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## Risk Insights

### Manage Cost of Risk, Control Price

Every facet of your organization affects your cost of risk. It is difficult, at best, to quantify all aspects of this total cost of risk. For example, if you manufacture specialty equipment or products and you are faced with a recall, what is your loss of reputation or market share? In contrast, other components of your total cost of risk are easily quantifiable, such as insurance premiums, or the downtime of a custom piece of machinery and the resulting lost production.

Total cost of risk is an insurance term describing the cost of both *pure* and *speculative* risk. Additionally, cost of risk is synonymous with price — the price of your risk management program. We at Bouchard Insurance take a total cost of risk approach to positively affect your price.

Our goal is to structure a risk management program that protects the four main asset categories of your business:

- Organization
- Personnel
- Property
- Net income

The structure of your risk management program looks to the endgame of your price. To reach the endgame you seek, we must first further define Risk Management into four key tenets:

- Identification of exposures through analysis;
- Implementation of control measures to those exposures;
- Risk transfer or financing; and
- Management of current and future exposures.

## Identification of Exposures

Exposures are both qualitative and quantitative. Analyses into both arenas offer the starting foundation of understanding your current exposures to develop forward-thinking approaches. The qualitative discussion will confirm if the business initiatives are in correlation to the risk management program.

As part of our risk management interview process, we look to confirm that your risk management approach supports your overall business objectives. As a business owner, CFO, Risk Manager or HR Director, what keeps you up at night? If that concern happened, how would your income or cash flow be affected if there were unforeseen depletions of capital or a shutdown in the plant?

A discussion on the qualitative aspects of your business provides the important details needed to solidify the most appropriate game plan to your endgame, price.

What is your viewpoint on risk? Are you/your company risk averse? Is your company in a financial position to take on more risk versus 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 risk to protect the financial viability of your start-up organization.

Conversely, if your company has a 20+ year history, there are also risks, including becoming obsolete, stagnant, or too conservative with your business plan.

Furthermore, we consider your industry, market position, and competition in positioning your risk management solution to the changing needs and direction 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 losses to identify a variety of variables, such as:

- average incurred costs per loss;
- total incurred trends;
- top loss drivers;
- locations with high frequency issues;
- fraud behaviors;
- reporting lag time;
- frequency vs. severity ratios; and
- OSHA recordable performance.

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

### **Implementation of Control Measures**

The opportunity spent on the identification of exposures directs us to apply our expert resources delivering the highest impact on your bottom line. Several control measures are designed from a pre-loss perspective.

An estimated 75 percent 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 points to strengths and weaknesses in loss control programs. One may have strong management leadership behind his or her initiatives but have no employee buy-in or participation. Bouchard Insurance has the solutions to establish a safety committee, delivering a comprehensive employee safety education campaign. Your business operations will determine the types of measures and approaches to take in addressing 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, establish a relationship with a local occupational medicine clinic. Interview them 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 behavior can drive the cost of risk out of control. The National Insurance Crime Bureau often approaches insurance fraud rings between doctors, physicians and people. Whether it's an auto accident or alleged workplace accident, send a clear message that fraud will not be tolerated.

Anti-fraud tactics include educating employees on the affects of insurance fraud through payroll stuffers and worksite posters, and offering safety incentives for solid performance. Also, keeping a motor vehicle accident kit in each one of your company vehicles, along with a disposable camera, allows you to document evidence, providing a stronger subrogation results.

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An active Loss Control Program and post-loss procedures are key to cost containment. Bouchard Insurance offers comprehensive resources to employ the most appropriate strategies for your business.

### **Risk Transfer/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 you afford to assume in-house? How can we assist in contractually transferring that risk to a third party? Lastly, what portion of the exposures do we 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 those shock losses that occur. Therefore, a combination of insurance and non-insurance strategies should be considered. Bouchard Insurance's insurance experts offer many years of experience in tailoring risk financing programs.

### **Manage Your Exposures**

It is estimated that 25 percent 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?

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We seek a long-term partnership with our clients to address the ongoing changes of exposures with your organization. Continual monitoring of the programs in place, as well as future business expansions, will dictate the course of your risk management program.

We highly recommend you:

- Develop a Strategic Action Plan to put the needed control measures in place, including a Disaster Recovery Plan. This involves backing up your policies and procedures. We offer 24/7 Web access to your critical risk management information, employee education resources and tools to drive down your cost of regulatory compliance: all are ID and password enabled for your protection.
- Offer consistent loss control policies and procedures to all divisions and departments within your organization.

## Cost of Risk Resources

To develop the most appropriate risk management program for your organization, Bouchard Insurance 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, 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 Bouchard Insurance to speak with one of our insurance experts today.

**Bouchard Insurance:  
Helping you to address today's  
Property & Casualty Issues**

*This Bouchard Insurance Risk Insights is not intended to be exhaustive nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel or an insurance professional for appropriate advice.*