

Risk Management - Decreasing Your Cost of Risk

June 12th, 2018



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Agenda

- Introduction
- Insurance: Commodity vs Service
- Definition: Total Cost of Risk (TCoR)
- Custom Approach
- 5 Steps to Reduce your TCoR
- TCoR Illustration
- Q & A

About the Presenter

- Len Bennett, BA, FCIP, CRM, Risk Analyst
- 20+ years insurance claims experience
- Senior Claims Examiner at Frank Cowan Company for 10 years

About Frank Cowan Company

- Frank Cowan Company (FCC) is a Managing General Agent
- Insurance companies have delegated claims and underwriting authority to us and we manage all under one roof
- Over 90 years partnering with municipalities, insurance companies and independent brokers
- We employ over 130 people who help service our 300+ municipalities across Canada
- 190+ are located in Ontario (and counting!)

Municipal Environment

- Long tail claims
- Perceived deep pockets
- Multiple exposures:
 - Roads – MVA's
 - Sightlines, signage, MMS compliance, design
 - Sidewalks – trip and falls
 - Municipal building inspections – E & O
 - Toboggan hills
 - Trails
 - Bike lanes
 - Transit

Insurance Commodity vs. Service

Insurance is a service:

- TCoR highlights the full cost of the insurance program
- TCoR demonstrates that municipalities need a partner that can provide the assessment and review tools to manage risk and reduce cost
- In terms of optimizing your insurance program, municipalities must think long-term and focus on sustainability

Definition of Total Cost of Risk

- TCoR = total cost of municipal insurance program
 - Annual premium
 - Cost of claims below the deductible
 - Cost of municipal insurance staff & related expenses
 - Cost of consultants
= TCoR

Custom Approach

- One size does not fit all, approach must be customized
- Variables
 - Size of deductible
 - Local exposures
 - Frequency and severity of claims
- Ultimately must determine the key driver for increasing claims costs
- Risk Management – Can exposures be eliminated or mitigated?

5 Steps to Reduce your Total Cost of Claims

1. Multi-Department Approach

- Champion a multi-department total cost of risk method

2. Claims Management

- Implement a structures and tested claims management process that drives down cost

3. Risk Management

- Employ custom Risk Management services that mitigate incidents before they occur

4. Partnership

- Commit to partnering with an insurer that has extensive expertise and experience

5. Metrics

- Gauge and metrics and monitor results

How Does Risk Management Help Reduce TCoR?

First – You Need to Identify the types of claims that are driving costs below & above the deductible

- What is driving frequency and severity?
 - Roads – MVA's
 - Sidewalks – trip and falls
 - Municipal building inspections/permit – E & O
 - Property
 - Auto
 - Transit

Then - Isolate the root causes of claims & develop a Risk Management plan to mitigate/eliminate

- May require a technical expert to undertake assessment
 - Roads review, MMS compliance, sidewalk inspections
- Examples of root causes:
 - Trip ledge maintenance - high frequency of trip and falls
 - Non-compliance with MMS - motor vehicle accidents
 - Inadequate documentation to support building inspection approvals – E & O claim
- Develop action plans
 - Road expert may recommend GPS to document your winter control activities
 - Implement a sidewalk inspection and maintenance program
 - Update signage in compliance with Ontario Traffic Manual
 - Training targeted to root causes

Total Cost of Risk Illustration

TCoR Illustration

Illustration: fictitious municipality - Claims City:

- +100k population
- \$50k deductible, \$3.0M annual premium
- Frequently goes to market, saves \$ but within 2 years gets back to high premium levels
- High claims activity, many slip and falls
- Cost of claims below the deductible \$2.0 mill annually, loss ratio undeveloped = 100%
- Risk manager has 3 claims staff: manage 1,250 claims a year, claims staff overworked and carry 250 claims/FTE, can't increase headcount

TCoR Illustration

Claims City Total Cost of Risk

	(\$millions)
Annual premium	3.0
Claims Cost below deductible	2.0
Staffing/program costs (4 staff +op. costs)	0.6
Consultants	<u>0.0</u>
TCoR	<u>\$5.6mill</u>

TCoR Illustration

1. 10 year claims review cost drivers:

- Key findings:
 - High frequency/some severity of trip and fall claims
 - 100 liability claims per year, 50 sidewalk trip and fall
 - 13 liability claims annually above deductible (\$650k annual cost for municipality, \$750k for insurer)

TCoR Illustration

2. Engage insurer or external road's expert to assess sidewalk program

- Key findings:
 - Poor inspection practices, MMS requirements
 - Moderate increase in maintenance budget will provide corrective action on a more timely basis
 - Finance can perform a cost benefit analysis to substantiate budget increase
 - Improved inspection and sidewalk repair programs results in claim reduction by half
 - Annual savings once sidewalk program fully in place = \$375k for insurer and \$325k for municipality

TCoR Illustration

3. Engage insurer or consultant to initiate a best practice claims review to measure efficiency and effectiveness of claims processing

- Key findings:
 - Proportion of aged pending files (>18 months) too high
 - Case per adjuster too high at 250 s/b 200
 - Cycle time higher than industry norm (+3 months)
 - Legal expense per file higher than industry norm

TCoR Illustration

4. Implement a best practice claim process

- Key findings:
 - Adopt standards of service
 - Develop initial strategy, vendor management strategy, customer contact...
 - Set target for closing ratio of 1.15 to 1
 - Target a case/adjuster examiner from 250 to 200
 - Close out old claims through monthly review of aged pending
 - Adopt service agreements with external vendors

TCoR Illustration

4. Results of best practice claims implementation (metrics):

- Within 6 months claims results improving:
 - Closing ratio improvements
 - Cycle time
 - Aged pending reduced
 - Caseload per adjuster falling
- Savings = 7.5% of cost of claims (\$2.0 mill total) under the deductible or \$150,000 annually.
Claims examiners caseload falling, pushed off need for additional staff

TCoR Illustration

Claims City Total Cost of Risk (\$millions)

	Yr. 1	Yr. 3
Annual premium	\$3.0	\$2.5
Claims Cost below deductible	2.0	1.5
Staffing/program costs (4 staff +op. costs)	0.6	0.6
Consultants	<u>0.0</u>	<u>0.0</u>
TCoR	<u>\$5.6</u>	<u>\$4.6</u>

Total Cost of Risk has fallen by \$1.0 mill or 18%!

TCoR Summary

TCoR Critical Success Factors:

- Need a champion
- Commitment to implement change
- Partnerships:
 - Internal Depts. that are open to review/assessment
 - Selecting a partner that can bring the technical expertise to direct reviews

In Closing

- Each Ontario municipality is a unique entity defined by the services provided; geographical location; historical past and the special events celebrated.
- These distinct qualities also define your risk profile and your subsequent risk financing requirements.
- Know your risks and manage the cost; And,
- Choose a partner that understands your risks and can help you manage the cost

“There are risks and costs to a program of action. But they are far less than the long-range risks and costs of comfortable inaction.”

— John Fitzgerald Kennedy

Reducing Total Cost of Risk

Questions?

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Industry expert Alison Orr talks about Building Code Liability at our [#MitigatingRisk](#) & [#ReducingLiability](#) for Municipal Building Departments Seminar. More seminar dates & venues lined up. Visit our events page to register.

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