

Port of **Houston** Authority

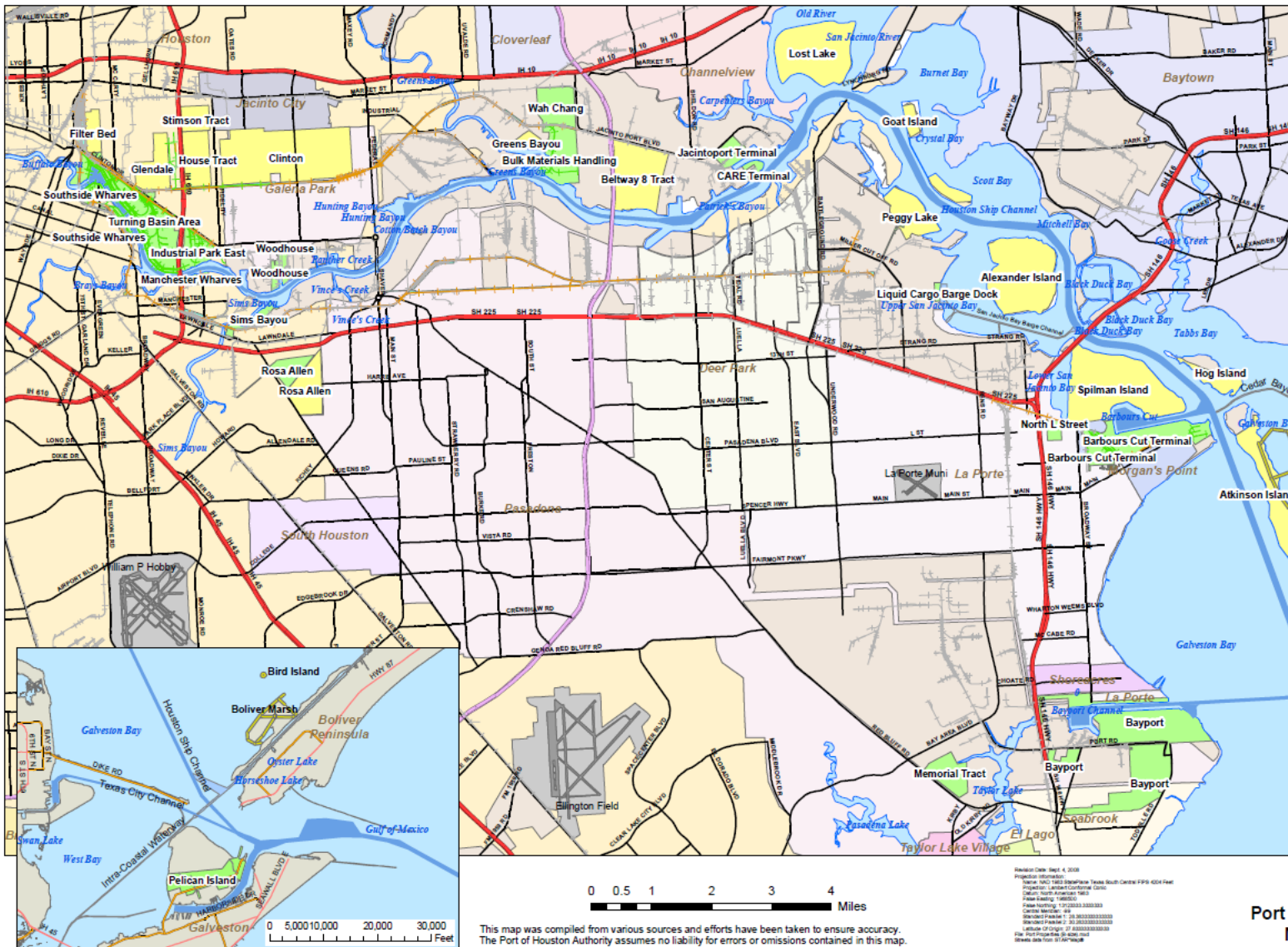
Total Cost of Risk and Benchmarking

Texas PRIMA Conference
November 8, 2016

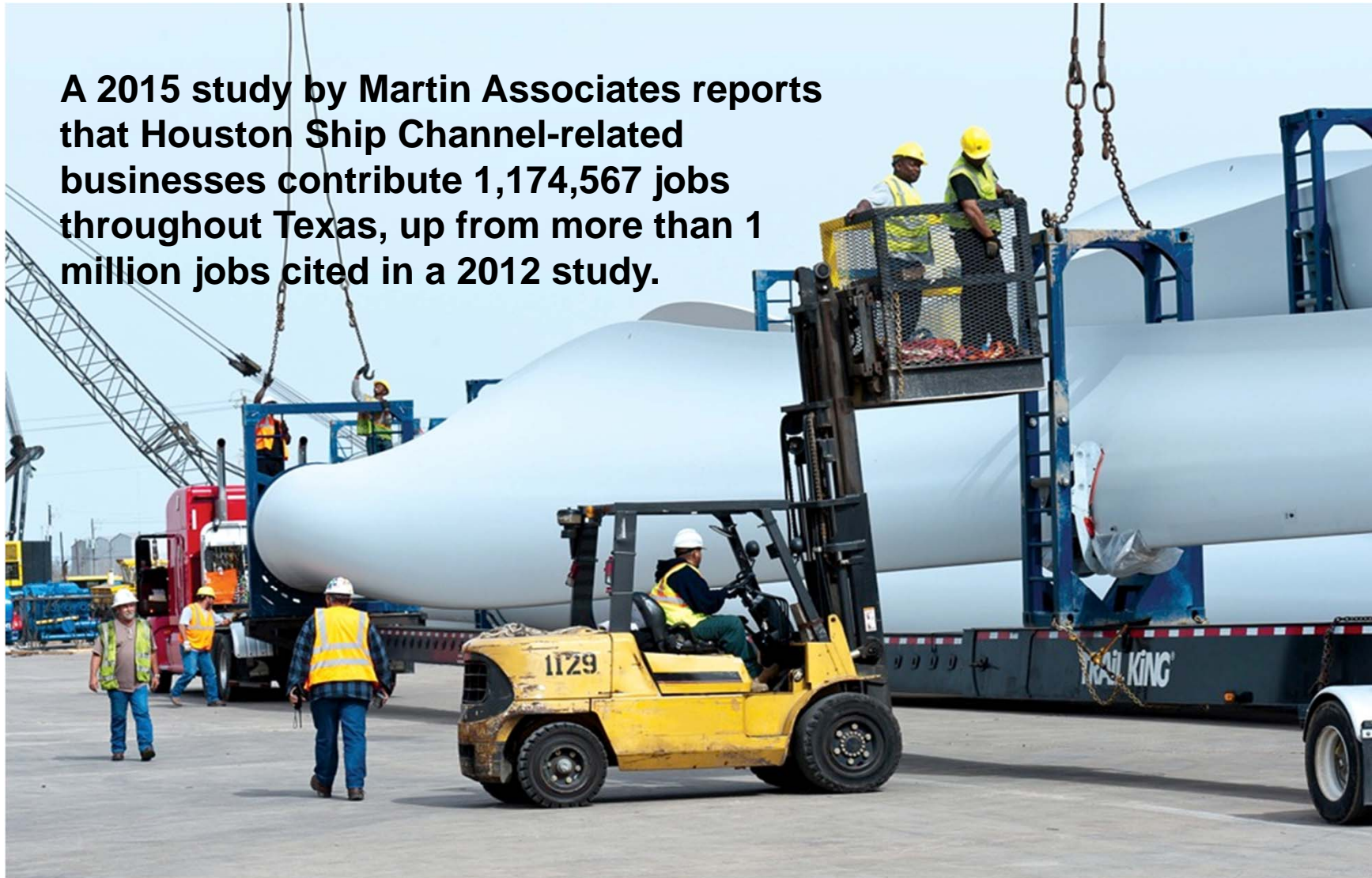
Mark J. Vacek, ARM, CSP
Risk Program Manager
Port of Houston Authority

Johnny Fontenot, CPCU, ARM, AIC
Executive Vice President
McGriff, Seibels & Williams





