



Framing & Addressing Risk

Risk transfer via insurance

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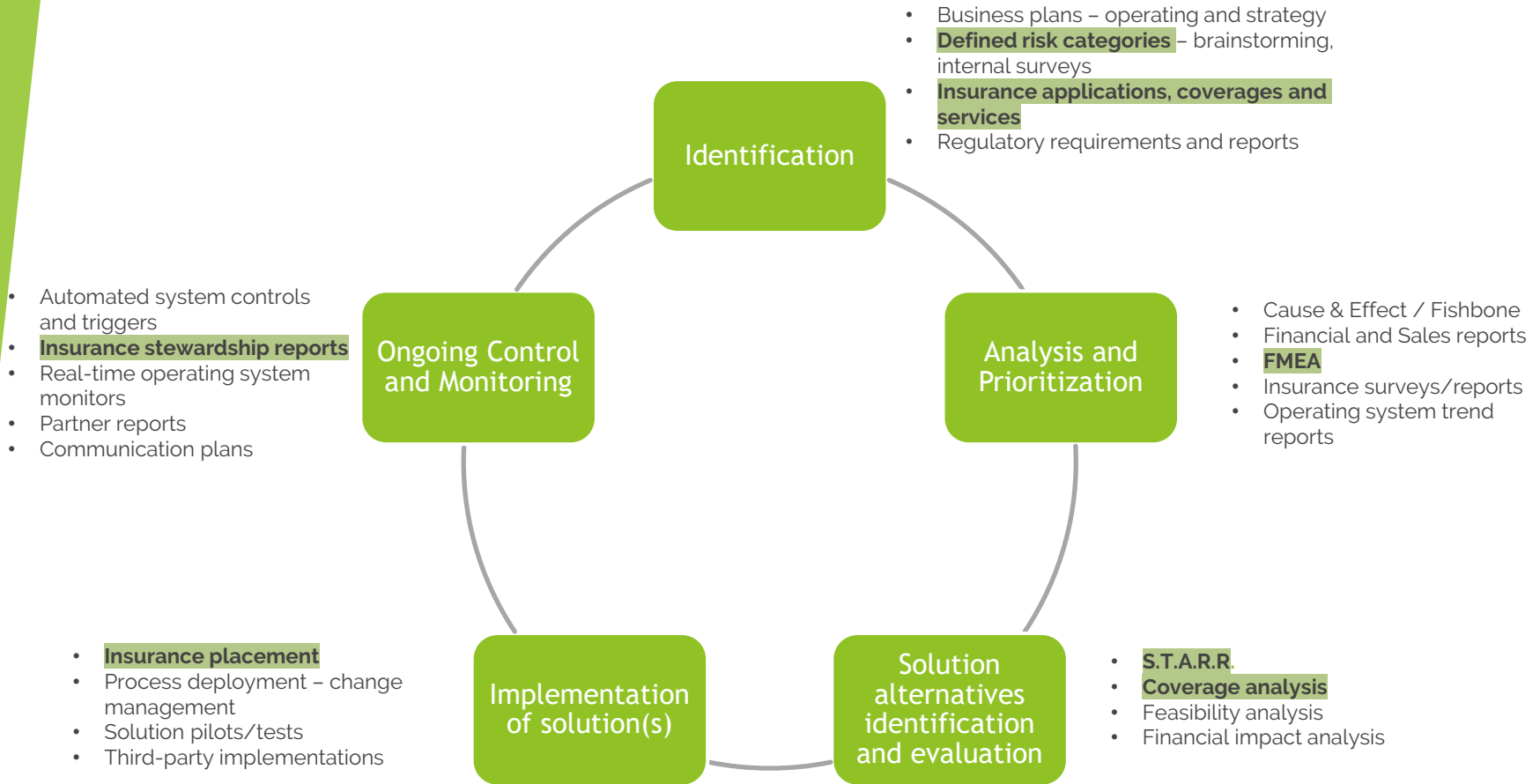
- ▶ ~20 years in the insurance industry
 - ▶ 15 as a leader of risk, operations, service, strategy, analytics and financial planning teams and 8 as a senior executive with P&L responsibility for nationwide commercial insurance programs
- ▶ Hold insurance industry designations in Risk Management, Underwriting, Analytics and Reinsurance
- ▶ GE Six Sigma black belt and CAP Certified



Structure

- ▶ Identifying, prioritizing and managing risk – a general construct
- ▶ Ways to improve your ability to identify and analyze risks
- ▶ Addressing risk...the link to insurance
- ▶ Two key insurable risks for portfolio managers, financial planning and services firms
- ▶ Answering “why”: can't I get higher limits, can't I insure that, does it cost what it does, do I have to retain what I do?

