

Know Your NLE (Normal Loss Expectancy)

A key responsibility of a property loss control representative is to calculate the *loss expectancy* from fire at an insured location. This is an important calculation in property underwriting. The amount of capacity a property insurance company is willing to commit is generally tied directly or indirectly to this figure. Most underwriting guidelines require a “worst case” loss scenario, such as assuming impaired protection or a total burn out, in order to conservatively manage their capacity. Because this is a low frequency/high severity scenario it is not much help to a risk manager.

However loss control may also calculate a *Normal Loss Expectancy* (NLE). This is the estimated fire loss with all protection in place and working as designed. Underwriters like this calculation because it helps them to frame the relationship between “normal” and “worst case” scenarios. The further apart the numbers, the better. Most property losses fall into the NLE scenario (everything works as expected) so this is considered a good estimate of more likely losses.

NLE can be a very helpful calculation for a Risk Manager for several reasons. It can help with prioritizing risk management initiatives. For example, if the NLE calculation showed a large loss in a manufacturing area, the Risk Manager may implement a robust contingency plan to minimize the potential Business Income loss. Also, when there are deficiencies in protection, calculating an NLE “as is” and an NLE with the deficiencies corrected can help prioritize spending on risk improvements. Finally, the NLE scenario can help Risk Managers evaluate potential losses from other exposures such as worker’s compensation.