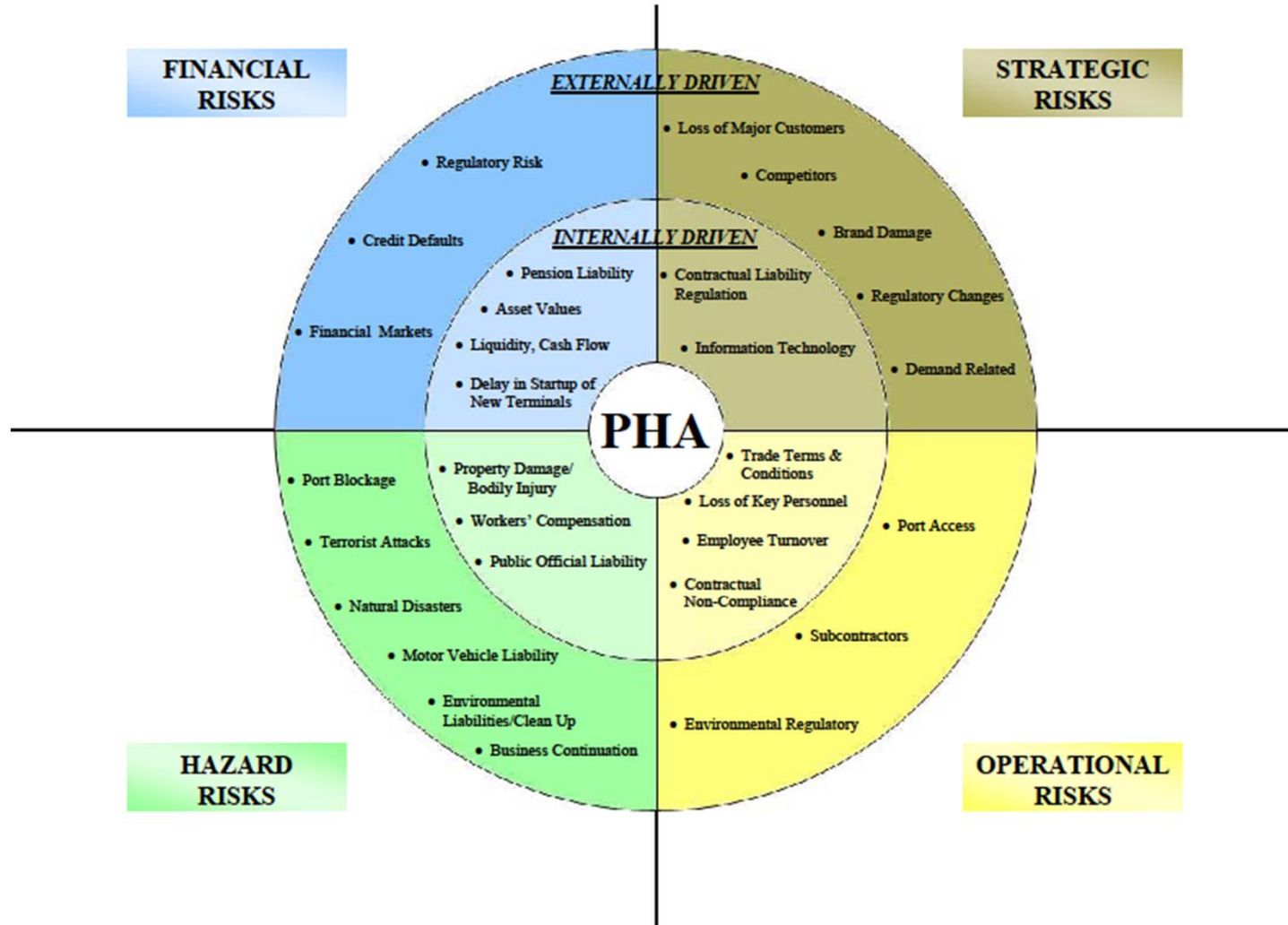
A 2015 study by Martin Associates reports that Houston Ship Channel-related businesses contribute 1,174,567 jobs throughout Texas, up from more than 1 million jobs cited in a 2012 study.



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.



