



MDRT

The Premier Association of
Financial Professionals®

MDRT Minute

How to Convert Client Anxiety About Risk into Business-Building Strategies

Would you consider yourself a “master of risk management”? Believe it or not, you are. You were born with ingrained, hardwired risk management skills that over time have been enhanced by learning from others, including your parents. As a result, you are a master of life risk management. You’ve done it so long, you’ve actually internalized your risk management process to the point you can’t articulate the risk management process you follow. By reconnecting with the steps in our life risk management process and using those same proven steps to manage other risks, we can become just as comfortable and just as successful and confident at managing any risk as we are at managing general life risks.

Define risk

When most articulate a definition of risk, they generally define it as the loss of something; something bad happening; falling short of an objective; or, in the investment world, as unexpected volatility, standard deviation, or a hazard or threat. However, those are the results or consequences of a risk occurring — not the risk itself. Defining risk as “the degree to which an outcome varies from what you expected” is empowering because we have a great deal of control over our expectations, and the more realistic our range of expectations, the easier it is to identify and prioritize the potential risk we face. When it comes to risk, the basic definition you use is the critical foundation on which your entire risk management approach will be built.

Preliminary actions

Let your clients and prospects know what makes you different is that you offer holistic, risk management planning services in addition to insurance and financial planning, investment management and retirement planning services. In other words, you help people reach their financial objectives and reduce both the likelihood and the impact of all types of nightmares and painful negative surprises along the way. Then, review the many benefits of personalized risk management planning, and ask them if they’d like to have you complete one for them.

Personal risk assessment

Gain client agreement to use the empowering definition of risk introduced earlier, then identify risk by building a list of the risks that each client is personally concerned about or should be concerned about — both positive and negative. The critical step of identifying risk is made much easier by first becoming familiar with the two major high-level categories of risk and then identifying the risks each individual will face in each respective category.

1. External risks (risks presented by the outside world): accidents, crisis events, economic upheavals, Black Swan events
2. Internal risks (risks within ourselves): decision-making risks, pattern finding in randomness, misperceptions/incorrect information/assumptions, overconfidence, biases, emotions hijacking logic

Review risk reduction/management strategies available

Analyze the pros, cons, effectiveness and costs of risk management strategies appropriate for managing each risk: insurance, guarantees, diversification, hedging, and waiting to take advantage of market extremes of over- and undervaluation.

Evaluate your risk/reward trade-offs

Once our investment objectives are set, our risks identified and prioritized, and our risk management strategies determined, it’s time to perform one final, pre-decision check: Do the potential rewards justify the risks? Are our risk management plans adequate and in place? Are we following the herd, doing what everyone else is doing and letting our emotions override our logic — or is our logic managing our emotions?

Adding comprehensive, holistic risk management planning and education services to your practice is an incredible opportunity to convert the accelerating pace of worldwide change and the growing anxieties, uncertainties, and concerns about the risk it generates into powerful business-building forces and less stressful, happier clients.

Michael T. Carpenter is a thought leader, consultant, speaker and author of the globally published book “The Risk-Wise Investor: How to Better Understand and Manage Risk.” His Risk-Wise method can demystify risk and reduce the likelihood and impact of painful, negative surprises for businesspeople, professionals and investors. He started as a financial advisor and advanced to high-level positions with Paine Webber. Carpenter then led national distribution teams for several companies before starting his own consulting firm in 2003. You may purchase his entire presentation on www.mdrtpowercenter.org.