprise risk, you take this broader view of things. You look at things from a reputation standpoint, from a credit standpoint, not necessarily just the insurable risk.

PBN: Would such a system be more costly for a client?

AUSTIN: No, in theory it should reduce their cost because they have a broader view of things.

Using the example of the school again – let's say that a student sues the college for $100,000 and they have insurance for it. It was fortuitous, it wasn't planned, it wasn't expected and the college has coverage for it. But let's say there are ultimately 10 students who don't go to school there because the parents say it's not well-run … Well, at $30,000 a year, a four-year student would have brought in $120,000. If you have 10 families that have opted out, now there's lost revenue of $1.2 million.

And this is one of the fundamentals of enterprise risk. It's: let's take a look at our reputation. If our consumer loses faith in us as an institution, what does that mean? Because we did not have the proper safeguard in place, we had the prospect of losing 10 students.

PBN: Are consulting firms usually dealing with this or are businesses starting to do it in-house?

AUSTIN: Both ■

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WILLIAM K. AUSTIN, principal at Austin & Stanovich Insurance, in his Providence office.

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