RISK ASSESSMENT BY CATEGORY



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

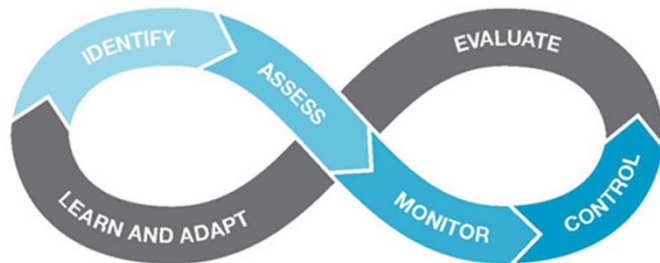
Total Cost of Risk: Definition

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)
(includes deductibles) Passive (by default)



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

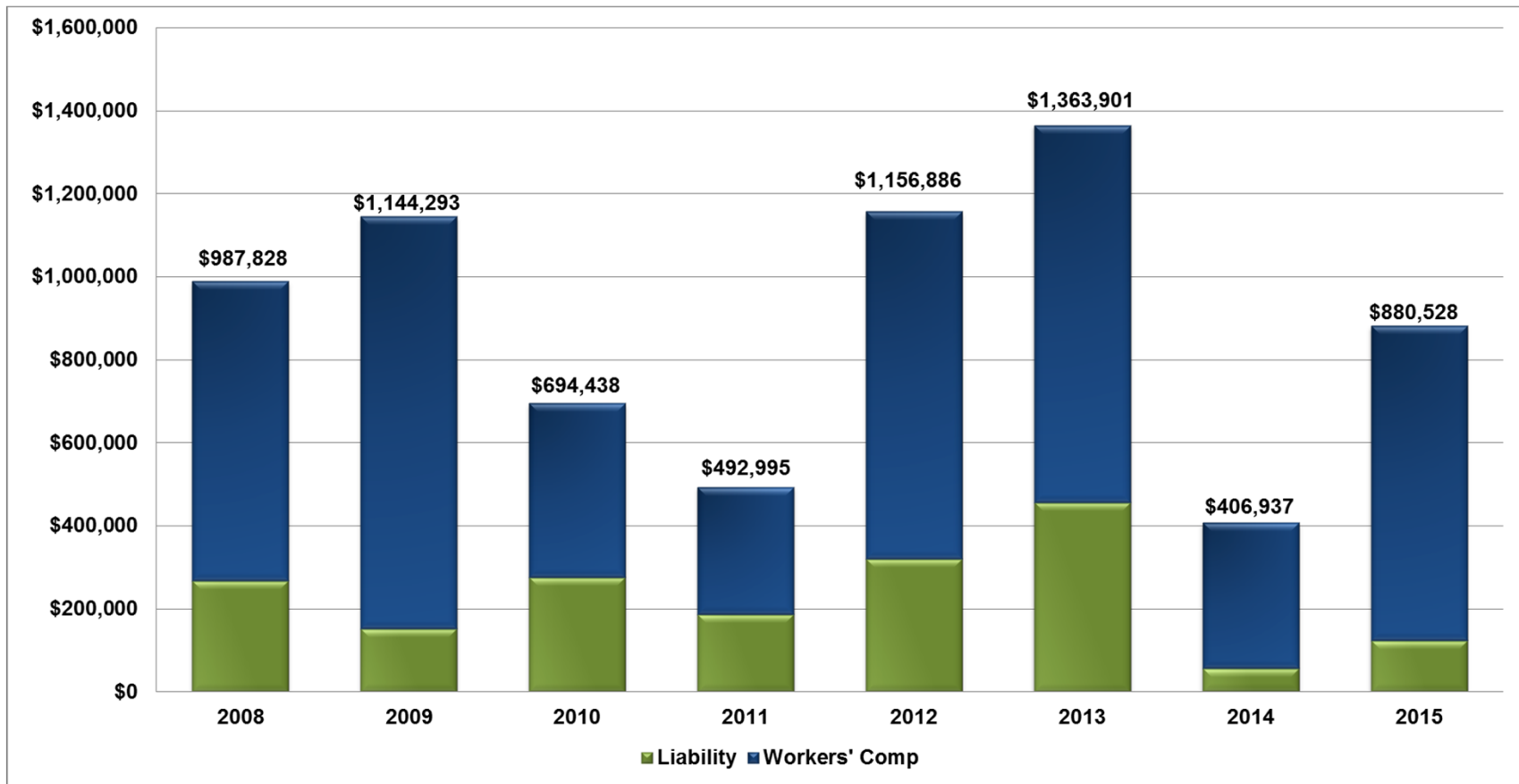
➤ **6 years (2010-15)**

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

