Our Perspective

Raising Risk at the Next Family Meeting

Risk management feels like trying to boil the ocean, so we must redo some of the thinking around it. We will never be able to fully risk-proof the family or company, but building resilience is the most powerful way to manage risk, because it allows us to handle the difficulties we haven't predicted.
– Family business owner

We heard this prophetic quote at a conference a few years ago, well before the current pandemic. Even then, it struck a chord with us, family enterprise risk experts. Unfortunately, recent events have only reinforced the message: Successful families must discuss risk and resiliency. Fortunately, though, we are well versed in the ideal time for such conversations—the family meeting. Much like a traditional board meeting, many families who own substantial assets together, gather annually to connect and plan around issues like trusts, estates and wealth management planning. But that effort will fall short if risk, and the protection of that wealth, through a properly structured insurance program isn't addressed too. Having helped families prepare for discussing risk at such gatherings, we created the following overview to both help family enterprise executives and family owners incorporate these elements into the agenda to raise awareness of commonly overlooked risks.

Why families should talk about risk
Family meetings are when everyone gathers, senior members and younger descendants alike, to discuss matters that impact the family across generations. Even during the current pandemic families are utilizing a virtual meeting format due to the importance of gathering annually. This helps head off potential communication problems while, most importantly, strengthening family bonds. It's also the most optimal time for risk and insurance discussions – as this might not otherwise come up at more casual family gatherings. One way we've seen this done successfully is by canvassing the family about concerns or by bringing in an outside expert to speak about the specific risk or insurance area with the family. This ensures that risk management is not only a dedicated discussion topic, but also that all involved family members hear one coherent message.

Why talking about risk is important
Talking about risk is one of the keys to building family resilience due to families facing ever-more-diverse risks ranging from a global pandemic to hurricane season or even cyber incidents. Being open about risks at the annual gathering will help build awareness. Personal stories are the most effective tool during these initial discussions. For example, so that everyone may better understand

the catastrophic potential of climate change, those individuals who have already had adverse experiences—having to evacuate a beloved home in a hurricane, or frantically rounding up horses in the wake of an encroaching wildfire—should be prompted to share. These discussions should then prompt talk about risk mitigation and appropriate proactive actions, like working with an insurance professional to assess relevant concerns and suggest proper protection.

Commonly overlooked concerns

Even vigilant families often glide past three distinct risk areas in their discussions. They are:

1. *Liability inherent in roles and responsibilities:* Family members who serve as director, officer or trustee—or are being groomed for such a role—are unaware of the legal obligations and potential liabilities placed upon them by the fiduciary standard. Those risks are not too different from those of counterparts in large corporations.

2. *Education of younger generations:* Many families have not instituted a process in which its younger members are educated about the risks that come from being part of their family. As families grow into new generations, risk exposures can lead to potential liabilities. We counsel families to speak with teens and young adults to outline risks and protocols, so they better understand the potential problems of posting on social media, for instance, or how to handle something as simple as a fender bender (which could lead to major liability claims).

3. *Managing collections:* While family estate planning often addresses ownership (or gifting) of family heirlooms or art and jewelry collections, we often see a disjointed approach to managing risks of these items. In some cases, appraisals have become outdated over time which leads to inaccurate values for insurance protection. We also see the number of items owned by the family has grown over time and the family loses sight of the overall collection – in which the risks and insurance protection of their investment is also impacted.

Identifying and mitigating risk

Any conversations pertaining to risk must ultimately lead to the development and maintenance of a holistic insurance solution that ensures that the family's wealth is sufficiently protected. Every family needs to make this an action item, with someone in the family office charged with keeping the collective focused on it. Unfortunately, family members may well set and forget insurance policies, resulting in outdated coverage. It's important that a risk professional review existing policies and procedures around every contingency, from flood concerns to art handling and transport.

With open discussions about risk and proper mitigation guidance, family meetings can be a source of great development for family members and help nurture, as well as protect, the family legacy. As always, we are available to assist your family enterprise however we can, whether that means ideas on how to discuss risk for a first family meeting or making sure risk is properly addressed at the 20th gathering.