
# Loss prevention and corporate risks: prevention is better than cure!

## (part 2)

*In the first part of this article, published on December 20, 2013, we described some aspects related to insurance and risk transfer, noting how they have been in the past culturally feared as associated to superstition. Over time, most industrial and commercial activities have felt the need to professionally insure themselves against an uncertain future. This is where loss prevention plays a vital role, as a methodological process requiring a careful analysis of the risks and of the whole economic and operational context, requiring therefore a real multidisciplinary and systematic approach.*

### Fields of operation of loss prevention

Loss prevention could be considered as a **way of life.** At a closer observation, every individual the moment he or she wakes up in the morning does a series of things apparently unrelated that pertain to loss prevention. Persons do not use electric appliances with wet hands or in rooms where there is a lot of steam; they do not bring paper or other inflammable materials close to the cooking range; they use the zebra crossing to get to the other side of the street, etc.


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Loss prevention, come to think about it, is part of our daily lives, but in enterprises, independently of their size, risks accumulate and interact with each other, with the result that it becomes increasingly difficult to quantify them a priori or even perceive them although they continue to be very dangerous and fraught with consequences.

This is where risk managers come into play. Generally speaking, they are engineers who have matured extensive and long-standing experience in the insurance field or in other businesses carrying out thousands of inspections and risk analyses and who put their skills and expertise at the disposal of clients.

In this way, they provide expert **consultancy** on the possible risks that may emerge in connection with the specific activity in question. Such expertise is often not available within a business organisation, with the exception maybe of large-sized companies endowed with advanced in-house **risk management** capabilities. It is for this reason that the astonished exclamation: "hey, that's never happened to me before!" is hardly ever heard in the insurance business compared with other sectors where it has become a refrain.

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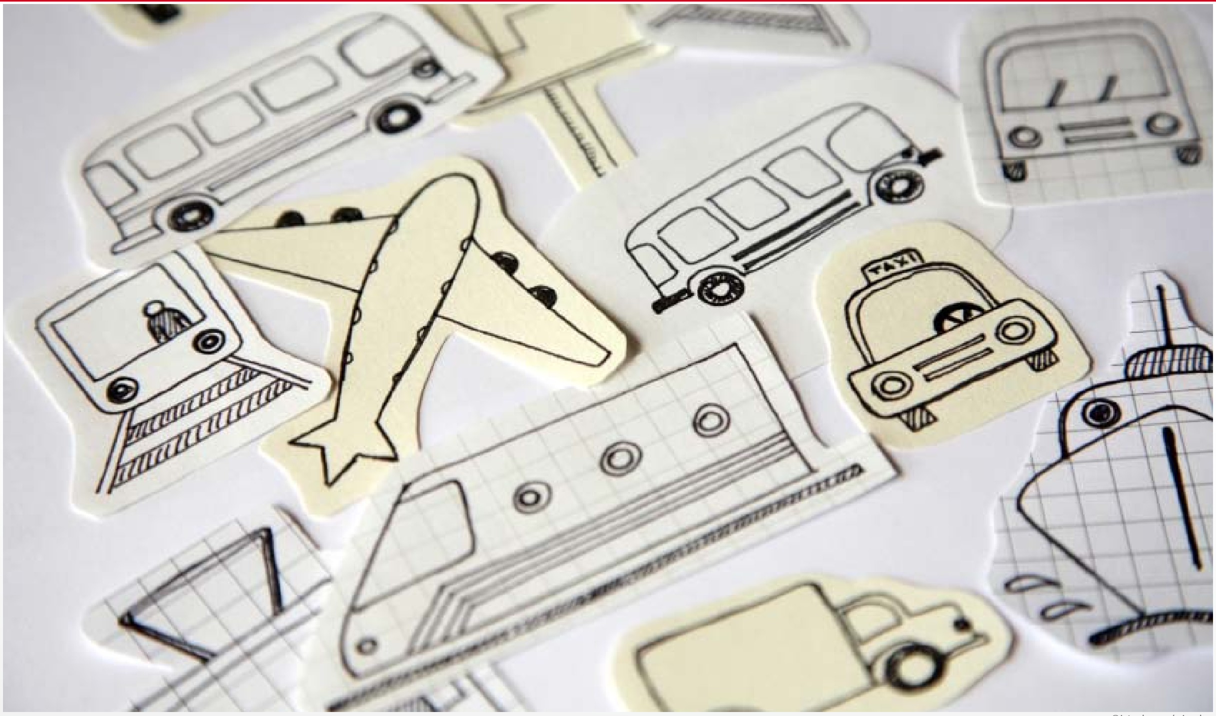
Nevertheless, it may happen that insurers are forced to admit that an event "had never occurred before," a proof that prevention, although crucial, may still be insufficient to offset the **unexpected**, the **imponderable**, as was the case with the terrorist attacks on the Twin Towers in New York. Anyway, even if all risks could be taken into account during construction and thus prevent during the risk management phase **all** hypothetical risks – i.e. maximum possible / probable / foreseeable loss – the cost for such a cover would simply be unsustainable.
LP with regard to corporate risks applies for practically all insurable risk inasmuch as it is a constituent element of the policy itself. In particular, LP is a key element in the following risk segments:

- property (fire and theft)
- engineering and construction (machinery breakdowns, electronics and CAR/EAR)



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- third party liability
- marine and transport
- aviation
- motor fleet

Shifting our attention to the "client" side – i.e. on the **production sectors** involved – the first step is to highlight that loss prevention is conspicuously required where there is particular exposure to risk or in those sectors where operations are intrinsically exposed to serious risk.

