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Strategic Risk Management

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Strategic Risk Management is a process designed to keep both the risks associated with doing business and the costs to a minimum. The use of this approach is an indication to insurance underwriters that an organization has performed a thoughtful analysis of the risks involved in doing business. In a tight insurance market, this may maximize the chances of obtaining affordable insurance.

The Role of Risk Control

Brokers and agents have discovered in the past several years that risk control professionals can add significant value to the services provided to their clients. Many large national and regional brokers recognized this fact when it became apparent that risk control professionals were able to fill gaps in service left by insurance carriers. In fact, this gap has widened in recent years with the consolidation of carriers (i.e., St. Paul Insurance Company and Travelers Insurance) or carriers that no longer provide coverage in the United States (i.e., Royal & SunAlliance). These consolidations and departures from the insurance market have impacted the number of risk control professionals offering service to assist clients. The risk control professional, from both the broker and carrier, must develop relationships with clients that are, in effect, extensions of the clients' risk management programs. In order to accomplish this task, professional consultative services are becoming readily available from adequately staffed brokers. The carrier representatives are sometimes limited by the frequency or number of visits that can be economically provided to clients. The broker representative limitation may not be as significant depending on the method used to fund or pay for broker services. Funding is either based on revenue or is fee-based. Although the level of risk control may vary among brokers, from "generalists" to "practice specialists or leaders," each of these professionals bring safety, health, property, products, environmental and a variety of additional areas of expertise. The changing nature of business mandates that each practitioner have as many "tools" in his/her toolbox to do the job at the highest level possible to meet the demands of the client. The primary goal of this paper is to offer a model for risk management service that can enhance the efforts of both the internal and external risk control consultant. This model will impact the safety and health decisions of the client.

Traditional Risk Management Versus Strategic Risk Management

Risk management has been defined as a process that uses physical and human resources to accomplish certain objectives concerning most pure loss exposures. There are both post-loss and pre-loss objectives that must be considered. Post-loss objectives include: (1) survival, (2) continuity of operations, (3) earnings stability, (4) continued growth, and (5) good citizenship or social responsibility. Pre-loss objectives include: (1) economy, (2) reduction in anxiety, (3) meeting externally imposed obligations, and (4) good citizenship and social responsibility. The risk management process consist of four steps:

1. Identifying and analyzing loss exposures.
2. Selecting the technique or combination of techniques to be used to handle each exposure.
3. Implementing the techniques chosen.
4. Monitoring the decisions made and implementing changes where appropriate (Williams, et al 18).

Most businesses have used some variation on this method to implement successful risk management programs. In the past, insurance and a combination of risk control initiatives have been sufficient to minimize losses suffered in everyday business. In addition to the carrier changes noted, the tragedy of September 11, 2001, has impacted the way the insurance business is conducted by many organizations. For example, the cost of property insurance doubled and tripled in premiums after 9/11 and, in some high hazard operations, it became difficult to obtain in the traditional insurance market. These changes have forced business to think differently about how insurance is purchased and at what retention levels. Insurance brokers and agents are challenged to provide proper insurance programs for their clients to meet the objectives noted in the risk management definition and pre-loss and post-loss objectives. Each objective has taken on numerous challenges and opportunities since the 9/11 tragedies changed the insurance business.

Strategic risk management is not just a variation on a theme but a planning and management tool to minimize the cost of risk and the cost of doing business. The *World Book Dictionary,* by Thorndike and Barnhart, defines strategy as the skillful planning and management of anything. If we agree that "risk" is a chance of harm or danger, then it is indeed "anything," so planning and management in a strategic manner is critical for the process to be successful in minimizing or eliminating risk. Strategic risk management is a four-step process as well that includes:

1. Insight—gaining an in-depth understanding of actual and potential loss exposures through both statistical analysis and operational assessment.
2. Action—using risk control and risk financing/cash flow approaches that minimize exposure and the claims costs.
3. Accountability—committing the right tools and resources in a written service plan.
4. Results—monitoring the success of the process by measuring the reduction in risk and associated costs.

Details of each step and two case studies are offered as examples of this approach.

<u>Insight</u>

The statistical analysis should include three to five years of data. This data typically consists of loss experience or loss runs, OSHA logs and company-specific accident or incident information from incident investigations or analyses. Although this information is historical in nature, it provides a good idea of trends and problem areas to the consultant. Loss information frames the picture of the safety culture. The operational assessment will complete the initial overview of the culture of the organization by "looking and touching" the operation. The operational assessment can be used for both new locations of an existing company and for due diligence of prospective purchases. The overview assessment for risk control consist of the following elements:

1. *Description of operations*: What does the location do, how are the operations performed, what machinery and materials are used, how many employees and do off-site operations take place.
2. *Loss information:* As noted, this will be helpful in identifying trends and determining if controls are in effect to minimize a recurrence.
3. *Safety program elements:* This is a documented effort being made to coordinate compliance and safety management, including basic safety training for new and experienced employees and accountability and responsibility for management and supervision.
4. *Property/Environmental/Products*: What exposures exist for these key elements and what is being done to control these exposures.

Each of the above components is discussed in a narrative report with photographs, company brochures, loss runs and related information. The report can be used as part of the submission to insurance carrier underwriters to assist them in their decision-making process. Underwriters have accepted this document to save them time and resources with their in-house consultants.

The overview will allow the consultant to form an initial opinion or impression of the client or prospective client. Often, first impressions are lasting impressions. The consultant should strongly consider a more in-depth analysis to identify gaps in the existing programs. There may not be ample time to complete a gap analysis during this overview or insight stage.

