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Taking a Holistic Approach to Managing Your Organization's Total Cost of Casualty Risk

RIMS Connecticut Valley Chapter
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COMPANIES**

Risk Management Quiz!

Who Is Douglas Barlow?

- Douglas Barlow was a risk management **pioneer!**
- A **Rhodes scholar** who earned **law degrees** at Oxford University and McGill University in Montreal.
- He formulated the concept of “cost of risk” and was the first risk professional to be given the title of **risk manager**.
- Active in RIMS, Mr. Barlow was the first risk manager elected to the **Insurance Hall of Fame** and was also a recipient of RIMS' highest honor – the **Dorothy and Harry Goodell Award!**



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Discussion Topics

- What Is TCOR?
- Managing TCOR
- Calculating TCOR
- Data & Analytics
- Workforce Strategies & Risk Management
- Claims Management
- Discussion/Questions



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Casualty TCOR Quiz!

Does your organization consider risk transfer premium to be the most significant part of your total cost of casualty risk?

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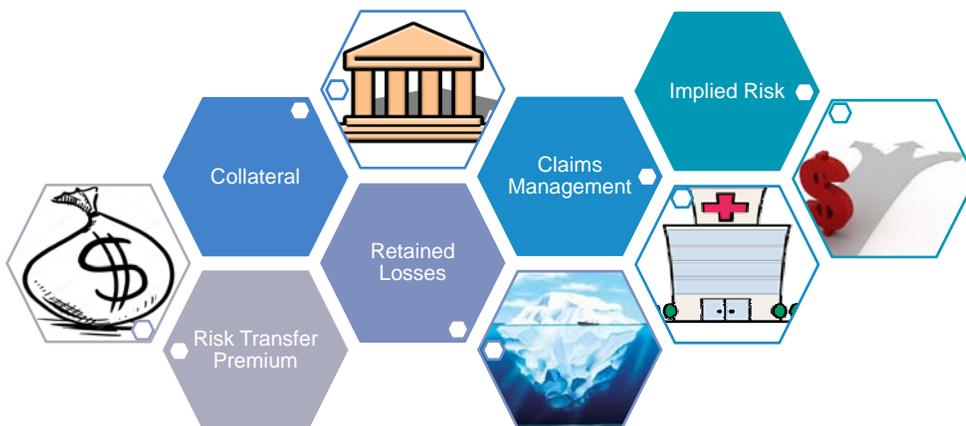
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Casualty TCOR Quiz!

Here's what nearly **250** risk professionals said during a recent Marsh webcast.



Key Elements of Casualty Total Cost of Risk



What Is TCOR...?

5 Key Elements

1 Retained Losses

Businesses must make strategic choices about how much risk to retain and how much risk to transfer.

2 Claims Management

Before, during, and after a loss interact with your claim advisor as well as your carrier/third party administrator to implement a company-wide plan to resolve claims fairly and quickly.



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What Is TCOR...?

5 Key Elements

3 Risk Transfer Premium

Businesses that decide to transfer their risks must choose an insurance program that balances the best coverage terms and pricing.

4 Collateral Cost

It's important to have expertise in reducing the legacy and prospective collateral obligations associated with loss-sensitive insurance programs. It enables you to reduce balance sheet liabilities and make better use of valuable capital.



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What Is TCOR...?

5 Key Elements

5 Implied Risk Charge

A traditional view of cost of risk captures expected costs in a casualty insurance program. However, unexpected or uninsured losses, such as greater than expected retained losses or catastrophic claims that exceed the purchased limits, also absorb capital.



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Better Understanding Your True Cost of Risk

- When considering risk management, businesses have historically focused on premium cost — without considering all elements of TCOR.
 - Fixed costs.
 - Variable costs.
 - Uninsured or retained losses.
 - Loss prevention programs.
 - Claims management and administrative expenses.
- An effective approach to managing TCOR considers multiple elements.
- A holistic approach to reducing interconnected elements of TCOR can yield greater benefits.

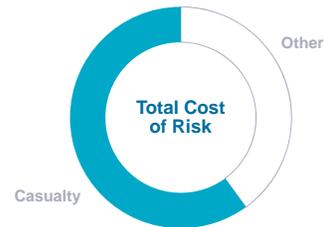
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Factors That Determine Total Cost of Casualty Risk

- Industry.
- Size.
- Geographic footprint.
- Loss prevention programs.
- Historical loss experience.
- Financial condition/credit quality.
- Claims approach.
- Insurance program structure.



