

Equipment Insurance Decisions Need Qualified Engineering Input

In today's world, every entity is focused on reducing and justifying expenses, maximizing profit, ensuring stability and growing market-share. Social and corporate responsibility standards have been developed to ensure that such objectives be achieved with no compromise to public and personnel safety and with utmost care and respect for the environment.

For large utilities, Risk-Based Methods for Equipment Life Management have been developed by ASME® to ensure that maintenance dollars are allocated in an intelligent manner wherein not only the corporate responsibility objectives are satisfied but are the corporate "expense control" and "return on investment" goals.

Large energy companies did sponsor the development of the Risk Based Inspection (RBI) guidelines and as such, introduced savings in their inspection program while enhancing equipment availability to increase production and profit without compromising safety or environment. The RBI methodology is now supported by the majority of the North American jurisdictions and implemented in other industries as well.

Equipment breakdown insurance premiums, much like the maintenance dollar allocation, should be viewed in terms of its justification in an insured corporation's risk management/ finance program. It is easy to demonstrate that the insurance premium is critiqued against its perceived value vise-a-vise loss exposures and loss quantum/ occurrence frequency considerations.

Once the insurance premium justification is established within a “risk based equipment life management” or a “risk based inspection” program, both parties would benefit from a validation of the assumptions (loss scenarios, occurrence potential frequency, asset replacement valuation, damage and downtime estimation) they may have made in the process of reaching the agreement. This is critical in ensuring that both parties would develop a qualified understanding of the relation, a reasonable expectation of profitability within their own individual financial algorithms and a long lasting relation.