Total Cost of Risk and Benchmarking

Texas PRIMA Conference
November 8, 2016

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A 2015 study by Martin Associates reports that Houston Ship Channel-related businesses contribute 1,174,567 jobs throughout Texas, up from more than 1 million jobs cited in a 2012 study.
This activity helped generate more than $264.9 billion in statewide economic impact, up from nearly $182.6 billion. Additionally, more than $5 billion in state and local tax revenues are generated by business activities related to the port, up from $4.5 billion.
Session Objective

Demonstrate potential value of using Total Cost Of Risk (TCOR) and benchmarking to enhance the effectiveness of your organization’s risk management strategy

- Define TCOR
- Benefits of TCOR
- Components of TCOR
- Case Study: Port of Houston Authority
- Benchmarking & Performance Measurement
- Lessons Learned

_Broadly speaking, TCOR is one of a few things that gets to the essence of what risk management professionals value._
Management usually has three simple questions they want answered

1. What did it cost last year?

2. What will it cost next year?

3. What do I really need to know?
Axiom #1: If You Don’t Measure It….
You Can’t Manage It

- If you don’t measure results, you can’t differentiate success from failure
- If you can see success, you can reward it and learn from it
- If you can’t see success, you are probably rewarding failure
- If you recognize failure, you can correct it

**Bottom Line:** If you can demonstrate results, you will gain support
Total Cost of Risk: Definition

Examples:

- The costs incurred to deliver an effective risk management strategy
- A tool for evaluating the overall costs of an organization’s risk management operation relative to other key measures (e.g., revenues, headcount, asset base)
- A metric used to evaluate the success of your risk management process

PHA Benchmark: TCOR - 2% of Operating Revenue
($20 per $1000 of Revenue)
Benefits of TCOR

- Recognized benchmark; allows for external comparison
- Results in a more focused risk and insurance strategy
- Allows more informed risk management decisions made due to timely and accurate information
- Communicates accountability and demonstrates importance of risk management to senior management
- Distribute cost of risk across organization (Cost Allocation Program)
- Measure progress towards attaining risk management goals
Components of TCOR

TCOR is comprised of **four major cost categories**, each of which contain a **varied** number and type of sub-categories or elements:

- **Claim Costs**
  - All retained losses related to claims

- **Insurance**
  - Premiums Property/Casualty coverage

- **Administrative**
  - Internal & External

- **Uninsured Losses**
  - Active (by design)
  - Passive (by default)
  - *(includes deductibles)*
Where Do I Begin?

- Determine all of the elements of TCOR for your organization
  - Data collection *(address quality/integrity issues)*
  - How many years of data to include *(balance responsiveness & stability)*

- Select benchmarks that
  - Deliver the best value
  - Capture true risk characteristics
  - Relate to organization’s strategic goals/objectives
  - Provide timely, relevant, concise information
  - Are easily calculated & understood; measures progress
Identify Key Program Cost Drivers

*Examples of Items to Review*

- Allows for implementation of focused and specific risk management strategies and concentration of resources on problematic areas
- Loss runs by line, minimum of five years data
  - Ensure accuracy of data (e.g., coding, location, type, etc.)
- Vendor payee list, legal firms & actuarial studies for past 3-5 years
- Property Schedule of Values (SOV)
- Insurance Schedule
- Contracts/Audits (e.g., Insurance, TPA, broker)
- Examples
  - Employee Injuries: % lost time vs. medical only
  - Liability: % claims in litigation
  - Legal costs: as % of total claim costs
Case Study: Port of Houston Authority (2007-2015)

Most current data* encompasses an 8-year timeframe

- **3 years (2007-09)**
  Fully insured program; large deductibles; little program control

  **March 1, 2010**
  Implemented Self-Insurance Program

- **6 years (2010-15)**
  Self-Insured Program (SIR: $350K/$500K); assumed program control; introduced risk management strategies designed to reduce TCOR

* Each year covers period March 1 – February 28. All data is current as of February 28, 2016.
Claim Costs
2008-2015

KEY POINTS:
- 2013 spike due to severity of Workers’ Comp injuries
- Annual number of WC claims remain consistent around 50
Claim Costs
Claim Costs
Claim Costs
Insurance Premiums
2008 - 2015

KEY POINTS:
- $328M in Total Insured Values (40% increase since 2007); adverse loss history; location
- Premiums lowered (avg. >$900K/year) and stabilized
- PHA coverage appropriate protection from loss
**Administrative Costs**

