Risks? What Risks?


Ensuring business continuity is a vital part of risk planning

"We don't see things as they are, We see things as we are."

By David Choo

These words, credited to the author Anaïs Nin, differentiate perceived reality from true reality. Perception is notoriously and often frustratingly personal. Everyone has his view and his take.

When it comes to a subject like risk, it is possible to see differences in perception due to gender, country (different histories, cultures, and so on) and individual psychologies, experiences, and education. It is also possible for an individual's perception and attitude towards risks to change over time due to a range of factors like financial education and position.

The fact that there is a wide spectrum of people from the totally risk-averse to the extreme-sports junkies shows that it is not a question of risks per se but how one perceives them. It is those perceptions that decide one's actions, whether in sports or in investments.

As far as risk is concerned, experience can be a good or a bad teacher. Firstly, one's experience is likely to be limited. Experience is a "bad teacher" when it concerns things that don't happen often – we may learn too little, too late.

Financial tragedies happen because the victims didn't know better. Terrorism didn't scare the living daylights out of many governments or people until the 11 September catastrophe in 2001 was brought into our living room by satellite television. Business contingency planning, which was already well written about, did not get the attention it deserved until many companies were badly affected by the tragedy.

Dread diseases, especially cancer, a heart attack or a stroke, all strike fear into many hearts because many of us have a friend or family member who has suffered and even died as a result. Despite the relatively higher premiums, critical-illness policies are still one of the most sought after because of this keenly felt need.

Yet curiously, disability income policies, which protect the income lost through an inability to work, whether due to sickness or accidents, are not seen in the same light. It is not that the risks are lower – the trigger events for disability income claims in fact include accidental causes and all diseases – but the difficulty is in the perception of the period of disability, which can vary a lot. It is easier to picture the diagnosis of a critical illness rather than the prolonged period of disability that can ensue.

As for businesses, they too face many kinds of risk. Fire and extraneous perils are generally insured against because no matter how low the probability one can understand that such risks do exist. The surprising thing is that not many of the firms that insure against this risk actually take out business interruption insurance, which is based on the same underlying risks.

Why? It may be due to the fact that it is more difficult to grasp the basis of business interruption insurance. Another reason is that it is more difficult to perceive loss of income compared to loss of assets.

Proprietorships and partnerships face real risks relating to business continuity due to death of a proprietor and partner. If a proprietor dies without leaving clear instructions in his will, or without a buy-and-sell arrangement operative at his death, the business will lose much value.

Similarly, if a partner dies without giving clear instructions of what to do with his partnership interest, the surviving partners can face a number of problems, all of which can threaten the continuity of the business. Even so, many proprietors and partners who understand risks enough to purchase personal insurance do not make arrangements for their business in the event of their death.

One reason may be that new businesses are not certain how long they will be in business or how long their partnership may last. But more well-established businesses should take business continuity more seriously.

There are good reasons for businessmen to pay attention to what can go wrong because the dice may go against them one day. It is said that if one partner at the end of the see-saw falls off, the other partner will not have a soft landing, unless there is a partnership buy-and-sell agreement to settle the purchase of the deceased partner's share. The agreement can settle issues like the price of the partnership interest and how this will be paid.

When your friend of many years drops dead of a heart attack at the golf course or while jogging, imagine working with his wife whom he has spoken to you about divorcing, or a wife who has no interest or experience in your business.

Imagine when a father who has built up a business empire suddenly goes down with the plane in which he is flying home. Who among the five siblings will take over the business if he has not written a will clearly spelling out a successor?

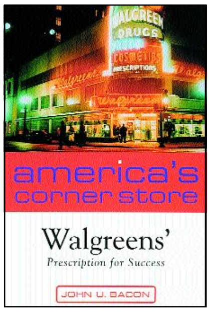
When your shareholder friend whom you depend on at all board and shareholders' meetings to vote in your favour fails to surface during a scuba-diving trip, imagine what the next board meeting will be like when you don't have his vote to form a majority.

The purpose of this article is not to provide the solutions to these problems since every situation will be different and solutions involve complex issues like wills, buy-and-sell agreements, and power of attorney, for example. The purpose of this article is to make a case for facing up to risks and their impact on business and business continuity.

Threats and risks lurk at every turn. The media and the financial-services industry may have focused more on personal and family tragedies but the risks faced by companies are no less real. Just because it has not happened to us thus far is no reason for inaction. Wise is the man who learns from his own experience, but wiser is he who learns from the experience of others, especially when our own experience is limited. **si**

David Choo is the managing director of Promiseland Independent Pte Ltd, an independent financial advisory firm.

AMERICA'S CORNER STORE
Walgreens' Prescription For Success
By John U. Bacon
255 pages
Publisher:
John Wiley & Sons
ISBN: 0-471-42617-2

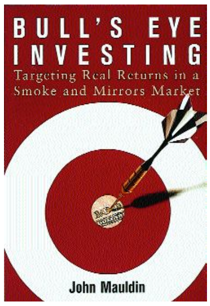


Cornering the Market

Walgreens, as the title *America's Corner Store* suggests, is arguably the most successful drugstore chain in the United States. Just over a century has gone by since the first family-run store opened its doors in Chicago in 1901 and now there are more than 3,600 outlets around the country. By 2010, there are scheduled to be around 6,000.

Author John U. Bacon does an excellent job describing how the company has survived two world wars and the Great Depression while introducing an impressive list of innovations like one-hour photo development and milkshakes, too. The fundamentals behind Walgreens' success, however, ultimately rest on its commitment to customers and employees alike. All those stores apparently make for one big, happy family. **si**

BULL'S EYE INVESTING
Targeting Real Returns in a Smoke and Mirrors Market
By John Mauldin
426 pages
Publisher:
John Wiley & Sons
ISBN: 0-471-65543-0



Ready, Aim, Fire!

Bull's Eye Investing starts with an analogy that every stock-market investor would do well to remember. "Every hunter knows that you don't shoot where the duck is, but where the duck is going to be," writes John Mauldin. "You've got to 'lead the duck'. If you aim where the duck is at the very moment you shoot, you will miss your target".

That's pretty sensible advice, and Mr Mauldin thinks investors will have to have their wits about them over the next five or six years because stock valuations still look high in historical terms and interest rates can really only go up.

Much more than simply a 'doom and gloom' merchant, the author reckons it is possible to invest properly and retire comfortably, it's just that he doesn't believe following Wall Street's constant "cheerleading" is the way to get there. By the time you've finished *Bull's Eye Investing* you'll have plenty of alternative to contemplate. **si**