

# THOR

INSURANCE FINANCIAL

## Insurance Can Fall Short After a Failed Lift

As a crane or lift operator, you likely carry Hook Liability insurance to protect the value of your customer's load. Unfortunately, there can be a disconnect between what your customer is expecting for a damaged load and what your insurance company is willing to pay.

### The Principle of Indemnity

Indemnity in insurance is the principle of putting you back in the position you were in prior to a loss. However, in commercial and industrial insurance, there are a number of situations where the principle of indemnity is not followed. For instance, your building and business contents are likely insured for replacement cost meaning that at time of loss, there is no reduction in value for depreciation. This defies indemnity because a claim with replacement cost arguably puts a claimant in a superior position than they were in, not penalizing them for depreciation.

### The Peril is in the Gap

Herein lies the gap. If your customer believes that the value of their property is based on its replacement cost, they will expect any damage you do, to be compensated also at replacement cost. However, a General Liability policy, of which Hook Liability is part of, is an indemnification policy and there is no provision to pay a claim at a value exceeding actual worth, like replacement cost does.

For instance, if you are lifting customer's property that they have valued at \$500,000 based on replacement cost, your Hook Liability coverage, assuming the limit of insurance is adequate, will only pay what that property is actually worth with deduction for depreciation. In this example, let's say that would be \$350,000. Now we have a gap of \$150,000 between what your customer is expecting and what your insurance company is willing to pay on your behalf.

Any shortfall in the perceived value of the damaged equipment by your customer will either come from your pocket or your customer's. This jeopardizes either your cash flow or your relationship.

### How Can this Gap be Managed

Manage your customer's expectations and always use a contract. Make clear that any reimbursement from you or your insurance company will be for actual or depreciated value, whether whole or partial. Make sure this is included in your contract.



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