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## **RISK MANAGEMENT AND LOSS PREVENTION**

### **A GUIDE FOR MUNICIPALITIES**

Prepared for

**FEDERATION OF  
PRINCE EDWARD ISLAND MUNICIPALITIES**

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Lombard General Insurance Company of Canada

in collaboration with



### **Introduction**

Loss Prevention plays a major role within a Risk Management program. If a portion of the financial risk may be transferred to an insurer, it is nonetheless necessary to protect one's property and to act in such a fashion as to reduce third party liability risks (to mention but these two types of risks), for beyond the considerations of insurance premium levels, any number of losses will be assumed by the municipality. These losses stem from uninsured risks, uninsurable risks or losses which fall

below the level of a deductible. When indirect costs associated with all losses are factored in, the benefits and necessity of establishing loss prevention measures to control risks quickly become obvious!!

One way to control risks is to avoid certain activities where the level of risk is too high or too difficult to control. However, you are conscious that your role is to offer services to the citizens which in turn causes you to manage a host of activities which inevitably constitute certain risks. This is where loss prevention fits in!; it allows you to pursue certain activities in a framework of relative security. **Experience shows that preventing accidents is much less costly than suffering damages due to losses or various claims.**

Many risks **can** be controlled in order to reduce or even prevent accidents and losses when adequate preventative measures are adopted.

**Less Risks = Less Losses**  
**Less Losses = Less Claims and Indirect Costs**  
**Less Claims and Indirect Losses = Insurance Premiums at lowest possible level and reduced «Cost of Risk»**

Now there's a simple equation, but nonetheless quite revealing!!

Independently of the «insurance» perspective, any loss whether small or large, insured or not will bring about disruptions, worries, indirect costs of all sorts and perhaps bring temporary disorganization to regular daily operations and activities. Just imagine a major fire at the Town or City Hall or municipal garage... think of the consequences this would create! in your municipality!!

### **Loss Prevention**

What is Loss Prevention!? It is above all an attitude which directs us to act or operate in a safe and secure manner and to prevent losses before they occur. To achieve this, we must adopt a set of rules and procedures to ensure that we are adequately protected from all the risks to which we are exposed and this in all areas of activity of the municipality.

In order to reduce the risk of loss or destruction of property or the risk of civil liability lawsuits, we strongly encourage you to develop and implement a Loss Prevention Program to guide the municipality in all its activities. The development of such a program is truly a pledge to the citizens of the municipality and denotes an administration determined to protect its citizens as well as the property of the community.

In order to assist you in your loss control endeavor, we will be outlining certain risks which can lead to frequent losses or claims or which represent special hazards. A Loss Prevention program must not be seen as complicated and time consuming. We suggest you start with a modest program which can evolve as time, resources and priorities dictate.

### ***The key is to start now!!***

The first step towards building a program is evidently to recognize and identify all the risks to which the municipality is exposed in order to establish a list and survey. The risks identified will include those representing a loss potential for material property as well as liability. Let's briefly review some of these risks.

### **Property Risks**

Municipalities own a variety of assets and property, both movable and immovable. Be it buildings, furnishings, various equipments, computer hardware and software, machinery, vehicles, sports and recreation installations and facilities, underground mains, various other infrastructures (bridges, overpasses, dams, piers or wharves), street lights and traffic signaling equipment, tools, miscellaneous equipment (motors, pumps, generators etc.). All of these may be exposed to loss or destruction by fire, lightning, explosion, windstorm or tornadoes, flood, earthquake, collapse, vehicle impact, sewer back-up or other water damage. Other risks include vandalism and theft and equipment breakdown, burnout or explosion of boilers or other pressure vessels, pumps, compressors (air or refrigeration) and motors.

### ***Fire Risks***

The risk of fire is perhaps the most common and most devastating of all risks which face municipalities. A survey of our files indicate multiple fire losses in every type of municipal building (city/town halls, municipal garages, arenas, community centres and even fire stations/halls!!). Among the common causes we note!:

- Heating systems and installations
- Cooking equipment
- Welding and cutting work
- Spray painting
- Handling and storage of flammable liquids
- Overheating of various equipments
- Electrical malfunction and defects
- Smoking
- Arson

### ***Theft and Vandalism***

Burglary and theft are risks against which it is essential to be adequately protected. Frequency in this type of risk is high. In towns where population size is smaller, there is often a false sense of security («!It can't happen here, everybody knows each other!»). Beware of becoming overly complacent. While all situations must be judged independently, the risks must be weighed against possible outcome. A certain «!minimum!» will be required in most cases to protect the municipality's property against theft and burglary. Among the «target» property for burglary in municipalities is computer equipment. Are these in open view of would-be thieves!? Are they fitted with theft deterrent installations (locking cables or anchoring systems)!? Are buildings protected by burglar alarm systems!? Theft of portable computers has become a veritable scourge. Among other target equipment are tools and various garage and public works equipments. What kind of controls and protection are these afforded!? And what is there to say about equipment stolen while on board municipal vehicles!?

To raise these kinds of questions is the first step in the development of a security plan aimed at reducing losses in this area. Take nothing for granted, no property is outside the reach of thieves and...NO!! it does not only happen to others!!

