Risky Business

Protecting your company against threats

KEY POINTS

- One of the biggest threats to businesses of all sizes is cybercrime
- Other risks to consider are asset concentration, fiduciary risk, and risks unique to the nature of your specific business
- Planning ahead is critical to mitigate many different kinds of risk and protect your business from losses
Entrepreneurs are risk takers by nature, leveraging their insight, hard work, and capital to create successful companies. But when the company you own is your main source of financial security, you need to protect it from unforeseen risks—like natural disaster, legal liability, and crime.

Unfortunately, many entrepreneurs who become business owners don’t think about specific kinds of risk until they’ve experienced a threat first hand. Yet planning ahead is critical to mitigate many different kinds of risk and protect your business from losses. What kinds of risks should you consider? Here are some key areas where you may wish to prepare and protect your business:

**The risk of cybercrime**
One of the biggest threats to businesses of all sizes is cybercrime. Business impersonation scams, wire transfer fraud, phishing schemes, and email compromise are just some of the more prevalent types of cybercrime affecting businesses today.

Consider the hypothetical experience of William, the third-generation owner of a very successful manufacturing company. While not “high tech” in the traditional sense of the word, William’s company uses very sophisticated proprietary technology in its factories—and keeping it out of the hands of competitors is an important business objective. Imagine his dismay when he learned that the company’s computer systems had been hacked and that processes that he had spent millions to develop were now in the hands of overseas competitors.

Think about this scenario with Lucinda, the owner of a high-end children’s clothing firm. Lucinda had been selling for years through her company’s website when customers began to complain about unusual credit card charges. Lucinda’s payment systems had been hacked, and she spent the next several years trying to rebuild trust among her customers.

The risk is so great that today, many business owners are seeking protection through cybersecurity insurance. These policies typically cover damage to digital assets, business interruptions, and, sometimes, reputational harm. They can defray liability costs if you are sued, and may pay for forensic investigations, customer notification, credit monitoring, and legal and public relations services.

**Asset concentration strategies**
Cybercrime is, of course, not the only risk that business owners face. Asset concentration is another important threat—since the business makes up such a large proportion of an owner’s net worth, he or she is especially vulnerable to changes in its value.

Consider, for example, the following scenario: An entrepreneur has owned a successful trucking company for many years. As he approached his 60s, he felt it was time to consider options for turning the wealth he owns through his business into a financial portfolio that could support him in his retirement years. He also wanted to minimize his exposure to the risks inherent to his business—liability lawsuits, for instance, and the possibility of a cyclical downturn.

The best solution for his situation was to position his company for sale to potential buyers and structure a deal that provided substantial liquidity. Through this deal, the buyers would keep him on as CEO for a period of five years, so he would still manage the company he built.
while knowing that regardless of how the short-term economic and business cycles affect the business, he and his wife would be financially secure in retirement.

Even if you’re not ready to sell your company, wealth planners who specialize in business issues can help you diversify while retaining control. They can implement strategies like exchange funds and charitable remainder trusts that allow you to sell shares in your company without realizing capital gains. They can show you how to structure and finance a transition to the next generation of owners, whether they are your children, trusted employees, or an outside buyer. And they can help you determine the right entity structure for your business—whether a corporation, partnership, LLC, or series LLC—to best protect your interests.

**Business risk**

Your company may also be exposed to risk because of the nature of your business. For instance, depending on your situation, you may need special coverage for accidents, weather events, or product liability. A business planning specialist can help you identify the most important threats you face, then arrange coverage through a carefully designed insurance program specifically for your company.

**Fiduciary risk**

If your company offers qualified retirement benefits to its employees, you may also be exposed to another kind of threat: fiduciary risk. Essentially, this is the risk that your employees may sue you for not managing the corporate retirement plan in their best interests—for example, choosing funds for the plan that aren’t appropriate or using vendors who charge above-average fees.

You can mitigate these risks by partnering with experienced retirement specialists. These professionals can help you meet your fiduciary responsibilities. They can advise you on qualified retirement plan vehicles like cash balance and benefit focused plans that allow you to amass significant amounts of money for your own retirement while fulfilling your obligations to employees.

**Think about risk before it happens**

These are some of the major risks that business owners face, but they are by no means the only ones. Your own risk exposure will depend on many unique factors—the nature of your business, your own personal tax and financial situation, and estate and business succession planning considerations. But whatever risks you face, it’s important to plan ahead for them and develop an integrated, cohesive strategy for minimizing them. To get started, talk to your personal wealth planning specialist about what you should be doing to protect your business.