Casualty risk typically represents 60% of a company's TCOR.

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Managing and Reducing Retained Losses

- An organization's retained loss is the amount of financial loss that it elects to keep rather than transfer to an insurer.
 - Deductibles.
 - Self-insured retentions.
- Optimizing retained losses is critical in determining risk financing strategy.
 - Retained losses directly correlate to insurance premiums.
 - Higher retentions can lead to premium discounts.
- A workers' compensation performance assessment provides a view of loss trends and pre- and post-loss experience.
 - Helps businesses compare their experience to industry trends.
 - Can inform decisions related to other workers' compensation program elements.

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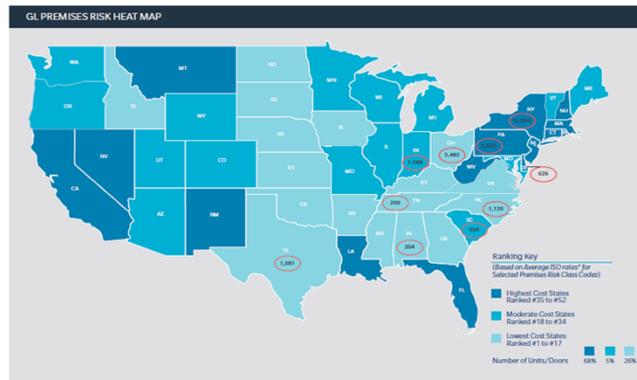
Managing Risk Transfer Premium Costs

- Risk profile differentiation can help to manage risk transfer premium costs.
 - Insurance buyers can better position themselves with insurers by highlighting risk reduction efforts, including:
 - » Workplace safety programs.
 - » Medical cost management strategies.
 - » Distracted driving training programs.
 - Taking these actions can also help reduce retained loss and claims costs.



Risk transfer premiums generally represent 20% of total cost of casualty risk.

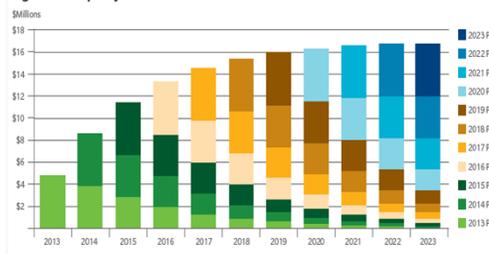
Managing Risk Transfer Premium Costs



Collateral

- In loss sensitive insurance programs, insurers agree to pay all claims; policyholders reimburse insurers for claims under the policy's deductible.
- To secure liability, policyholders post collateral, which helps insurers:
 - Protect against credit losses.
 - Meet financial rating agencies' surplus requirements.
 - Preserve financial ratings.
- Collateral requirements are assessed for individual insureds based on:
 - Insurance program structure.
 - Loss projections.
 - Financial health.
- Reducing collateral obligations can free up valuable capital for businesses to use for other purposes.
- Optimizing collateral programs through:
 - Modeling and analysis of existing collateral position.
 - Financial review.
 - Tactical discussion.

Figure 1: Sample Pyramid Structure Over Ten Years



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Implied Risk Charge

Calculating implied risk charge:

- 1 Define your risk tolerance.
- 2 Understand potential for severe losses.
- 3 Examine borrowing costs.

Expected Retained Losses

- These losses are discounted due to the fact that losses pay out over time – sometimes over many years. Discounting allows for a more accurate economic view of the impact of losses.

Premium

- Comparisons of options can be made based on actual premium quotes or based on “breakeven premiums”, which show the amount of premium that would make two alternatives equally attractive in terms of their expected bottom-line impact.

Implied Risk Charge

- The higher the volatility, the higher the implied risk charge, and the potential damage to a company's financial strength in a **worse than expected** loss scenario.

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CALCULATING TCOR

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Calculating TCOR

ABC Company	Effective 20XX				
Key Financial Measures					
Domestic Sales					
International Sales					
Total Sales	-	-	-	-	-
Total Insurable Value					
Insured Payroll					
Self-Insured Payroll					
Total Payroll	-	-	-	-	-
Operating Margin					
EBITDA					
Other					
Other					
Casualty					
Automobile Liability					
Premium					
Retained Losses					
Loss Control Costs					
Claims Admin Costs					
Surcharges					
Terrorism Risk Insurance Act (TRIA)					
Taxes					
Other					
Other					

Repeat this process for all lines of insurance.

