

Geo-Strata

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Earth Retention



GeoCurmudgeon: Can I Interest You in a Life Insurance Policy?

By John P. Bachner

My friend Dorfman applied for a new \$1-million life insurance policy, claiming he was a 26-year-old, non-smoking aerobics instructor who ran five miles a day. In fact, Dorfman is a 57-year-old, three-pack-a-day, morbidly obese couch yam whose only exercise consists of short jogs between his Barcalounger and bathroom, where he recently had a microwave and refrigerator installed.

A life insurance salesperson named Sally called Dorfman after he met with an itinerant physician who conducted a brief medical exam and was shocked by Dorfman's sky-high blood pressure and four-digit serum cholesterol. "You lied on your application," Sally said. "Of course," Dorfman responded, unfazed by Sally's accusatory tone. "I wanted to save a few bucks."

"Forget about it," Sally said. "A man in your shape; in your horribly sad condition...your premium's going to cost at least \$50,000 a year. Do you know how much risk you pose?"

"I tell you what," Dorfman responded, "I'll give you \$3,000 a year."

"What? Are you out of your mind?"

"Not at all," Dorfman explained. "I'm a geo-professional. We accept risks like that all the time for free. Actually, for \$3,000 a year, you should throw in some geotechnical or environmental services; maybe some construction materials engineering and testing, too. That's what I do."

How did Sally respond? What would you say if I told you she agreed to accept the \$3,000 offer? What would you think about her? What would you think about the company she worked for? Would you say the company was a "high-end" outfit or a fly-by-night operation? Would you say it was respected in the marketplace, known for its professional and business practices, or a bottom-feeder not likely to last?

Now let me ask you this: Have you, as a geo-professional, ever accepted \$1 million worth of risk for a \$3,000 fee that you charged for just your technoprofessional services? Of course you have. In fact, you've probably accepted \$5 million worth of risk on a \$1,000-fee project.

As it so happens, geo-professionals deal with more risk than any other technoprofessionals because they routinely make inferences about unknowable conditions and use

those inferences to develop professional recommendations others rely on, commonly to the tune of millions of dollars. And, when an owner's or developer's representative says, "It's going to be really expensive to implement your recommendations; can you recommend something less costly?" How many geo-professionals dutifully recommend – at no extra cost to the client – alternatives that create far more risk for themselves? Too many.

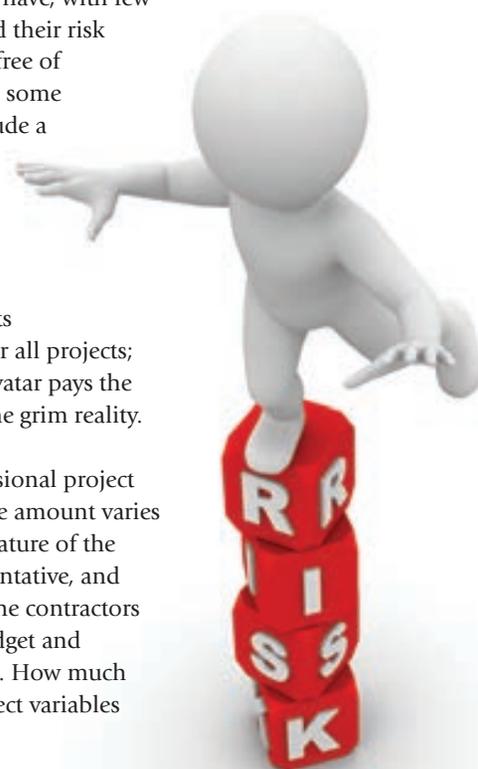
Why? Because geo-professionals fail to realize that one of their principal services is risk acceptance; i.e., they agree to indemnify any party (allegedly) damaged by (alleged) defects in their professional services. This is exactly what insurance companies do, except they don't throw in technoprofessional services "to boot." And, given that geo-professionals accept more risk than all other technoprofessionals I'm aware of, you'd assume they'd really know to charge appropriately for risk acceptance, by considering the likelihood of a risk materializing into a claim, the out-of-pocket cash and time they'd have to spend defending the claim, and the money and reputation they'd lose to settle the claim, either before a verdict or after.

You'd assume.

Don't.

I've been working with geo-professionals for 40-plus years, and they have, with few exceptions, provided their risk acceptance services free of charge. "Not really," some might say. "We include a risk-loss allowance in the overhead calculation we use to set our multiplier." This means that all clients pay the same rate for all projects; that Dorfman the avatar pays the same as Dorfman the grim reality.

Every geo-professional project involves risk, but the amount varies depending on the nature of the client, client representative, and project; the scope; the contractors selected; project budget and schedule; and so on. How much risk do specific project variables



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create? What can you do to manage them through the contract's general conditions (e.g., limitation of liability), contractor prequalification, and similar steps? And, when you get done, how much risk remains, in terms of liability (worth how much?) to the client and the various third parties?

If you don't perform a risk assessment before providing risk acceptance; if you charge the same rate for all, you're doing it wrong. In fact, part of your routine services should include a project-risk evaluation process through which you explain project risks to client representatives and others with a need to know, encouraging them to adjust project variables for their own benefit and yours, and explaining why you need to charge an appropriate fee for risk acceptance in addition to your professional services. Are you ready to explain to client representatives why your risk-acceptance fee is project-specific? that including a standard risk allowance in your multiplier is counterproductive, because smaller scopes create bigger risks, but – because smaller scopes also mean smaller professional-service fees – bigger risks commonly create smaller risk-acceptance fees.

The new mission of geo-professional organizations – all of them – should involve maximizing respect for geo-professionals in the marketplace. But no organization can do that if geo-professionals do not first help themselves, and they cannot help themselves by dealing inappropriately with risk acceptance. What about you? Do you insure Dorfman or not?

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