**2008 - 2015**

KEY POINTS:
- Substantial reduction after 2009 due to replacing vendors; better contract management
- Costs for Risk Management fairly consistent; annual avg $650K
- Safety costs added beginning in 2013
Uninsured Losses
2008-2015

KEY POINTS:
- Conscious business decisions; no passive losses
- Substantial reduction in deductibles
Uninsured Losses

Wharf Cranes ($205 Million TIV)
Uninsured Losses
May 26, 2015    Crane 4 BCT    $150,000 Deductible
Uninsured Losses
June 11, 2011    BCT RORO Shed 1    $250,000 Deductible
Uninsured Losses
March 18, 2012  Fireboat Bracewell  $25,000 Deductible
Total Cost of Risk
2008-2015

KEY POINTS:
- Over six years, TCOR reduced by approximately $14 Million
Total Cost of Risk
2008-2015

Over time, TCOR provides a benchmark to measure how risk-related costs are changing relative to the overall growth rate of revenue (or a similar type of measure).

KEY POINTS:
- TCOR decreased and stabilized despite $5 Million in losses and increases in Total Insured Values (+40%), Payroll (+29%), Revenues (+75%)
- Internal Goal is 2%
ESSENTIALS OF RISK MANAGEMENT:
1. DON'T DO ANYTHING WRONG TODAY.
2. DON'T DO ANYTHING WRONG TOMORROW.
3. REPEAT.

"I think we need to take another look at your risk management strategy..."

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Benchmarking: Definition

Although many different definitions exist, we will use these.

- **Benchmarking** involves identifying, learning, adapting, and measuring outstanding practices and processes from any organization to improve performance. This definition supports a commitment to quality.

- **Benchmark** is a standard or point of reference used in measuring and/or judging quality or value

- **Performance Measurement** involves the measuring of practices and processes against your pre-determined goals
Benchmarking: Questions

- When do we benchmark?
- What metrics do we use?
- How do we collect the data?
  - How detailed
- Whom do we compare ourselves to?
  - Internal, External, or both
- How do we validate results?
- What do you do with the results?
  - How often will results be updated
Benchmarking

- **When do we benchmark**
  - After you understand mission and goals, and *after* defining its purpose and what to measure
  - Important to establish a baseline measure
  - Demonstrate value to leadership (*Don’t wait until asked*)
  - When considering new programs; (prior to insurance renewals)

- **What metrics should we use**
  - Requires accurate and trusted data
  - Must be relatively easy to calculate and comprehend
  - Tailor benchmark statistics to the distinct exposure
  - Creative vs. Traditional
  - Use internal and external measures
Benchmarking

- **Data Collection and Analysis**
  - Requires adequate data collection plan
  - Determine what data provides most value
  - Identify key program cost drivers
  - Data must be complete, consistent, relevant, and organized
  - Level of difficulty, time and cost limitations are factors to consider
  - Comprehend the challenges
Benchmarking

- Select your benchmark partners for comparison
  - Internal - Benchmark against yourself year-to-year
  - External
    - Peers – Identify exactly who are “your” peers
      (same industry, similar operations, workforce, systems, practices, location)
    - Private sector
    - Get to know through professional organizations
Benchmarking

- Validation of results
  - Do the numbers make sense *(analyze data; determine gap)*
  - Are your external partners a good match *(same industry, similar operations, workforce, systems, practices, location)*
  - Any statutory items to consider
Benchmarking

❖ What do you do with the results
  ▪ Reveal results and sell the process
  ▪ Obtain management consensus on goals and action plans
  ▪ Implement, monitor, and/or refine risk management strategy as necessary; recalibrate benchmarks
  ✓ Include with insurance market submission
  ✓ Present to leadership
  ✓ Professional conference presentations
Lessons Learned—Quotes you might want to remember.

1) Cheaper is more expensive in the long run
2) It is easier to ask forgiveness than permission
3) The three most important character qualities include trust, honesty & respect
4) Know when to stick your head out of the foxhole
5) Relationships are important
6) Less is more
7) On the day you die, your inbox will be full
8) The four things certain in life are death, taxes, change & failed psychic predications
9) Be careful what you say to or about a person because one day they may be your boss
10) Never allow the fear of failure prevent you from taking the necessary steps to succeed
Subrogation
Subrogation
Subrogation
Subrogation
Subrogation
## Subrogation

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<th>Date</th>
<th>Claims Closed</th>
<th>Total Billed</th>
<th>Total Recovery</th>
<th>% Recovered</th>
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Questions??