- General Liability
- Lead Umbrella
- Excess Liability
- Insured Workers' Compensation
- Self-Insured Workers' Compensation (including excess)
- Property
- Management Liability (including all applicable excess)
 - Directors & Officers
 - Errors & Omissions
 - Fiduciary
 - Crime
 - Employment Practices Liability
 - Employed Lawyers Liability
- Aviation, Marine Cargo, International, etc.

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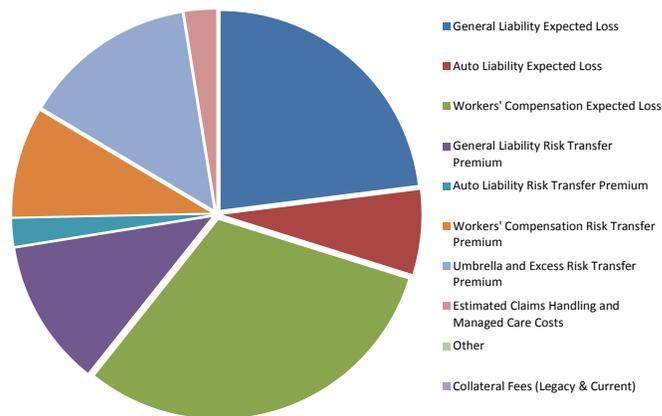
Calculating TCOR

Finally – Don't Forget Those Fees!

- Brokerage fees.
- Consulting fees.
- Claim management fees.
- Other miscellaneous fees.

Calculating TCOR

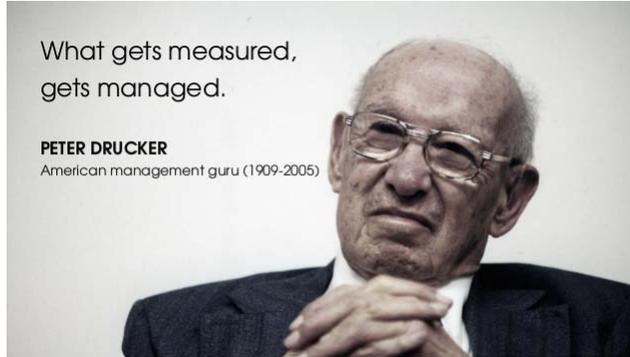
What is the greatest exposure?



Benefits of Knowing Your TCOR

What gets measured,
gets managed.

PETER DRUCKER
American management guru (1909-2005)



You cannot manage what you do
not measure
What gets measured gets done
What gets rewarded gets done -
first

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Benefits of Knowing Your TCOR

- Incentive to invest in a more effective risk management effort.
- Results in a more focused risk and insurance strategy.
- Communicates accountability and demonstrates the importance of risk management to senior leaders.
- Increased productivity and profitability.
- Greater efficiency.
- Reduced costs across the entire organization.
- Allows you to distribute the cost of risk across the organization (cost allocation programs).
- Ability to identify inconsistencies in your overall risk management approach.
- Measures progress toward attaining your risk management goals.

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DATA & ANALYTICS



How Data and Analytics Support Risk Management

Risk Identification	Risk Transfer	<ul style="list-style-type: none"> • What risks do we need to be concerned about? • How frequently do these issues arise and how severe are they?
	Risk Retention	<ul style="list-style-type: none"> • Does my company have a stated risk tolerance and appetite? • What is the potential risk and volatility and how much could it cost the company? • How well are we protected and do we have optimal programs in place? • Does my retained risk sit in the appropriate vehicle? • Are we doing everything we can to manage, prevent, or mitigate losses? • Are we minimizing administrative costs? • Are we capturing the right data about risks and losses efficiently?
Data and Analytics		

Data & Analytics

Benchmarking

- Internal benchmarking provides necessary and valuable information, but it does not tell the full story.
- External benchmarking allows you to identify trends and compare your outcomes to peer groups facing similar risks.
- By using your data, outside data, and creating virtual peers you can:
 - Objectively identify performance levels and improvement opportunities.
 - Investigate the root cause of claims severity and determine cost-effective changes.
 - Set realistic cost-reduction goals based on factual knowledge – not speculation or emotion.
 - Select valid baselines for measuring performance over time.
- Select benchmarks that:
 - Deliver the best results.
 - Capture your true risk characteristics.
 - Focus on your key program cost drivers.
 - Relate to your organization's strategic goals and objectives.
 - Provide timely, relevant, and concise information.
 - Are easily calculated, understood, and measure your progress.