### ***Liability Risks***

No doubt you are preoccupied with constantly offering the citizens of your community with quality services and quality of life. This in turn obliges you to become involved in a variety and multitude of activities. The liability risks associated to these activities are equally multiple. We cannot overemphasize the importance of controlling these risks in order to reduce or prevent the number of accidents. This in turn will make the municipal operations safer and will reduce possibly woeful consequences for citizens victim of accidents or other unpleasant situations for which the

municipality may be held liable. Greater security and a well structured program equally reduce complaints and possibly lawsuits to seek damages. **Keep in mind that managing complaints or demand letters represent administration costs, sometimes quite costly especially if no indemnity is payable under an insurance policy.** Of course, your insurer will assume your defense and associated costs for claims involving risks which are covered by the General Liability contract, however these costs will be reflected in your insurance premiums.

In civil liability, it is much more difficult to identify every risk to which a municipality is exposed. It is nonetheless an essential exercise in order to elaborate a loss prevention and risk control program. Here are some areas where we see the most activity as far as claims and lawsuits are concerned in the municipal field!:

- Sports and recreation facilities (indoor, outdoor, parks and playgrounds)
- Municipal inspection services and issuance of permits
- Fire and Police services
- Municipal by-laws
- Sewer back-ups
- Water service pipe defrosting/thawing (fires caused by)
- Roads, bridges, overpasses and dams
- Landfill sites
- Underground tanks (leakage of petroleum products)
- Special activities (festivals, fairs, carnivals and other such manifestations)

### **How to develop your own Loss Control Program**

First and foremost, a program must be well structured and equally well administrated to be effective. We suggest therefore that a responsible person be named to elaborate and oversee its application. The next step is to assemble the appropriate documentation from various sources.

A fundamental aspect of an effective Loss Control Program is to conduct regular and timely visits of all buildings and activity sites of the municipality. The frequency will be determined according to the risks and nature of the activities. The visits may be performed by the person responsible or he/she can mandate someone else. In any case, verification checklists or visit reports will require completing and a review by the person holding responsibility for the program. We emphasize that the visits be entrusted to responsible and trustworthy individuals.

Your insurer can assist you in developing your own checklists and these will require regular updating. The deficiencies or abnormalities noted during the visits will be reported to the person in charge and the latter will be required to follow-up on the deficiencies until the situation is corrected. Checklists and other reports or forms will be kept for future reference.

#### **Property protection aspect**

The program will consist in performing loss prevention visits in all municipal buildings (we suggest a frequency of 3 months), in order to verify if the fire, theft and vandalism risks are well controlled. Full interior and exterior inspections should be conducted, and certain equipment or building features will require testing (fire doors, emergency lighting systems) while others such as detection or alarm or fire suppression systems will require annual (or more frequent) testing (depending on authority having jurisdiction) by recognized companies. Some of the important features which you must focus on include general maintenance, upkeep and housekeeping, smoking hazards if applicable, hazardous operations (such as welding or work involving flammable liquids), «common» hazards such as electrical and heating installations. To assist you and get you started, we have included sample checklists which you can use or modify to suit your particular needs.

## **Liability risk prevention aspect**

This aspect of loss prevention is somewhat different than that of property risks. It requires a multi-faceted approach. Let us think of «slip and fall» injuries or injuries resulting from sporting or recreation activities, food poisoning, sewer back-ups, ammonia intoxication, negligence of sub-contractors (ex. causing damages to services while doing excavation work). In a nutshell, any «property damage» or «bodily injury» caused to a third party arising out of an act performed by the municipality or its employees for which some form of negligence or liability may be established. Liability truly runs the gamut of potential risks.

In the case of what is called «premises liability» or liability for damages which arises from the use of premises such as accidents or injuries caused by improper or slippery surfaces, stairs, handrails (or lack thereof), faulty or lack of detection systems, emergency lighting or exits, in short any risk of injury which the buildings through their use and condition can represent to the occupants or public.

Here again, checklists will be quite useful to spot anomalies or potential risks and we again suggest a frequency of 3 months (this would mean performing one visit only combining both property and liability aspects). Much the same applies to risks related to sports and recreation facilities. Here frequent visits are extremely important as equipment may break or deteriorate suddenly and may go unnoticed and cause injury. In peak activity periods, weekly visits are recommended. In some instances, the verification can be performed daily before the opening of the activity (ex. swimming pools). Common sense and experience are precious guides to follow in cases of doubt or absence of formal regulations.

In the social context we live in, the perception which the population and tribunals have of municipal liability changes rapidly. In the event of a lawsuit, courts will be evaluating if the municipality has acted prudently and reasonably and has taken all reasonable measures to prevent the «damages» to the third party. In order to accomplish a good defense and prove that the municipality has indeed acted with prudence, two measures become very important!:

Adopting effective Loss Prevention programs

Documenting these adequately

The checklists or other reports or forms, dated and signed can eventually be important pieces of evidence in the establishment of the «non-liability» of the municipality. As you can see, your program must be well structured and well documented in all aspects and details. The records must be kept for a minimum period corresponding to the prescription delays applicable in Prince Edward Island.

To sum up, here are in 8 points the basic rules for setting up an effective Loss Prevention program.

1. Name a responsible person in charge of developing implementing and overseeing the program.
2. Acquire and assemble all pertinent documentation from various sources.
3. Draft checklists or report forms.
4. Determine the inspection frequencies for the municipality's buildings, equipment and activity sites.
5. Name responsible persons to conduct the required visits and inspections.
6. Give appropriate training to the these persons.

7. The person holding responsibility for the program must review all reports and follow-up on deficiencies until they are corrected.
8. Keep records for a minimum period as required by local legal jurisdictions.

**Be innovative. To reduce accidents and costs to your municipality, adopt and develop your own Loss Prevention program!!**

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