

Key Benefits of Risk Survey for Reinsurers

Risk is an ingredient of human life. How best to live with it is a challenge for every individual and indeed every enterprise. The world we live in continues to change rapidly presenting both risk and reward.

The risks, which our ancestors faced, living in their relatively simple societies, were basic in nature and required relatively simple methods of management. By comparison, today's societies, having been transformed by enormous changes, are full of more complex risks and hazards that call for more sophisticated and scientific systems of risk management.

Broad definitions such as "the planned minimization of the total cost of risk" and "the application of the principles of management decision-making to the specific problems of risk" do little to clarify the exact nature of risk management as an activity. It could better be defined as: "The identification, analysis and control of those risks which can threaten the operations, assets and other responsibilities of an organization".

Speaking of humans, life and/or assets would be exposed to undesired calamities unless potential risks to life or business are managed using appropriate risk management techniques. As one wag put it, the alternative to risk management is risky management! It is vital to understand the precise significance of such damage to organizations, processes and responsibilities of an organization.

In line with the above, risk surveying is a practical exercise of risk control measure, subsequent to risk identification and analysis; conducted with a view to limiting the risk of life and property losses from fire and other perils, by identifying the occurrence and likely spread of any risk. Basically, the main concern is to make sure that the insured workforce, premises, facilities, equipment, processes, operations etc, are protected from undesired consequences.

Broadly speaking, the aim of risk survey in insurance is to:

- find out if the risk offered is acceptable;
- help in determining an appropriate rate to be charged;

- make recommendations for improvement of the risk;
- make an estimate of the maximum amount, or percentage of the risk that is likely to be lost in one fire or any other loss.

The risk inspection/survey could also be undertaken to ensure compliance with local legal requirements, but the main emphasis should be on the preservation of life and property through the practice of prudent hazard protection measures, with a view to minimizing the likelihood of the risk materializing, or if it should occur, ensuring that its duration and spread will be limited.

Fire risk surveys in particular always include an inspection of the building when a note is made of the features of design, method of construction, floor and wall openings such as staircases, lift shafts service ducts, including building services such as electrical system, heating system, air conditioning and ventilation, waste and material handling systems.

This is extended to include details of hazardous materials, with their characteristic hazards; including handling, storage and protection of predominantly flammable and combustible liquids, liquefied petroleum gases, explosives, combustible metals, combustible dusts, and materials of high fire load.

Process hazards are also considered, particularly those which could generate flammable or combustible products, or vapour cloud explosion during manufacture.

Fire protection equipment is another point of interest where a property may be equipped with heat, smoke, or flame detection equipment to provide early warning of developing fire. Appropriate portable fire extinguishers may be installed to fight fire at its initial stage, when the seat of the fire is still visible. A higher level of fire fighting equipment such as hose reels, hydrants, drenchers, gas flooding system and automatic sprinklers may be put in place.

Furthermore, the number of employees, and the number of working hours per day influence the degree of exposure. Accidents are caused by individuals and employees can feel, see, and smell fire/smoke and respond immediately. As the old adage goes, "Prevention is better than cure". One may not be able to tell exactly how many risks have not materialized because of compliance with risk improvement recommendations. However, common sense tells us that risk surveys and compliance with recommendations have prevented quite a number of major losses, as all major losses initially start as minor incidents.

In very many cases, reinsurers are guided by the opinion and views of the direct insurers in decision making, as they are not proximate to the risk under consideration. In other words reinsurers underwrite the underwriters of the direct companies. This scenario puts the reinsurers at the mercy of the direct insurer, and as such risk surveys conducted by professionals, highlighting the major areas of concern mentioned earlier, are of utmost importance for reinsurers. The reinsurer finds himself in a position to assess and price a risk without visiting the site himself and examining its peculiar features first-hand. Hence, it is of immense help for the reinsurer to have access to the report of the risk survey conducted by a qualified professional. This acquaints him with the features of the property/life at risk, and also gives him an overall view of the various construction and process hazards, including the surrounding exposure, which in turn enables him to examine the pricing issue in detail. Without a risk survey report to guide him, the reinsurer, among other things, would not be in a position to give his opinion to insurers on how to handle a risk, the warranties to impose, and the risk improvement recommendations to be considered as requirements.

Last but not least, a fire loss is a loss to the society at large. It is not only an individual or company loss, be it a direct insurer or reinsurer. It is therefore advisable for insurers and reinsurers to have major risk surveys and risk improvement recommendations at frequent intervals by qualified professionals, if they desire to continue enjoying the sweetness of low premiums by reducing the frequency and bitterness of large claims.

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