

The great escape

Potential rewards of loss prevention measures

“THERE ARE NO SECRETS to success. It is the result of preparation, hard work, and learning from failure,” according to former US Secretary of State, General Colin Powell.

Similar to General Powell’s observations, property insurance carriers today are aware that there are no secrets to the successful management of risk. Preparation and hard work are key but rather than see their clients learn from failure, insurance carriers prefer to help them prevent failing. Successful risk management, therefore, relies on identifying the areas that could fail or pose a risk, in order to eliminate or minimize the potential for failure, which could result in financial losses, employee injury or insurance claims.

Fortunately, today’s insurance clients depend on their insurance carriers for more than just their claims paying ability. With global carriers having handled the “lessons learned” of numerous customers, they can provide their clients with the benefit of their expertise and skill to help mitigate risk, or more specifically, to help actually *prevent* losses. With their insurers’ broad view of loss trends and proven solutions to



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The great escape, continued

address risk, along with their own in-depth business and industry knowledge and the details of their operations, insurance buyers have found partnering with their insurers beneficial beyond just the provision of a financial safety net when a loss occurs.

Among the services an insurer's in-house loss prevention specialists may provide are:

- Improving fire prevention strategies and adhering to building fire codes;
- Analyzing fire protection systems;
- Examining plant layout, fire divisions, combustible loading, and storage arrangements;
- Reviewing plant interdependencies and contingent exposures;
- Advising on a business's susceptibility to flood, earthquake and high winds and finding ways to improve the integrity of a business's structures/buildings, such as reinforcing roofs, windows, etc.;
- Developing the best possible pre-emergency and business continuity plan for natural catastrophes;
- Reviewing and advising on client risk management programs dealing with loss prevention self-inspections, hot work management, contractor controls, and management of change;
- Reviewing and assessing maintenance programs, particularly to help minimize the risk of failure of key machinery and equipment.

HOLISTIC SCRUTINY

Rather than pinpointing a few problem areas to make improvements, effective loss prevention requires a careful investigation of a business's whole

operation. This provides the opportunity to address risk potential that could impact the whole business, causing the operation to slow down or even come to a halt.

Working together, a business and its insurer need not only to ensure full identification and a common understanding of the risks, but also to communicate the risks and impart a

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philosophy of loss prevention and risk mitigation practices. Besides physical hazards affecting property, these risks may involve business interruption exposures, including interdependencies, contingent business interruption, or service interruption exposures. For instance, if a major supplier cannot service the company, does it have an alternative supplier that it can quickly rely on to keep its business operational?

For various energy operations, an insurer's loss prevention team will help identify boiler and machinery risks, looking at the business's key objects, unique equipment, redundancies, contingency plans, spares policy and maintenance practices.


Loss prevention professionals will also view a business's claims history and issues surrounding its previous claims so that trends can be identified and acted upon. Aside from the technical aspects of an operation, loss prevention specialists do not overlook the human factor. Both a business's management and its workforce are involved in its risk management success or failure. Management's responsibility is to ensure that a holistic risk management philosophy is not only communicated throughout the company, but is also fully implemented, measured and ultimately "lived" by all levels of the workforce.

A PLAN OF ACTION

There is not a one-size-fits-all risk assessment process; the best loss prevention approaches are tailored for the business and regularly reviewed, with an insurance carrier lending assistance in key areas.

The 2005 hurricane season certainly showed the harsh reality that business operations lacking adequate continuity and risk management practices are vulnerable to disruptions, shutdowns, and significant financial losses. In Louisiana alone, state officials estimated that 81,000 businesses were closed as a result of Hurricane Katrina and one year later, only 62,000 of them had

reopened. The hurricane season's lingering lesson remains — businesses need to plan especially hard and well in advance to avoid failures in the face of such catastrophic events. The success of a business, and even its survival, requires preparedness. Therefore, for businesses in hurricane prone areas, annual preparedness plans to mitigate potential hurricane losses and to minimize or even prevent disruption, have become more widespread. Before the hint of a hurricane, simple procedures, attention to operational details and maintenance and back-up plans can save time and money and contribute to a quicker recovery from a disaster.

As a result of significant hurricane losses, insurers are examining a variety of factors, including a company's catastrophic risk exposure and its commitment to implementing loss control strategies, business continuity management, and emergency response planning. Businesses, too, would be wise to look at how their insurer's loss prevention expertise can be used to help them make the most of their advance planning and avoid the lessons of failure altogether. 

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