Risk Management For Peace Of Mind

By Mike Jones, President & CEO of autopom! Insurance Services, LLC.

Life is full of risks. Think about everything that can go wrong at anytime – missing a reminder for an important meeting, getting in a car accident, losing a customer, falling and hurting yourself, etc. You can get very worried and stressed out if you think about it too much. However, it is not wise to do the opposite either – ignore the risks of daily life. There is a happy medium to be found that will allow you to live life more comfortably and have peace of mind but not be careless about risk.

This happy medium can be accomplished through the act of managing risk. Risk management is the art and science of recognizing risks and diminishing or mitigating them as needed. Risk management is not always an extensive, complex process, nor does it need to be. Think about it. You already manage risk and may not even realize it. Do you use alarms to make sure you get up on time? Do you have insurance for your car and home?

What about medical insurance? Life insurance? If you are a salesperson or business owner, do you take measures to keep your customers happy, so they remain customers? And do you wear a seatbelt when you're in a car to stay safer in case of an accident? You may have an alarm system to protect your home or business. You may even have a vehicle protection plan to protect your vehicle from unexpected mechanical failure. These are just a few examples of how people manage common risks every day.

Risk management is generally an important part of good financial planning. Risk management involves identifying risks, assessing the risks, and then deciding how to handle those risks. Insurance is one of the most well-known and common ways to manage risk, however, insurance and risk management are not the same. Not every risk can be insured, but almost every risk can be managed. Insurance is often an important part of risk management, but it is certainly not the only tool.

Insurance is a written policy where a person or organization gets financial protection or reimbursement against losses from an insurance company. You can buy many types of insurance: health insurance, insurance, homeowners' insurance, car insurance, mechanical breakdown insurance (in California) or a vehicle protection plan in other states (not insurance but provides similar financial protection).

Strategies for risk management can be categorized as: Accept, Avoid, Mitigate and Transfer.

- **Accept Risk**. Identify and understand the risk. If unlikely to occur and the expense is not insurmountable, you may decide to accept the risk. This can be thought of as self-insurance.
- **Avoid Risk**. Remove the risk entirely by choosing a different path that does not expose you to the risk.
- **Mitigate Risk**. Identify and understand the risk. Make a plan. Take action to reduce or mitigate the risk.

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- **Transfer Risk**. Reduce the risk by transferring all or a portion to a third party such as an insurance company.

Here's an illustration of the strategies using the risk associated with owning a used vehicle. After the manufacturer's warranty has expired, the owner is responsible for all repairs to the vehicle. This can expose the owner to the risk of paying out-of-pocket thousands of dollars in unexpected repair bills.

- **Accept Risk**. After becoming informed by reviewing the reliability record of a particular vehicle and researching associated repair costs, one may decide to accept the risk and self-insure. This may be an acceptable option if you're in a good financial position and can afford the possibility of a multi-thousand-dollar repair bill down the road.
- **Avoid Risk.** Instead of deciding to keep an older, higher mileage used vehicle, one may decide to avoid the risk of paying out-of-pocket for repairs by purchasing a new vehicle that is under the manufacturer's warranty. This is a good option if you're in a financial position that allows you to qualify for a new vehicle loan.
- **Mitigate Risk.** Review the annual maintenance and repair costs of different vehicle make and models. Where does your vehicle land on that comparison? If you own a high-end luxury model, it can be an eye-opener. On the other hand, an economy model can be quite affordable. You may decide to make a plan to trade your vehicle for one that has an annual average repair cost that you can afford. Alternatively, you can mitigate the risk by transferring all or a part of it to a third party.
- **Transfer Risk**. You are transferring risk to a third party when you purchase a vehicle protection plan (commonly referred to as an extended warranty). The provider and plan you pick will determine how much of the risk can be transferred. The contract defines the amount of risk the provider is willing to accept by listing what is covered and what is not. Plan eligibility is determined by year/make/model, and mileage. Even the top-level plans that are called "Exclusionary" have exclusions, and you can still wind up paying out-of-pocket for certain specific conditions - read the terms and conditions of the contract carefully!

Risk Management and Your Vehicle

What about risk management for your vehicle? What is the right strategy for you? You may not be in a position to avoid or accept the risk of unexpected auto repairs. In that case, a sound financial option is to mitigate the risk by transferring as much as risk as possible to a third party through a vehicle protection plan.

Here's a final piece of risk management advice. Purchase your plan through a reputable source such as your local credit union or from us at autopom! Insurance Services, LLC. We are known for our 5-Star reputation online, our friendly, consultative sales experience and our excellent customer service after the sale. See for yourself. Google "autopom! reviews" Try it!

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