

Commonsense Risk Management

by Quenda Behler Story

Risk management sounds like one of those esoteric disciplines that only people with master's degrees in business actually worry about. But you probably already practice risk management without realizing it. Every time you calculate the odds of something awful happening and what you might do to prevent it, or consider how to minimize the damage if the awful thing does happen, you are managing your risks.

You can manage risk in two ways: through working in a way that reduces the likelihood of accidents or other losses (the prevention part of risk management), and through insurance to cover any losses that do occur (the reduce-the-consequences part).

Consider the most common risk in construction: injury. Construction has one of the highest injury rates of any trade. Good contractors manage this risk by insisting on safe work practices and by carrying insurances, such as workers compensation, against any injuries that do occur. (If you don't have employees or fall below the threshold for mandatory comp insurance, you'd best have some sort of accident and health insurance in its place — because at some point, you or one of your employees will get hurt.)

Risky Business

Contractors run other risks besides injuries, though. You should manage these using a combination of work practices, company policy, and well-chosen insurance.

General liability. If a non-employee gets injured or property gets damaged because you or an employee are careless (or just unlucky), you'll be glad if you're carrying general liability insurance. A single policy can cover a wide

variety of unlikely but expensive possibilities — your backhoe tears up a gas line and the house explodes; a lawyer trips over the 2x4 you left on the sidewalk for five minutes; your apprentice backs over your client's prize poodle in the driveway. These things probably won't happen, but one of them could. That's why it makes sense to buy a general liability policy, which if it's well designed, will cover the host of highly unlikely but potentially ruinous losses.

Incorporation. Some people manage liability risk by incorporating their business so their personal assets will be safe if they lose a huge lawsuit. This will usually protect you unless you do something that involves such outstanding stupidity or deliberate malice that the courts allow the plaintiff to "pierce the veil of incorporation" and reach your personal assets. Obviously, the corporation itself should carry substantial liability insurance.

Income. Many people buy disability insurance to insure against time lost from work due to illness or injury. Again, staying healthy is your best risk management policy here. But some financial advisors believe that disability insurance should be among your most important insurance priorities. As they point out, buying disability insurance protects your greatest asset, your ability to create income.

Vehicles. Vehicles are expensive themselves, plus they can cause expensive damages and injuries. If you're relying on a standard auto insurance policy to cover yours (and liability for anyone you injure in an auto accident), make sure the policy covers business use of your vehicle. In addition, you need general liability insurance that will protect you when

your employees are driving their own vehicles on your business; even if your employee's insurance protects them from liability, it won't protect you. In the interest of avoiding such liability, make sure your general liability policy covers such accidents, and check your employees' driving records before you allow them to drive their vehicles on company business. One contractor lost a \$4 million lawsuit because an accident resulted when he allowed an employee with a long history of drunk driving to drive a company vehicle.

Property. Property insurance (also called hazard or casualty insurance) covers losses that involve wrongdoing or negligence — in other words, situations in which there is no liability: A windstorm tears up the roof you were putting on; a branch falls off a tree and crashes through the new window you were carrying. You can also get property- or hazard-specific insurance, such as tool insurance, flood insurance, and insurance against interruptions of work.

Decision Time

Insurance is expensive, of course, so you probably can't afford to buy every possible kind. To decide what coverage to get, you should balance the cost of a given policy against two factors: the likelihood of a loss, and how much a loss will cost you if you're not covered. Cover yourself against the most likely, most potentially expensive risks first; the least likely, least expensive last.

Some losses, even if they occur, cost little to recover from. We don't carry tool insurance, for instance, because we have little problem with theft. If a tool disappears, we replace it; for us, that's cheaper than insurance premi-

ums. Our tool risk-management consists of using lock boxes and etching our company name all over everything in very large letters.

At the other end of the spectrum are things that are quite likely to happen and cost plenty if they do. The obvious example for construction is injuries. Injuries happen all the time on construction sites and often create huge costs. You're crazy not to protect yourself against them both by carrying proper insurance and by taking preventive measures.

Insurance Ain't Enough

Which brings us to the most important point about risk management. There are accidents for which your insurance can never fully compensate you. If you fall off a roof and break your spine and never walk again, no amount of insurance money will make that up for you. That's why tie-downs and safety railings make so much sense — they're a pain, but they protect you from a hazard that occurs

often and can cause severe injury or death. Yes, proper risk management requires well-chosen, adequate insurance. But it also means running a safe, low-risk operation to start with. You need to create practices and policies that reduce the potential for accidents and other losses.

You can find information about reducing accident risk in several places, including insurance company publications (insurance companies hate it when their insureds have accidents), industry publications, and publications put out by groups such as the Occupational Safety and Health Administration and the National Association of Home Builders.

Plain common sense, of course, can prevent many accidents and other losses. Look at your job site. Are people leaving their tools loose on the roof where those tools can fall on somebody's head or trip a worker? Has your crew removed guards from saws? Do you let your workers emphasize speed at the cost of safety? Do you let

kids, friends of the homeowners, and other members of the public wander around the job site? Do you leave precarious stacks of lumber and sharp tools around when you're off site? You can save money, grief, and maybe someone's life by reducing such hazards and by doing the things you're supposed to do: Use fall-arrest systems; brace ladders; keep a neat site; wear the right shoes and safety glasses; and yell at anyone doing anything unsafe.

Insurance is necessary. But smart risk management starts with a careful crew and the proper equipment. ■

Quenda Behler Story **has practiced and taught law for 25 years. She is a partner with her husband in a remodeling company in Okemos, Mich., and is author of *An Ounce of Prevention*, a book on risk management published by Home Builder Press.**