

## Explaining the loss minimization principle to reduce further damage



The bonnet of the vehicle is on fire, will the client retrieve the fire extinguisher and use it effectively? Will the client call the police after being informed that a robbery is taking place at his office premises? Will a client holding travel insurance suddenly decide to go skiing in Switzerland and then decide not to because of the terms of their travel policy? Will the client turn off his electricity when, due to voltage fluctuations, some of his machinery is damaged?

### The principle applies to all insurance contracts

Insurance is based on a set of principles that are fundamental and form the basis of any insurance contract with few exceptions.

The principle of loss minimization is one of those principles and is that the insured must take all necessary steps to limit the loss of insured property, in the case of events like fire, lightning, explosion, flooding and other events that lead to loss / damage. Essentially, the client is responsible and cannot be negligent when a loss occurs and must do whatever is possible to minimize the loss.

For example, a client owns a manufacturing plant which produces wheat flour and as a result of a fire some stock is destroyed. The client could minimize the loss by swiftly separating the bags which are damaged from the ones which are not.

Some examples of applying the concept of loss minimization in various insurance policies will be indicated in the following sections.



#### Example A: Fidelity Guarantee

If the client's business requires many members of staff having access to money there is a high risk of financial infidelity. For example, a staff member steals money and runs away, the client should notify the police station as soon as possible with details of the staff's identity, profile and other key information that will help in expediting the recovery if any.



#### Example B: Construction Site – Contractors' All Risks

If the client is the main contractor for construction of a new building, they may apply loss minimization measures when a fire occurs by using a fire blanket and / or fire extinguishers to limit the spread of

the fire until the fire brigade arrives at the site.



#### Example C: Motor Insurance

If an accident occurs and the client's car is seriously damaged the client may call the towing company to take the vehicle to a safer location to prevent any further damage from occurring on the road.

The concept of loss minimization can be summarized by the following phrase:

“Even though you are insured, act as if you are uninsured.”

For any other information, please visit our office or give us a call.