

The Value of Arbitration Risk Management

During my years in arbitration I have learned the importance of risk management, which includes incident prevention, warning, and suppression to mitigate damage from potential events.

For example, fire codes require buildings to include both fire alarms and an authorized suppression system like ceiling sprinklers. Statistics show us sprinklers typically contain more than 90 percent of a fire. These controls have two distinct primary functions: The alarm warns people of a fire and the sprinklers attempt to contain it. The more important question I

believe is: How do we prevent the fire from happening in the first place?

For most auctions, the arbitration department only reacts to an issue (e.g., the sprinkler system) stemming from a dispute between buyer, seller and sometimes the auction itself. I have found most disputes include but are certainly not limited to:

- A required disclosure by the seller wasn't made.
- A disclosure was made, but it did not explicitly identify the real issue.
- A buyer's claim does not meet the eligibility requirements for arbitration.

- A complaint about an auction's product or service.

Arbitration metrics (the fire alarm) are an excellent source to start with when analyzing your selling or buying risks. These metrics can warn management of developing problem areas that require attention. They should, however, only establish a baseline. More detailed process metrics, or quality at the source, should be established at the root-cause level, along with ways of improving outcomes (e.g., fire suppression) and changing processes to keep potential issues from happening (e.g., prevention).

Once the issues are identified, their frequency, detection methods (controls) and effects should be captured. This will help us better understand the severity of certain issues and aid in prioritization of problem solving. Understanding your total value stream from a buying or selling point of view will improve understanding of where these issues originate and how they affect steps downstream.

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The main benefits of risk management in arbitration include:

- Policy disclosure compliance and arbitration prevention.
 - > Helps avoid issues internally and externally.
- Optimizes operating performance that reduces arbitration.
 - > Improves the understanding of the full range of risks facing your entire value stream.
 - > Helps identify best practices and strategy risks.
- Sustains or improves your brand.
 - > Be the seller everyone buys from.
 - > Be the buyer every seller looks for.
- Shareholder value enhancement.
 - > Better returns.
 - > Faster process.

You have multiple choices to mitigate risk. The simple choices are avoidance or prevention, reduction, transfer or acceptance. Knowing your entire value stream will help you mitigate risk where it matters most to support your company's goals and industry compliance requirements.

Please let us know how we can help at www.naaa.com. ■



Matt Arias
Manheim Director of
Operational Excellence

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