LloydSadd INSURANCE BROKERS

NAVACORD®

Managing Your Total Cost of Risk

As a manufacturer, how do you quantify your true cost of risk? For example, if you are faced with a recall, how do you calculate your loss of reputation or market share?

It is difficult, at best, to quantify this scenario. In contrast, other components of your cost of risk are easily identified, such as insurance premiums, or lost production costs caused by downtime of a custom piece of machinery.

Total cost of risk is an insurance term describing the cost of both pure and speculative risk. It is synonymous with price—the price of your risk management program. We take a total cost of risk approach to positively affect your price by protecting the following four main asset categories:

1. **Organization**
2. **Personnel**
3. **Property**
4. **Net income**

The structure of your risk management program looks to help decrease your total cost of risk. To reach that goal, we help you:

- Analyze your exposures
- Implement control measures to those exposures
- Determine risk transfer or financing options
- Manage current and future exposures

Identification of Exposures

As part of our risk management interview process, we look to confirm that your risk management approach supports your overall business objectives and plans for your company's future. How would your income or cash flow be affected if there were unforeseen depletions of capital or a shutdown in the plant? Discussing the qualitative aspects of your business provides the important details needed to solidify a plan to help your business succeed, even if the worst happened. Risks can be both qualitative and quantitative. Analyses into both offer the foundation for developing forward-thinking approaches to those exposures.

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What is your viewpoint on risk? Is your company risk-averse? Is it in a financial position to take on more risk instead of transferring that risk to another party or contractually to a carrier? To help determine your risk aversion, it helps to assess your company history.

For example, if you are a start-up company, cash flow and funds are typically tight, so you are more likely to be adverse to risking the financial viability of your start-up organization. Conversely, if your company has over a 20-year history, there are also risks, including becoming obsolete, stagnant or too conservative with your business plan.

Additionally, we consider norms in the manufacturing industry, your market position and competition to position your risk management solution to the changing needs of your business.

Quantitative analysis supports the qualitative interview. We look at the “hard numbers” and prior losses to identify trends in your performance. We also analyze those losses to identify:

- Average incurred costs per loss
- Total incurred trends
- Top loss drivers
- Locations with high frequency issues
- Fraudulent behaviours
- Reporting lag time
- Frequency versus severity ratios

The results of our in-depth analysis will reveal opportunities to approach the critical areas driving your total cost of risk. We will isolate the root causes of these problematic areas and look to implement control measures to mitigate this exposure.

Implementation of Control Measures

Identifying exposures directs us to focus our resources on delivering the best control measures. An estimated 75 per cent of commercial insurance expenses are claims-driven. We look to control and reduce this percentage through pre- and post-loss control measures.

A comprehensive loss control evaluation uncovers your strengths and weaknesses. A company may have strong management leadership behind his or her initiatives but have no employee buy-in or participation. We have the solutions to establish a safety committee, delivering a comprehensive employee safety education campaign to address your exposures.

There are many post-loss or cost containment strategies. A proactive and effective return to work program is one strategy that positively affects your bottom line: offering a bank of modified-duty jobs for employees and informing the doctor there is modified work available. Also, establishing a relationship with a local occupational medicine clinic can help manage costs. Interview the staff to learn about their services and tour their facilities. Invite the physicians into your business to get a first-hand look and understanding of your operations. By providing them with the details of your operations, they can accurately evaluate reported injuries to confirm if they are work-related.

Fraudulent claim behaviour can drive the cost of risk out of control. Anti-fraud tactics include educating employees on the effects of insurance fraud through payroll stuffers and worksite posters, and offering safety incentives for solid performance. Also, keeping a motor vehicle accident kit in company vehicles, along with a disposable camera, allows you to document evidence, providing stronger subrogation results.

An active loss control program and post-loss procedures are elemental to cost containment. Our brokerage offers comprehensive resources to employ the most appropriate strategies for your business.

Risk Transfer and Financing

Once we have identified exposures and created control measures, we can focus on the remaining exposures to transfer and/or finance. You will want to address questions such as: How much risk can I afford to assume in-house? How can your insurance broker assist in contractually transferring risk to a third party? Lastly, what portion of the exposures do I want to finance through an insurance policy?

Addressing these questions offers a direction as to how to approach the financing of your risk. Think about current cash flow needs. Are account receivables current? If there is a lag, how long is it, and are there resources to correct it?

Considerations involve self-insured retentions if you have a mature loss control program and the financial reserves to cover shock losses that occur. Therefore, a combination of insurance and non-insurance strategies should be considered.

Manage Your Exposures

Roughly 25 per cent of businesses that sustain a major catastrophe are no longer in business within a year's time. If there is an interruption in your operations, are you prepared?

We have resources for you to develop a comprehensive business continuity plan. This involves backing up your policies and procedures. We offer critical risk management information, employee education resources and tools to drive down your cost of regulatory compliance.

Cost of Risk Resources

To develop the most appropriate risk management program for your organization, Lloyd Sadd Insurance Brokers Ltd approaches "insurance" through a variety of insurance and non-insurance strategies, such as:

- Identification processes (qualitative and quantitative);
- Loss analysis tools to uncover exposures;
- Implementation of pre- or post-loss initiatives that address cost containment;
- Business continuation planning/disaster recovery;
- Risk financing options, retained losses or transferred; and
- Regulatory compliance issues.

We work with you to develop a strategic action plan, to assist in the execution of the designed risk management program, and are committed to the monitoring and support of these initiatives. If you are interested in reviewing your risk management strategies, contact us today to speak with one of our local advisors.

LET US HELP YOU MANAGE YOUR RISK

LOCATIONS
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