Risk Framework & Facilitation



Identifying Risk – Risk Categories



Operating



Strategic



Financial



Technological



Regulatory/
Compliance



People



Reputational

Risk Management Approaches – S.T.A.R.R



Share



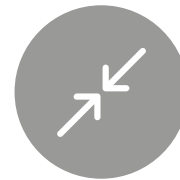
Transfer



Avoid



Retain



Reduce

Key liability risks for financial planning and service firms



PROFESSIONAL LIABILITY - FINANCIAL ADVICE & MANAGEMENT

- ▶ Market drop loss
- ▶ Trade errors
- ▶ Lacking documentation - IPS
- ▶ Communication failures
- ▶ Misalignment to agreed strategy
- ▶ Innocent misrepresentation of features/impact of investment strategy
- ▶ Due diligence - failure to research investments, illiquid investments
- ▶ Lawsuits filed against firm due to employee dishonesty



CYBER - TECHNOLOGY SYSTEM AND USE EXPOSURES

- ▶ Malware Infection
- ▶ Social Engineering
 - ▶ Phishing - existing and prevalent
 - ▶ [Deepfake](#) - emerging risk avenue?
- ▶ Data Breach
- ▶ Cyber Extortion / Ransomware
- ▶ Funds Transfer Fraud
- ▶ Network Security - unauthorized access
- ▶ Unintended disclosure of confidential information to an unauthorized party - "employee error"
- ▶ Business interruption loss

Around the World – Extreme uncertainty leading to:

- ▶ Large declines in stock market indices with heightened hourly, daily and weekly volatility. Earnings season is barely beginning.
- ▶ Big stimulus bills and Quantitative Easing – US, EU, China
 - ▶ Any “safe havens” for investors?
- ▶ IMF predicting worse economic crisis since 1930's depression
 - ▶ US markets seem more optimistic, by comparison, anticipating 4th quarter recovery. (?)
- ▶ 20 million jobs created in US since 2009...22 million unemployment claims in four weeks ending April 11th, 2020
 - ▶ Companies are suspending retirement matches

The world is antsy. What happens if the world economy moves too fast to reopen and hotspots begin again?

COVID19 Impacts

Potential Effects on Financial Services Claims

- ▶ Substantial decline in markets increase likelihood of pure market loss claims.
- ▶ Increased potential claims that investors—particularly senior investors—were too exposed to market risk
 - ▶ standard suitability claims
 - ▶ over allocation
- ▶ Claims that firms and reps should have seen things coming and proactively adjusted portfolios
- ▶ Claims investor investment objectives/risk tolerance and/or financial circumstances changed before, during, after crisis such that accounts should have been allocated differently going forward.
- ▶ Increased transaction instruction and execution leading to more errors
- ▶ Is remote work increasing your exposure to cyber attacks or holes?

COVID19 Potential Effects

What can firms and reps do?

Can be hard to know what to do now – risk/reward landscape has dramatically changed. Emotional volatility heightened by financial uncertainty.

- ▶ Impossible to predict what is going to happen, but you can still talk to your clients about their financial situation and document any changes to their investment objectives, risk tolerance and financial situation
- ▶ Communication – general AND importantly client specific. Re-acknowledge how your clients best receive information (emails, phone calls, etc.)...don't rely too heavily on the wrong channel.
- ▶ Written documentation and confirmation of discussions, outcomes and agreements – utilize auto-logging communication channels if available
- ▶ Think through impact of potential increased activity. Reexamine your trade execution processes and controls – working as anticipated, system “fool-proofed” and/or secondary validations before processing where able
- ▶ Reperform investment option research and diligence reviews as underlying assumptions and assets have and may more rapidly change - e.g. REITs, Municipal bonds, sector specific options

COVID19 Mitigation

Coverage Analysis and Placement Considerations

- ▶ Desired limits and required limits
 - ▶ AUM, AUA, financial size/strength of firm in relation to risk tolerance
 - ▶ Contractual or legal requirements
 - ▶ State legal climate
- ▶ Available limits and sub limits
 - ▶ Nature of services provided
 - ▶ Defense inside limits vs. outside
 - ▶ Limit sharing
- ▶ Retention levels – desired vs. available
- ▶ Defense and settlement provisions
- ▶ Admitted vs. non-admitted markets

Who to partner with?

- ▶ Carriers – expertise in space to provide pre-claim and post-claim services, financial strength, coverage breadth/depth, relevant premium
- ▶ Agency partners – personal expertise and/or ability to align with experienced partners including carriers and related service firms...risk advisor vs. insurance conduit.
- ▶ Choose partners who can help you manage your operations, reduce and transfer risk in a way that gives you piece of mind to focus on your business growth strategies and execution.



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Distinction Risk Solutions is a commercial focused P&C insurance agency and business consultancy built on a commitment to serve our clients; centered around collaboration and discovery. We listen, engage and recognize your uniqueness, allowing us to understand and develop the best outcomes for your business and your customer. Experience, derived from over 15 years of leadership of underwriting, risk and service teams for a successful insurance carrier, provide real world expertise in business acumen, continuous process improvement and enterprise risk management.

Distinction Risk Solutions is focused on enabling your success by partnering with you to optimize your risk and operational profile, enabling you to invest your time growing your business.

Vision

To be an active partner in creating happy, healthy, vibrant communities through increased understanding and engagement

Mission

Enhance the consistency and strength of our clients' financial standing through the creation and execution of collaborative risk management solutions. Diligently focus on solutions that improve the lives and livelihoods of our clients and, by extension, their customers.

Values: Authenticity, Candor, Collaboration, Competence, Discovery

Representing the company's belief in integrity, spirit of building true partnerships in our interactions, commitment to achieving strong outcomes for our clients by leveraging our knowledge and proven execution along with our continual drive to learn and create new solution