Risk management techniques for liability exposure

Guest editorial
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Risk management is a concept business owners spend a lot of time thinking about — even if they don't recognize it. How can I protect my company's assets against lawsuits? How can I provide a safe environment for customers and employees? Am I protected in the event my product fails? What if one of my OEM's products fail?

These concerns can be addressed through the risk management process, which involves five steps.

Identify and analyze loss exposure

Meet with management staff and identify areas where you have the most risk, such as your facility if the shop area poses inherent risk to the public or employees. Your building could also be the issue if the general public is commonly in a lobby area or on your sales lot if you're a dealer. Upfitters and component parts manufacturers may find the most likely liability risk is in their product. Each company has unique loss exposures — identification is the first step in managing them.

Review available risk management techniques

There are several techniques from which to choose during this process.

- Risk avoidance — This strategy is as simple as not engaging in risky behavior or changing your operations to avoid the risky portion. This option not only eliminates risk, it limits potential, and can frequently be impractical.
- Risk reduction — Involves typical loss control measures such as quality tests and inspections, ongoing and thorough personnel training, lockout tagout policies, proper certifications, etc.
- Risk transfer — This technique has two typical forms — insurance being the most common. You're essentially transferring risk to an insurance carrier in exchange for premiums paid. The second option is through contractual language with OEMs and/or customers, where you're transferring risk to the other party by way of hold-harmless or indemnification agreements, etc.
- Risk retention — Where you/your company absorb the risk altogether. This technique is used when risks are either unlikely, or costs of mitigating or transferring risk are prohibitive.

Select the best technique for your exposure

This involves weighing risk versus reward. You can avoid risk entirely, but at what cost? Is it significant enough to invest in risk-reduction testing and training? If you transfer the risk to customers, will they go elsewhere with more generous or ambiguous contractual language? These are all things to consider when identifying the proper technique for your business, and often, the answers fall somewhere in the middle. By implementing a well-balanced program, you can protect your company's assets and still have a viable, thriving business.

Implement the selected technique

Once the most appropriate course of action is identified, you need to follow through with implementation. Your management team and key employees should be familiar with your choice and effectively communicate it to all staff. A plan without commitment has a greater chance of failure.

Monitor program success

Monitoring the plan is essential in gathering data on the effectiveness of your chosen strategy. If you find the technique you've selected is not producing the needed result, perhaps it's time to revisit the options and re-evaluate.

Looking ahead

Businesses that have interested, engaged ownership and management are typically the ones that survive even the hardest of times. Managing your own company's risk is one way of staying involved and in control.

Many insurance companies and agencies have on-staff or contracted risk managers that can help you with this very important task. Inquire with your insurance professional about their services in this area.

JD Fulwiler & Co. Insurance developed the Work Truck Total Protect program to provide the industry with underwriting, risk assessment and loss prevention services. JD Fulwiler will shop among many top insurance carriers with which it does business to find a coverage solution that best meets your needs. Learn more at ntea.com/partnerships or call 800-441-6832.