CONNER STRONG & BUCKELEW

Ran in Greater Philadelphia Chamber of Commerce in August 2016

If You Build It, Risk Should Come First

AUGUST 18, 2016

JAMES M. HANRAHAN | VICE PRESIDENT, MAJOR ACCOUNTS – CONSTRUCTION & DEVELOPMENT PRACTICE, CONNER STRONG & BUCKELEW

Construction in the Philadelphia region is skyrocketing, with cranes and scaffolding almost anywhere you look in Center City and beyond.

As the Greater Philadelphia Chamber of Commerce recently noted, this surge or development is potentially unprecedented, with more than $10 billion worth of activity currently underway, and a full slate of exciting new projects on the horizon.

It's a safe bet Philadelphia will see many more projects revealed in the near future. It's also a safe bet that risk management is one of the last things prospective developers are considering amid all these exciting opportunities.

Considering risk seems, at best, like a real buzz kill. Most people think risk management and insurance are synonymous, so merely uttering the phrase causes eyes to glaze over. That's a shame, because risk management can help developers make much smarter business decisions at the beginning of their projects. Better understanding the uncertainties at the earliest stage of any plan can both offer necessary caution as well as give you a clear roadmap for what questions need to be answered.

Whereas insurance is a fundamental part of protecting against rare and financially ruinous events, risk management is the larger approach of both making sure those events are less likely and also maximizing the opportunity for success.

In that sense, don't think of risk management as solely a process for managing risk. Think of it also as a process for optimizing opportunities.

If you've ever worked in a corporate setting with a risk management department, you'll know that this perception doesn't always ring true. Many risk management functions in large enterprises are referred to as "The Department of No." The notion of risk, of course, sounds negative in and of itself. It's something most people try to avoid.

That's a shame, because risk managers can bring all sorts of strategic tools to the drawing board. Understanding risks associated with acquisition costs, environmental issues, permitting, construction pricing and timing, future revenues, political and legal dynamics, and ultimately potential insurance costs are all issues that risk managers can weigh in on and offer unique insights.

Unfortunately, risk management professionals get looped in after all the decisions have been made, and they're charged with making sure nothing goes wrong from that point forward. At that stage, though, it's too late to be their most effective. Ideally, they could have helped steer the plan in a better direction, rather than handle risks stemming from a plan that has potential issues.

Of course, developers should seek out risk management and insurance professionals who are willing to offer strategic insight, not the standard direction. Working with professionals who say, "You better have coverage if something goes wrong," is merely the baseline. Greater success is hearing them add, "A better strategy for moving forward could be this approach."

Ultimately, developers shouldn't view risk and insurance as costs, only to be engaged at the tail-end of a plan. A true risk management approach at the onset of a plan is all about building value.

> "…don't think of risk management as solely a process for managing risk. Think of it also as a process for optimizing opportunities."