Risk Management and Safety, Do We Speak the Same Language?

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Agenda

• Overview of Risk Management
• Total Cost of Risk - TCOR
• Safety’s Responsibilities
• Risk Management’s efforts?
• How can safety help?
• Successful Organizations
• Summary

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Overview of Risk Management

- Two Types of Buyers
  - Economic buyers
    - Buys the insurance/transactional process
      - Typically a risk manager, controller, CFO
  - User Buyers
    - Safety department
    - Claims department
    - Fleet manager
    - Property manager

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Economic Buyer-

The person, usually a Risk Manager or CFO, in larger companies or the controller or CFO in smaller companies that buys and administers the insurance program.
User Buyers-
The person or people within an organizations that works with the insurance program as part of their job, but do not have responsibility for purchasing the program. Safety, claims, fleet managers, or others.
Risk in a Typical Organization

Risk Management Department

Risk Control (User buyers)
- Loss Prevention.
- Safety Department
- Loss Control.
- Claims management
- Fleet management

Risk Financing (Economic buyer)
- Obtain funds to pay for losses (LOC)
- Control overall “cost of risk.”
- Insurance Retention
- Deductable
Cost of Risk
Corporate Cost of Risk

- What is a corporation’s cost of risk?
- Based on the RIMS-Ernst & Young annual Cost of Risk Survey:
  - Cost of risk includes:
    - Insurance premiums
    - Retained losses-Retentions/Deductibles
    - Internal risk management
    - Outside services like wholesalers
    - Claims Administration- Internal or TPA’s
    - Brokers fees

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Corporate Cost of Risk Continued

Cost of risk

- Typically represents 1 to 3 percent of total company revenues (for small companies may be higher).
- Usually the highest cost are found in workers’ compensation and liability depending on the type of company
  - Ladder manufacturer may have low WC cost high GL cost
  - Steel erection company may have high WC cost, but low GL cost
- Is affected by retention levels and losses
Total Cost of Risk

- **Fees**: 3% to 5%
- **Premiums**: 20% to 35%
- **Losses**: 60% to 80%

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Safety’s Responsibility
Safety’s Responsibilities

• Program, policy and procedure development
• Tasked with reducing frequency and severity rates
• Manage safety processes
• Audit
• Train
• Benchmark
• Investigate
• Create a culture

This is a very short list of the activities that we perform.

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Risk Management Efforts
Risk Management Efforts

- Work with broker/agent
- Work with actuaries
- Determine coverage, limits, deductibles/retentions
- Work with carriers on letters of credit
- Claims administration
- Allocation analysis & administration
- Advise executive staff on macro risks & methods to address such risks to the organization

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How Can Safety Assist in the Risk Management Effort?
How Can We Assist in the Risk Management Effort?

• We must speak management’s language
  – Accounting, finance, and Risk

• We can’t use old terms like
  – 80/20 Rule
  – Frequency rate
  – Severity rate
  – Iceberg Theory
  – Labor hours per doctors visit
  – OSHA say we have to do it
What Language or Terms Should We Use?

- Senior Management & Risk Management understand…
  - ROI
  - Earnings per share (sometimes this works)
  - Revenue growth
  - Workers’ comp cost per (item made)
  - GL cost per (item made)
  - Workers’ comp cost as a % of payroll
  - Bench Marking
  - Loss Forecasting

  All of these are Performance Indicators that can be measured.

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Return on Investment

A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.

You have to prove to management that the expenditures you want to undertake are going to have a positive return…

Said differently – “that there is an acceptable value to the organization.”

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Earnings Per Share

The portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability.

Be careful with this one, unless you are expecting really large returns on your safety efforts.
Revenue Growth

An increase of a company's sales when compared to a previous month, previous quarter, or previous year’s revenue performance. The current sales figures can be compared on a year-over-year basis or sequentially.

Great tool for comparing WC, AL, and GL cost to Revenue.
Insurance Cost Per Item Produced

Great tool for comparing your workers’ compensation, general liability, and/or auto liability claims cost to the products that are produce by your organization.

Great tool to show senior management that claims cost are coming down or going up in relation to the products that are made.

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Workers’ Compensation Cost as Percentage of Payroll Example

- Best-in-Class: 0.59%
- ABC Manufacturing: 0.92%
- Average: 2.41%

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Benchmarking

Which way works best for management?

- BLS (man hours based)
  - Total recordable rate
  - Lost-time rate
  - Days away from work
  - Other recordables
  - Fatality rate

- RIMS (cost per $1,000 revenue)
  - Liability
  - Workers’ compensation
  - Property
  - Outside vendors
  - Risk management administration

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Loss Forecasting Tools

• Important for management because it is a tool to help in determining cash flow need when financing a risk
  – LOC’s
  – Do we need to increase or decrease retentions?

• When used properly, safety and risk control can use preventative tools to reduce the likelihood or severity of a potential loss
**Impact of Accidents on Profit Example**

*If your company’s profit margin is:*

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This table illustrates the financial impact of on-the-job accidents. An accident that carries direct cost of $1,000 is not “paid for” until a company with a 1% profit margin sells $100,000 worth of goods.
“Do Nothing” Model

- Assume Base Year with Developed Total Incurred of $1,000,000 – 200 Claims
- Five Year Cumulative “Do Nothing” Cost
  - $5,666,410 (Assuming 4.2% Annual Inflation)
- 5% Year Over Year Reduction in Frequency
  - Five Year Cumulative Total = $4,850,525
  - Five Year Savings = $815,885
  - At 5% Net Profit Margin $16,317,706 in Revenue Required to Generate Same Financial Benefit
- 5% Year Over Year Reduction in Frequency and Severity
  - Five Year Cumulative Total = $4,174,006
  - Five Year Savings = $1,492,404
  - At 5% Net Profit Margin $29,848,075 in Revenue Required to Generate Same Financial Benefit

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A Successful Organization

Production

Safety

Quality
Successful Organizations Measure

- **Productivity**
  - Measure how much product is produced
- **Quality**
  - Measure the quality of the products produced
- **Safety**
  - We measure how bad we did.
  - How many people got hurt.

*We should be measuring how good we are doing!*
Why is safety communicated in negative terms?

- We had _____ accidents last month.
- Total Recordable Incident Rate (TRIR)
- Lost Time Incident Rate (LTIR)
- Lost Time Severity Rate (LTSR)
- WC Average Cost per Claim
- WC Average Cost per Division/Department
- We are above/below the BLS National Average
How do we use this information?

• Develop tracking tools to develop performance goals
• Use the “safety information” we have to keep and put it in a format that risk management and senior management will use.
• Do we reward for participation and efforts or not having accidents?
• Do we use the information to set safety goals and objectives that mean something to the organization?
• Are losses being reduced?
Tracking Affects Risk Management

Goals

• Are we getting better?
• Are losses decreasing?
  – Severity and frequency
  – Overall cost to the organization
• Are we able to do loss forecasting?
• Are claims allocations going down?
  – Bad Apple locations?

The Risk Manager can use this information to take larger retentions to reduce cost

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Safety Management Model

• Management Commitment
• Employee Involvement
• Hazard Identification
• Hazard Control
• Recordkeeping
• Development of “Real Goals”

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Safety Management Model

1. **Set goals and a strategy based on your hazard assessment**
2. **Review loss history and identify hazards**
3. **Implement your strategy**
4. **Baseline**
5. **Measure results against your goals**

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Summary

• Educate yourself in Risk Management terminology
• Risk management goals affect safety goals and efforts
• Put your statistics in a format that management and employees understand
• You can work with the Risk Manager to achieve your goals
• Find out how your insurance program is designed
Are there any questions?

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