LP is therefore a key element in the paper, wood, textile, chemical, rubber, plastic, storage, waste sectors, besides in the so-called *non-preferred lines* defined by the insurer's loss experience. Also those risks featuring a high insured capital exposition are placed under LP control so as to gauge the way they are managed by the companies seeking insurance.

Loss prevention measures also apply, of course, to healthcare, a sector that is highly complex, exposed to risk and important since it involves the health of the individual.

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It should be observed that there is a key "**subjective**" **element** to be considered in the risk analysis process: enterprises facing a downturn may in fact be forced to neglect maintenance or quality control thereby swelling risk factor.



Other "**subjective**" elements could also include **local culture** and awareness as countries show more or less propensity to invest in prevention rather than rely on a fatalistic acceptance of destiny.

With respect to the developing world, countries in developed economies spend significantly more on loss prevention, which is considered an investment rather than more simply a fastidious cost to be sustained.

## Effects, advantages and importance of loss prevention

As mentioned earlier, LP has principally the task of avoiding, or at least reducing, risks and their impact. This can essentially be achieved in three ways:

- **eliminating the causes** leading to a possible loss
- **reducing the causes** leading to a possible loss
- **protecting** property and persons from the possible **consequences** of the loss (protection)

Faced with the possibility of having to sustain losses that can or cannot be compensated, it is clear that the loss prevention measures that are specifically activated should be considered in all effects an added value **medium-long-term investment**. This applies to both the insured and the insurance company considering that average claim costs are generally far greater than the cost of activating risk analysis procedures. Loss prevention generates a ***win win* situation** for all players involved.

The importance of LP in the corporate sector is best understood when we evaluate the substantial difference in non-life insurance (property and TPL) between mass risks (TPL motor) and corporate risks: mass risks are managed as a whole within a "risk portfolio," where each risk has consequently only a marginal importance, while corporate risks are handled separately, each on the basis of their peculiar characteristics and danger.


**"Just how convenient is investing in loss prevention?"**

Loss prevention is most certainly a high-yield investment for the insurance company and the insured alike: for the insurer because LP allows it to better manage its portfolio risks, and for the insured company because it has a loss prevention programme it can go by in order to mitigate loss. A host of examples show that extensive loss from fire, theft, machinery breakdowns could have been easily avoided had even the simplest precaution been taken. The LP-to-claim cost ratio has been calculated to be anywhere from **1 to 100 to 1 to 1000** if not higher. Consider, for example, the cost of a replacing a spare part for a cogeneration plant turbine or an airplane propeller, or the cost of a simple air filter in a vehicle engine, compared to the cost of a fire, say, in a tunnel. No wonder a favourite motto with insurers is "prevention is better than cure!"

As you may recall, the success of loss prevention activities depends essentially on three factors: the **technical knowhow** of risk engineers, their **risk management** skills and the experience arising from the losses they have handled and avoided. A fourth factor may be the definition of efficient **internal processes** in the insurance company's organisation.

A key element in the first instance is the technical training of the single experts and of the experience they have gained on the ground, while for the other factors what matters is to consider loss prevention as an integral part of the insurance company's core business, as important as underwriting and claims settlement.


Those in charge of prevention, underwriting and claims handling must operate along shared but clearly distinguishable guidelines, with different responsibilities: evaluation of the risk, underwriting of risks according to specific conditions, settlement of claims. A stand-alone LP activity would be inefficient besides being in the long-term quite useless.

## Loss prevention within the Generali Group

LP allows risks that would otherwise be non-insurable to be underwritten by insurance companies without their having to expose themselves to excessive or incalculable risks.

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This concept is all the more true for a multinational player like Generali, an insurance group operating in some 60 countries around the world where it provides insurance to key economic activities and infrastructure: airports, tunnels, bridges, dams, ports, railway, power stations, mines, large industrial plants, etc.

Loss prevention acts as an underwriting **risk level stabiliser** in the Group's territories of operation, and it is for this reason that it must be characterised by a global approach within the Group's internal organisation. Such an approach would allow for the construction of an efficient system of "prevention" to offset the serious losses the Group could encounter in the course of its operations, at the same time contributing significantly to value accretion, for itself and its clients. It is bearing this in mind that "**Global Corporate & Commercial**" was set up, a new business unit whose task is to enhance loss prevention, by repositioning it as a core activity within the underwriting and claims settlement processes.
It is likely that as productive and management processes become increasingly more complex in the global market, and persons and products move faster across the planet, there will be a growing need for loss prevention measures in the corporate risks segment. Estimates show that the LP business will grow significantly more than the corporate segment as it will progressively be considered a key factor in the underwriting of complex and otherwise unsustainable risks. But it is a fact that shouldn't actually surprise, because at a time of persistent economic downturn, foresighted entrepreneurs are fully aware that everything must be done to avoid losses that can undermine the very survival of their businesses.

In conclusion, loss prevention allows the insurance industry to underwrite risks that are otherwise non-insurable thereby widening the field of operations to also include the more advanced and sophisticated areas of human endeavour.

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