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Data & Analytics

Benchmarking

- When do you benchmark?
 - AFTER you define you mission and goals.
 - Be sure to establish your baseline measure.
 - Whenever you are considering new programs.
 - Use it to demonstrate value to leadership – don't wait to be asked!
- To whom do you compare yourself?
 - Internal: Benchmark against yourself year over year.
 - External: Peers by industry, similar operations, payroll, headcount, etc.
 - Virtual peer.
- What should you do with the results?
 - Use them to sell the process.
 - Obtain management buy-in on goals and action plans.
 - Monitor and/or refine your risk management strategy.
 - Recalibrate your benchmarks as necessary.
 - Include them with your submission to the insurance market – you have a great story to tell!
 - Present them to leadership.

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Data & Analytics

Workers' Compensation Performance Assessment

When integrated into the renewal cycle, it provides valuable insight to:

- Manage claims.
- Lower administration costs.
- Enhance workforce risk mitigation strategies.
- Identify liability reduction strategies.
- Optimize insurer risk profile.
- Improve perceptions.

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Data & Analytics

Gap Analysis

- Claim management.
- Injury management.
- Culture and management involvement.
- Safety and prevention.
- Training and education.
- Continuous improvement.



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WORKFORCE STRATEGIES AND RISK MANAGEMENT

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Review and Improve Safety Culture, Leadership, and Behavior

1	Safety Management Systems	Develop, implement and improve the comprehensive approach to safety across an enterprise or business unit.
2	Leadership	Set the tone for safety through visible and felt leadership and direction from executives to front line leaders.
3	Culture	Establish an approach to purposeful improvement of safety culture through assessment and intervention.
4	Behavior	Improve safety performance where work gets done through behavior-based programs.
5	HSE Organization Effectiveness	Assess the capability, competence, and capacity of the Health, Safety, and Environment organization .

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Safety Management Systems

Helps you reduce risk and drive systematic improvement in safety performance.



- Risk profile development.
- Management system design and evaluation.
- Management system implementation and improvement.
- Improvement cycle development.
- Change management and training.
- Performance reporting and KPIs.
- Governance and controls.
- Management system sustainability.

OUTCOMES

- 52% lower accident rate than peers (source: GAO).
- 52% of companies reported improved incident reporting (source: BSI).
- 53% of companies reported fewer lost work hours due to illness (source: BSI).
- 32% of companies reported decreased overall accident costs (source: BSI).
- 64% of companies reported improvements in company image (source: BSI).
- 50% reduction in spills (source: client data).



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Safety Culture Assessment

Supports your ability to improve operational risk and safety performance based on robust data.

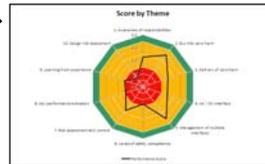
Entity A	Entity B	Entity C	Entity D
Level 3	Level 2	Level 3	Level 4
Level 3	Level 4	Level 3	Level 3
Level 3	Level 3	Level 3	Level 4
Level 2	Level 3	Level 3	Level 2
Level 4	Level 2	Level 3	Level 4
Level 3	Level 3	Level 2	Level 3
Level 3	Level 4	Level 2	Level 3
Level 3	Level 4	Level 1	Level 3
Level 4	Level 4	Level 2	Level 3

Assess multiple risk and safety dimensions across several locations and/or business units.

- Diagnostic approach across a range of dimensions that highlight your areas of good practice and underperformance.
- Ensure alignment with your strategy and goals.
- Quantitative and qualitative analysis to ensure robust understanding of the "as-is."
- Clear action-orientated output from the diagnostic process highlights areas of concern and helps you drive the planning process to implement improvements.

OUTCOMES

- Development of an HSE risk management approach that delivers against overall strategy.
- Improvement activities driven by the analysis of a robust data set.
- Understanding of what's working and where, and driving a risk-based approach to improvement.
- Baseline data from which to measure improvement activities.



Identifies HSE strengths and opportunities for an enterprise or site which are then prioritized and form the basis of a strategy and action plan.

