

Turning Risk into Reward

Ensuring safety at every site should be a top priority in the crane and rigging industry. Yet, even with the most sophisticated technologies and best risk-management techniques, bad things can happen to good operations.

Crane operations are inherently risky, and managing risk properly is not easy. Smart executives should take the time to properly understand the many ways risk can be transferred, when risk should be retained and how various risk-financing techniques affect a company's cash flow and bottom line.

Alternative Risk Transfer Programs

An alternative risk transfer (ART) program, also known as captive insurance, is created specifically to insure only the risks of a single company or a defined group of companies.

Once available only to very large firms, ART program participation has grown and is now available to a wide variety of organizations. In these programs, the participant pays a premium similar to a guaranteed-cost policy, but a portion of that premium is designated to pay for expected losses up to a certain limit.

If the participant has fewer losses than expected, part of the premium may be returned, along with any investment income accrued. Conversely, if losses are higher than expected, the participant will pay additional premiums up to a specified maximum.

ART premiums are not determined by the whims of the insurance market, but largely by the individual operator's loss experience.

For better operators, the long-term cost of risk can be substantially lower and more stable than if they had been insured with a more traditional product. That's a primary reason better operators continue to migrate to this option.

Navigating this Field

However, an ART program isn't for everyone.

To benefit, a participant must hold a longer-term vision, partner with insurance companies and agents who are experts in alternative risk products, and, above all, understand the product.

There are many myths and misconceptions about alternative risk, and navigating this field of insurance requires unbiased, expert advice.

First, find an insurance agent who understands ART and has access to it. Second, demand transparency from the agent and insurance carrier about how premiums are spent, about the best and worst case claims scenarios and about how premium and collateral are to be returned.

Finally, when exploring a group option, ask for data highlighting past financial performance and speak with current members about their experience.

Turning Risk into Competitive Advantage

Speaking with hundreds of company executives over many years, I have observed two distinct mentalities about insurance coverage. Some buy insurance; others manage risk. There is a world of difference.

To illustrate, let's consider two fictitious fleet companies: Randy's Crane and Dave's Rigging. Both are experienced operations, but also face a myriad of challenges trying to run a profitable company.

Randy likens insurance premiums to fuel costs. He may look for the lowest price, but he basically views insurance as a commodity beyond his control. He also believes accidents are more or less random occurrences, a cost of doing business. As you'd expect, Randy's annual insurance renewal is one of the most stressful parts of his job.

Dave's Rigging, in contrast, decided to control its risk. It took steps to reduce accidents and workers' compensation claims, such as using a return to work program and pre-hire physical abilities testing, which greatly improved its safety program and reduced the frequency of workers' compensation claims.

Dave also challenged his insurance broker to help him control losses and fight claims more aggressively. The effort not only helped Dave's Rigging drive down its total cost of risk, but also turned that risk into competitive advantage. The company is now positioned to thrive in the future, while companies that leave risk management to chance will continue to struggle.

Risk can be controlled to a greater degree than many imagine. However, this requires a holistic approach to risk management, including vision and support from senior management, a commitment to reducing accidents before they happen and aggressively managing losses that do occur.