

LOSS PREVENTION AND CONTROL

Loss prevention, loss minimization and loss control are often used interchangeably. **Loss prevention** involves initiatives to avoid the occurrence of risk, especially insured events. **Loss minimization** strives to reduce the impact of risks when they do occur. Together, these two activities amount to **loss control**. This brief focuses more on loss prevention than minimization since the former is likely to have a greater impact on reducing the claims costs of microinsurers.

Retrospective look at loss prevention

Loss prevention is common among mainstream insurers although it may not be labelled as such. Prevention specialists evaluate the risk management practices the business has in place, advise the client on any improvements needed, and share the information with the underwriter for use in understanding and pricing the account. An example of popular loss prevention in commercial insurance is when home insurance policyholders are encouraged by their insurers to own smoke alarms and theft-proof security measures.

Historically, life and health insurers have not demonstrated as keen an interest in preventing loss as non-life insurers. Accidents and losses seem to have an underpinning cause and effect (e.g. floods caused by climate change). Therefore, as non-life insurance finds ways to prevent industrial accidents, so can life and health insurers in preventing illnesses and deaths.

Converging interests

While many diseases are a global phenomenon, prevention remains largely a priority that local communities are often better placed to pursue. Likewise, microinsurers can be significant players in the communities they serve. A sustained effort to promote hygiene and other health improvements among customers can become key elements of customer education.

In microinsurance, the crux of loss prevention lies in counselling customers to take good care of themselves and their possessions. In the short-term, this activity reduces the frequency and severity of claims while helping control the insurer's expenses and the client's premiums. In the long-term, it ensures that customers remain healthy and productive, and the organization will be sure of their continued patronage.

A desirable side effect of such preventative programmes is that it could help insurers, who may already be inclined to extend their social responsibility activities beyond their existing clientele, to cement working relationships with grassroots organizations.

Partnerships with specialized NGOs working on health issues or with other prevention programmes can go a long way toward achieving shared objectives.

Practising prevention

Microinsurers must take unique measures to engage the low-income market and provide education about loss prevention. The approaches might include the following:

- **Provide tangible benefits.** Sometimes behaviour changes involve artefacts. For example, SEWA, an Indian labour union and microinsurer, has provided market vendors with umbrellas to reduce the chances of heat stroke. These tangible benefits help make intangible insurance more acceptable to the poor. Even those who do not make claims can see the utility of insurance.
- **Outreach by sister organizations.** Sister organizations which are also involved in healthcare initiatives, such as community nurses and midwives, are natural partners in prevention campaigns.
- **Use of non-formal adult education methods.** To communicate loss prevention with those who are illiterate or have limited education, illustrated posters and street theatre can be used.
- **Emphasize core messages.** Effective campaigns are continuous, relying on a variety of communication channels to ensure that the main messages are absorbed and, hopefully change behaviour.
- **Target the young.** One of the most effective ways of changing behaviour of adults is by educating the children, who can then persuade their parents into less risky practices.
- **Rely on peer pressure.** Using groups to continue to encourage (or enforce) the new conduct. Peer pressure from friends and neighbours can have a powerful affect in supporting new behaviours.

In addition, there are many other loss prevention activities, perhaps being undertaken by governments, pharmacies, or schools, with which microinsurers could link and leverage.

Loss minimization

In loss prevention, steps to minimize the impact of the loss are taken after it occurs. However, prevention usually involves anticipating or foreseeing a loss, and that process may entail at least a bit of minimization. The more the insurers can do to prepare a policyholder to respond quickly and efficiently to a setback,

the better off both the individual and organization will be.

Minimization is particularly relevant for health insurance. Although some microinsurance schemes that work with low-income clientele cannot afford certain recommended minimization strategies, they can scale down these measures to fit their budget, resources, and community contacts. The following are key aspects of loss minimization:

- **Recognizing symptoms is critical.** The insured should be able to recognize diseases and common symptoms. They should know the proper action to take to prevent ailments from getting worse.
- **Correct information is needed for correct action.** One way to support policyholders is to give them contact information of their local hospitals, doctors, trauma care centres, etc, if available.
- **Help when needed.** In an emergency, policyholders may panic and be unable to make the right decisions. For example, a 24-hour telephone help line would enable policyholders to get appropriate medical attention, locate an ambulance service, etc.
- **Creating own infrastructure.** A group of insurers together can create a support-service infrastructure for education, counselling, tie-ups with hospitals, etc.

In addition, while one cannot prevent a natural disaster, it is possible to minimize its effect on the insured population through disaster preparedness.

Box: A cost effective prevention strategy at Microcare

Microcare is a unique organization in Uganda, having transformed from a not-for-profit into a licensed insurance company specializing in health insurance for the low-income market.

Malaria, endemic in Uganda, is the most common diagnosis for Microcare's clients, particularly in rural areas. Cumulatively, the claims cost paid by Microcare for malaria is more than any other diagnosis. To make matters worse, the cost of treating malaria is set to increase from less than US\$1 to regimens that cost about US\$7 as chloroquine resistance becomes widespread.

The use of insecticide treated nets make a substantial contribution to malaria containment. In Uganda, a treated double-bed net costs around US\$6.

Microcare provides half priced insecticide-treated nets to rural clients and has experienced a good uptake. In addition to being cost effective, subsidizing nets, as opposed to making them available for free, helps people value the nets—and thus use them properly.

A US\$3 subsidy to prevent at least two people getting a frequently occurring disease that would, with the new drug regimens, cost US\$7 to treat makes a compelling economic argument. The nets can last for several years. What more, they have become a popular marketing tool for Microcare.

Evaluating the return on investment

As illustrated in the previous box, a microinsurer needs to determine what prevention measure is needed, and how its value might compare with other measure that could possibly be taken to decide if it would be worthwhile. The exercise can be done in a five-step process:

1. **Identify claims trends.** Monitoring claims to see if there are any patterns or trends in causes of deaths, types of illnesses, or other risks and perils.
2. **Develop prevention strategies.** If claims trends are identified, find which ones could be controlled by a prevention programme and its costs and returns. Also find ways to compliment these strategies with maybe national strategies or from other actors.
3. **Implement prevention activities.** If particular measures appear to be cost-effective, the human and financial resources required need to be identified and the activities implemented.
4. **Monitoring the results.** To justify investments in prevention, the insurer needs to see the corresponding reductions in claims after a while. Comparing the cost-effectiveness of prevention programmes is complex and experts such as statisticians and actuaries should be involved.
5. **Benefits beyond cost reduction.** Also, the microinsurer might want to consider the intangible marketing or promotion value of the activity in addition to the lower claims costs and the contribution of prevention activities to its social mission.

Finally, a well designed database will provide a lot of information on priority communication areas for loss prevention.

The International Labour Organization (ILO) and the Munich Re Foundation recently published **Protecting the Poor: A Microinsurance Compendium** on behalf of the CGAP Working Group for Microinsurance. This authoritative book analyzes the experiences of more than 40 microinsurance providers and is based on the **Good and Bad Practices** project led by the Operation subgroup and funded by DFID, GTZ, the ILO and SIDA. The translations into French and Spanish are financed by ADA.

The content of this note is based on Chapter 3.9 in Churchill (ed.) 2006. *Protecting the Poor: A Microinsurance Compendium* (Geneva: ILO) – ISBN 978-92-2-119254-1