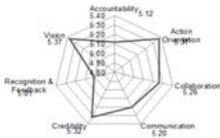
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Safety Leadership 360

- Helps you assess your leadership safety competency through a 360 feedback process.
- Focused interviews can provide deeper insights.



Model serves as the basis of a 360 degree leadership assessment (can be customized).

OUTCOMES

- Improved safety performance.
- Identification of organizational capability gaps.
- Identification of individual competence gaps.
- "Visible and felt" leaders.



Engages the organization on improving safety leadership capabilities.

- Competency-based assessment of safety leader performance.
- In-depth interviews, targeted for executive safety performance.
- Individual reports identify strengths and opportunities.
- Workshops to review results and build competency improvement plans.



CLAIMS MANAGEMENT

Claims Management

- **Variable costs consist of:**
 - Indemnity costs.
 - Medical benefits.
 - Allocated expenses.

- **Potential opportunities for cost reduction:**
 - Claims administration protocols and workflows.
 - Claim reporting procedures and nurse case management.
 - Directing injured workers to in-network medical and ancillary service providers.
 - Providing return-to-work options for injured employees.
 - Enhancing litigation management techniques.



Variable expenses represent roughly 90% of workers' compensation claims costs.

Claims Management

- **Additional variable cost considerations:**
 - Loss of reputation.
 - Loss of market share.
 - Overtime.
 - Additional training.
 - Production decrease.
 - Product loss.
 - Fines.



Variable expenses represent roughly 90% of workers' compensation claims costs.

Claims Management

Third Party Administrator/Claim Service Provider Issues

- Higher adjuster caseloads.
- Less experienced adjusters.
- High turnover.
- Claims bounce from unit to unit.
- Reliance on defense counsel for high-level claim activities.
- Overlooked fees.



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Claims Management

Third Party Administrator/Claim Service Provider Issues

Overlooked fees

- Everything used to be on a straight per claim basis.
- Now on top of the base per claim charges, fees are added for:
 - Medical bill repricing (per bill, per line, percentage of savings).
 - Nurse case manager – field and telephonic.
 - Defense counsel doing claims work.
 - Risk management information systems.
 - PPO/Pharmacy network charges.
 - Termination fees.
 - Call intake.

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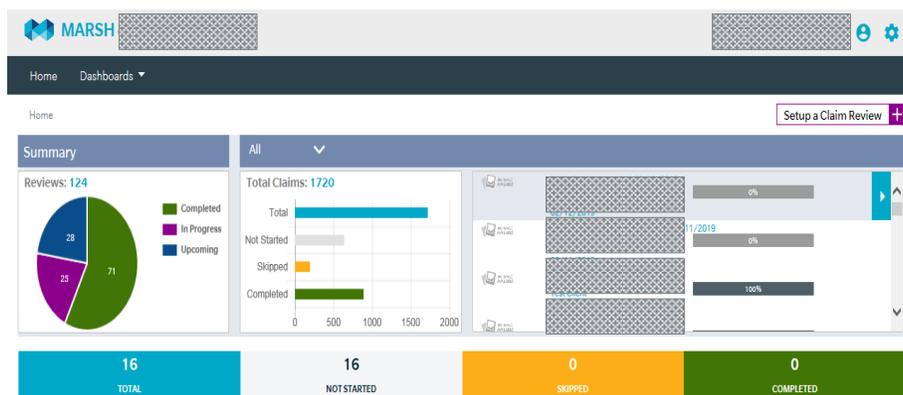
Claims Management

Third Party Administrator/Claim Service Provider Issues

What can be done?

- Market the TPA relationship periodically.
- Look at outcomes.
- Review contract closely for all fees.
- Negotiate lower fees for certain items.
- Develop detailed special handling instructions.
- Periodically review claims and file notes in the RMIS system.
- Request dedicated/designated adjusters.
- Interview/meet adjusters first.
- Conduct claim reviews/file audits.
- Performance guarantees.
- Multi-year contracts.

Claims Management Now Digital



Demonstrating How Your Organization Is Managing Total Cost of Casualty Risk

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Summing It Up...

- Effective casualty TCOR reduction depends on the willingness of all parties to invest in the process.
- When portraying your program to the markets, you need to emphasize your commitment to quality, cost containment, and effective claim management.
- Provide loss information, identify claim trends, and highlight your cost reduction initiatives.
- You worked hard for those gains – showcase them!

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QUESTIONS...?

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