



# STARKWEATHER & SHEPLEY

## CONSTRUCTION RISK SOLUTIONS

### ***Risk – What do I do with that?***

*“Everyone has a plan until they get punched in the mouth”* This famous quote by Mike Tyson seems oddly fitting when leading into a discussion on risk management. For many, 2020 was that punch in the mouth. A year that redirected our focus, challenged the way we have always done things and pushed us to reevaluate so many aspects of our lives and businesses.

Now that 2020 is behind us, what did we learn?

How do we take what we have learned and apply that knowledge going forward so that we can be better prepared to face adversity and unknown risk?

The better question is... Do you have a process to effectively assess and handle risk?

Risk is something that we all face daily. In construction, you have to grow comfortable with risk because it lurks at every new bid, every project closeout, and nearly every decision made. So when the questions come up, the place to find the answers... is in the process.

Some may say we have been doing this for X amount of years, we have seen pretty much everything. While that may be true, we cannot know what risk tomorrow may bring and what questions will be asked of us. The fact is, if we try to solve 2021 now, we are doomed to fail. However, if we rely on a process to deal with risk, we can apply it to whatever comes our way.

At its core, the process of risk management is the forecasting and evaluation of financial risks together with the identification of procedures to avoid or minimize their impact.

Ok, great. What does that actually mean, what does it look like, and how do I use this risk management process to help my business? Let's take a look.

***This process is not proprietary, it is not riddled with new ideas. However, it has been around for ages in some form or another, is effective, and can be applied broadly. Below are the most common five steps to an effective risk management strategy.***



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1. Identify (Discovery) - The first step is to identify the risks that the business is exposed to.
2. Assess or Analyze (Impact) - Once a risk is identified, it needs to be analyzed. The scope of the risk must be determined. It is also important to understand the severity and seriousness of the risk to your organization.
3. Evaluate (Strategy) - Risks need to be ranked and prioritized. A risk that may cause some inconvenience may be acceptable. Risks that can result in catastrophic loss need to be acted upon. In construction, you have to operate and be comfortable with a certain amount of risk to function. However, it is important to rank risks as it allows the organization to gain a holistic view of the complete risk exposure of the organization. This will allow information to be communicated to the appropriate people so the best decisions can be made for your organization.
4. Implement (Action) – Every risk needs to be dealt with. There are different options here and may often be best handled by connecting with the experts of the field to which the risk belongs. Within these steps are both actions and tactics.
  1. Reduce – risk reduction deals with reducing the likelihood and severity of a possible loss.
  2. Avoid – risk avoidance deals with eliminating any exposure to risk that poses a potential loss.
  3. Transfer – risk transfer involves the contractual shifting of a pure risk from one party to another. One example is the purchase of an insurance policy, by which a specified risk of loss is passed from the policyholder to the insurer.
  4. Retain – risk retention is a technique in which a company facing any risk or risks decides to absorb or accept all potential loss rather than transfer that risk to an insurer or other party. In many cases, if you do nothing, by default you will be retaining the risk.
5. Monitor & Adjust (Review) – Despite what many may think, the risk management process is one without any true endpoint. Reviewing the risk to determine how effective your action plan was is the last but arguably one of the most critical steps to the risk management process. The organization, the environment, or the scope of work is constantly changing. Without a scorecard, the bad habits or incorrect procedures are bound to repeat themselves.



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***More than ever, 2020 demonstrated that organizations can no longer afford a reactive approach to risk management. How you choose to implement the risk management process could be the difference between success and failure.***

### **Key takeaways:**

- Risk management needs to be at the core of your decision-making.
- Risk management is a team approach. Involve your organization and the professional advisors that support you. Business owners are not expected to know everything.
- There are many benefits to gain from adopting risk management into the day-to-day practices of your organization.

### **Questions to ask yourself and discuss with your professional partner(s):**

- What are your biggest concerns for 2021 and the coming years?
- Does your insurance program fit with your overall risk management strategy?
- Do you have a specific process for managing the risks you face daily? Has it been communicated and reviewed with key decision-makers and employees?
- What technology, resources, and intellectual capital are available or shared with you to help with this process?

**If you don't have a formal process... What are you waiting for?**

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