In Pennsylvania, self-insurers are required to maintain an accident and illness prevention program as a pre-requisite for retention of its self-insured status. The program requirements and the LIBC–220 E form serve as an excellent tool to identify the gaps in the existing program they include the following:

(1) A safety policy statement.
(2) A designated accident and illness program coordinator.
(3) Assignment of responsibilities for developing, implementing and evaluating the program.
(4) Methods for identifying and evaluating hazards and developing recommendations for their mitigation.
(5) Industrial health and industrial hygiene programs appropriate to the nature of the individual self-insured workplace.
(6) Accident and illness prevention orientation and training.
(7) Protocols or standard operating procedures, if applicable to the workplace environment for:
    (a) Electrical and machine safeguarding.
    (b) PPE.
    (c) Lockout/Tag out procedures.
    (d) Hazardous materials handling, storage and disposal procedures.
    (e) Confined space procedures.
    (f) Fire protection and control practices.
    (g) Blood borne pathogen exposure controls.
    (h) Subcontractor, vendor and visitor controls.
    (i) Emergency action plans.
(8) An employee safety suggestion program.
(9) Employee involvement mechanisms including safety committees.
(10) Safety rules and a method for enforcement.

(11) Accident/incident investigation methods.
(12) Availability of first aid, CPR, AED or other emergency treatment.

A narrative document or report completed by the consultant serves to meet the annual requirement for contract personnel if the client does not have qualified staff.

Action

In this phase, the risk control professional can provide program development methods, training, safety and compliance management suggestions identified by the above assessment tools. In addition, claim costs can be identified by the loss analysis data. Risk management departments of many brokers include claims personnel with expertise in offering suggestions for monitoring claim adjusters, designing and implementing return-to-work programs and charge-back programs.

The client must decide if risk retention might meet the financial objectives of the organization. In addition, the decision-maker for the client considers risk financing in this phase. Typically, these decisions are beyond the scope of the risk control consultant. The consultant can offer suggestions for risk improvement that might influence the choices for insurance coverage. This aspect is an integral part of the relationship that are critical to the managing of risk.

Accountability

A coordinated effort on the part of the broker, the client and the insurer is critical if the process is to be successful. A written service plan will guide or direct the services, assign responsibility for the services, and establish a timeframe for completion of each task. A typical service plan might include the following:

1. Conduct an in-depth loss source and root cause analysis to determine safety program improvement needs. Responsibility—Broker Consultant—Complete by March 2005.
2. Review machine safeguards with emphasis on power press standards. Responsibility—Safety Manager—Complete by February 2005.
3. Industrial Hygiene sampling of vapor degreasing. Responsibility—Insurance carrier Consultant—Complete by April 2005.

This will commit the right tools and resources and provide direction to the process, as noted in the definition of strategic risk management.

Results

The most important part of this strategy is that the results are successful in reducing both risks and costs associated with the business risks. Developing appropriate claim management strategies and finding appropriate risk financing or retention is a key to the process. The effective use of the tools will be valuable in this problem-solving approach.

Two Case Studies

The following case studies illustrate the success of the problem-solving method outlined above.

Construction Company Success

Client: A privately held, regional general construction company specializing in flat concrete. Planning to expand into the southeastern US.

Problem: Family-owned and operated for over forty years. Minimal emphasis on risk control and safety. Workers' compensation carrier was not satisfied with progress on recommendation compliance in past three years and was asking that coverage be replaced. Experienced modifier was thirty percent higher than average at 1.317.

Solution: Recommended that a full-time safety manager be appointed to correct problems with broker and new workers' compensation carrier assistance. A safety coordinator working on a large wrap-up project for the client was appointed to head the effort. He implemented a return-to-work program, OSHA compliance training for all key management personnel and implementation of a safety committee with the services of the broker and carrier risk control consultants. On-going job site visits were conducted to observe both safe and unsafe practices.

Results: In three years, the experience modifier was improved to .854. The savings in premium and cash flow were substantial. The savings in the third year more than paid for the program and the salary and benefits for the safety manager.

<u>Metal Goods Manufacturer Success</u>
Client: A privately held manufacturer of metal moulds for the glass industry. Six plants in the insured program located in the Eastern and Midwestern US.

Problem: The Company was formed through acquisitions. There was no on-going safety effort at any location. The guaranteed insurance program for workers' compensation was quoted to exceed $1.2 million in 2001.

Solution: The decision-maker and the human resources/safety manager agreed that a self-retention program would be tried for at least one year. In addition, safety efforts would be enhanced at all locations with incident investigation training for all supervisors and managers; safety committees would be implemented at all locations; and the safety manager and broker consultant would visit all plants at least twice annually to conduct detailed hazard analysis.

Results: In the current policy year, the combined cost of the self-retention program and the loss costs are expected to be approximately $500,000, a savings of almost $700,000 for the current year alone. Savings in the past three years have exceeded $1.1 million. The safety manager recently remarked, " Good pizza takes time." How true.

Conclusion

The above are two examples of success stories from a process that works. It is important to remember that safety, health and environmental concerns are really about people. Mr. Riley P. Bechtel, Chair and CEO of Bechtel Group, Inc., in his remarks at the Executive Summit at the Professional Development Conference for ASSE in June 2004 in Las Vegas, noted that his company wants "passionate professionals" to lead the safety effort. The risk control consultant must be passionate about his/her vocation or consider finding another vocation. If we build value-driven relationships with our clients with the safety of people as our major goal, we can all be successful in making the world a safer place to live, work and play.

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