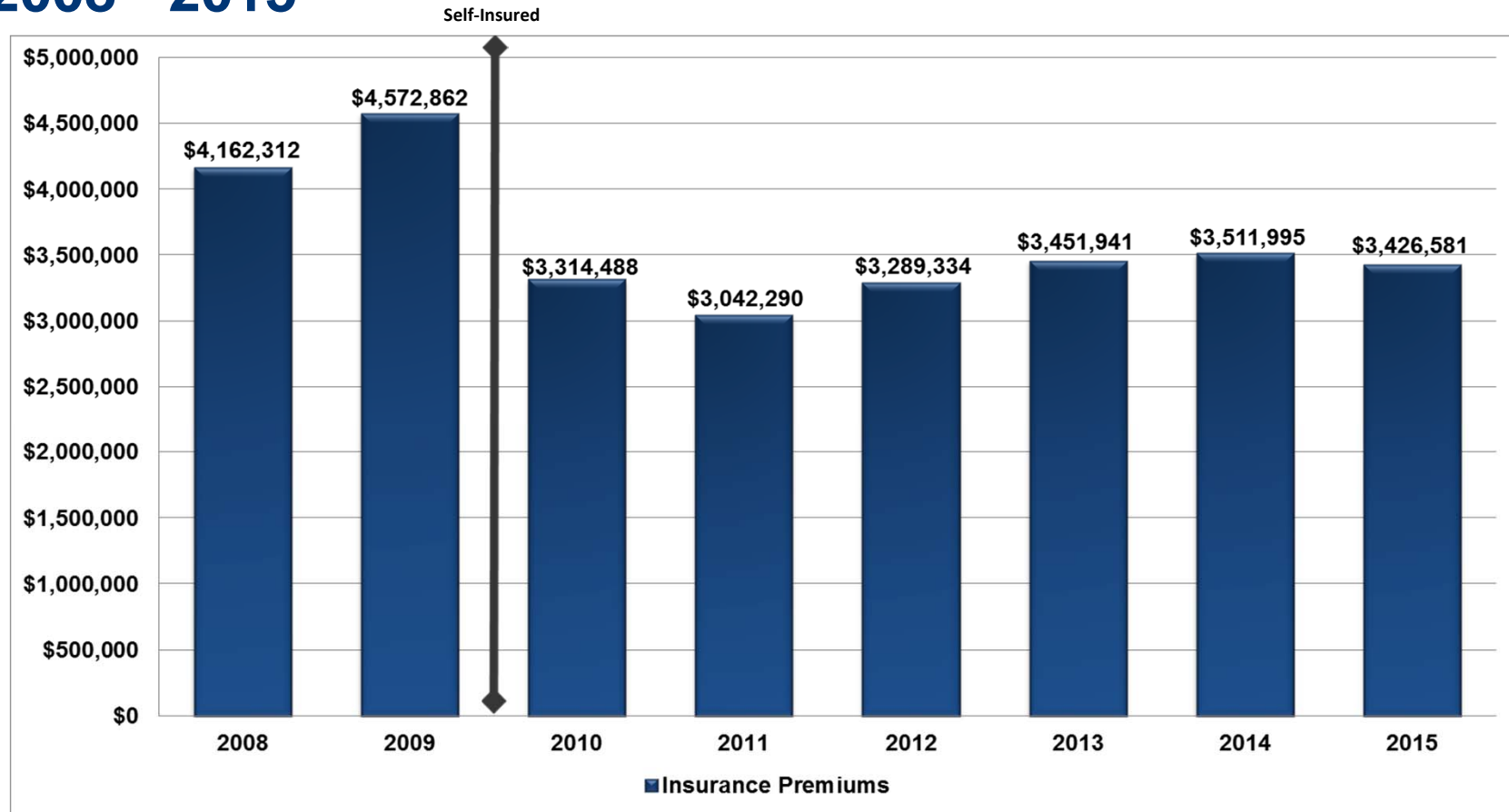


Claim Costs



Insurance Premiums

2008 - 2015

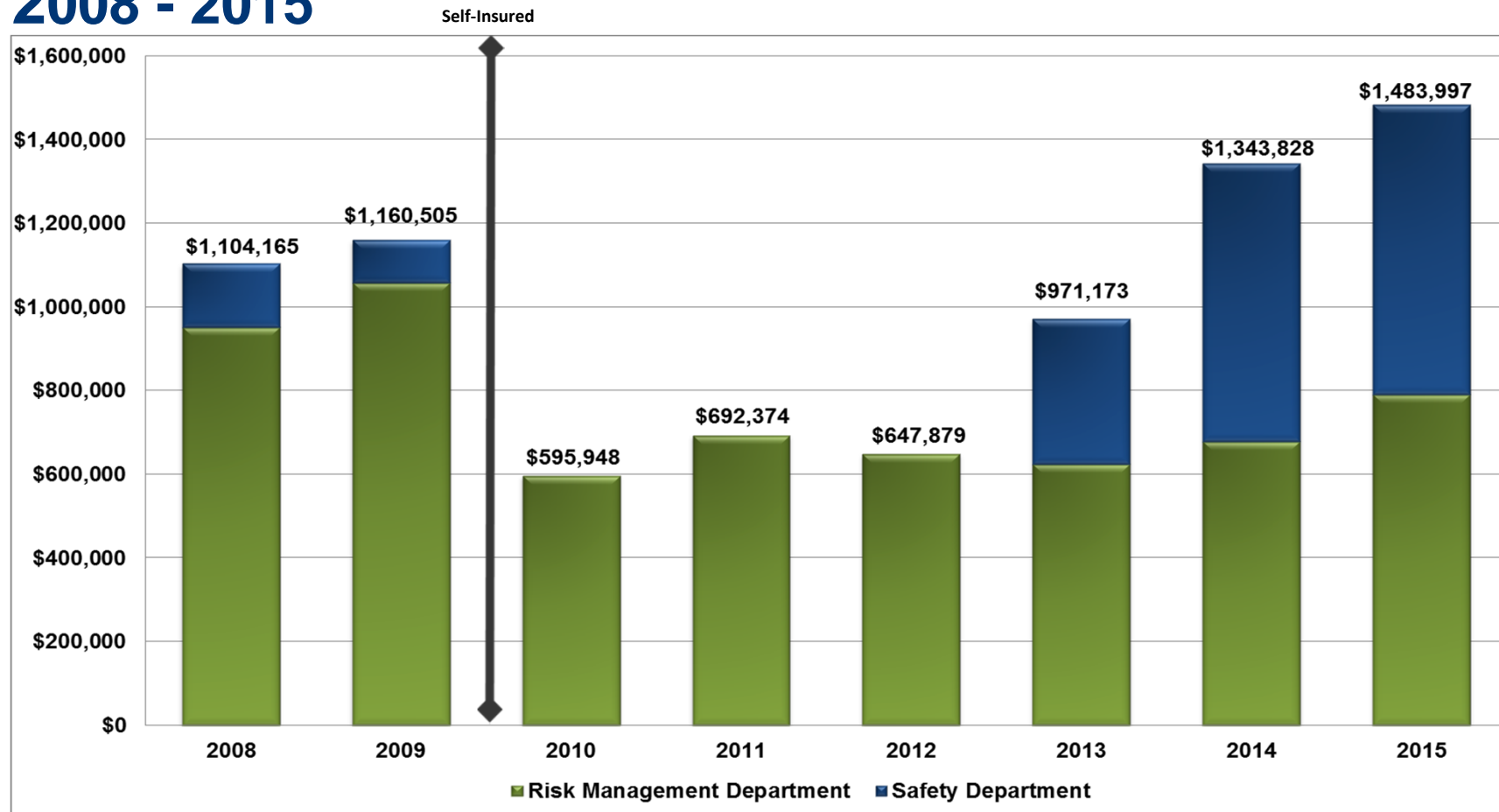


KEY POINTS:

- \$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

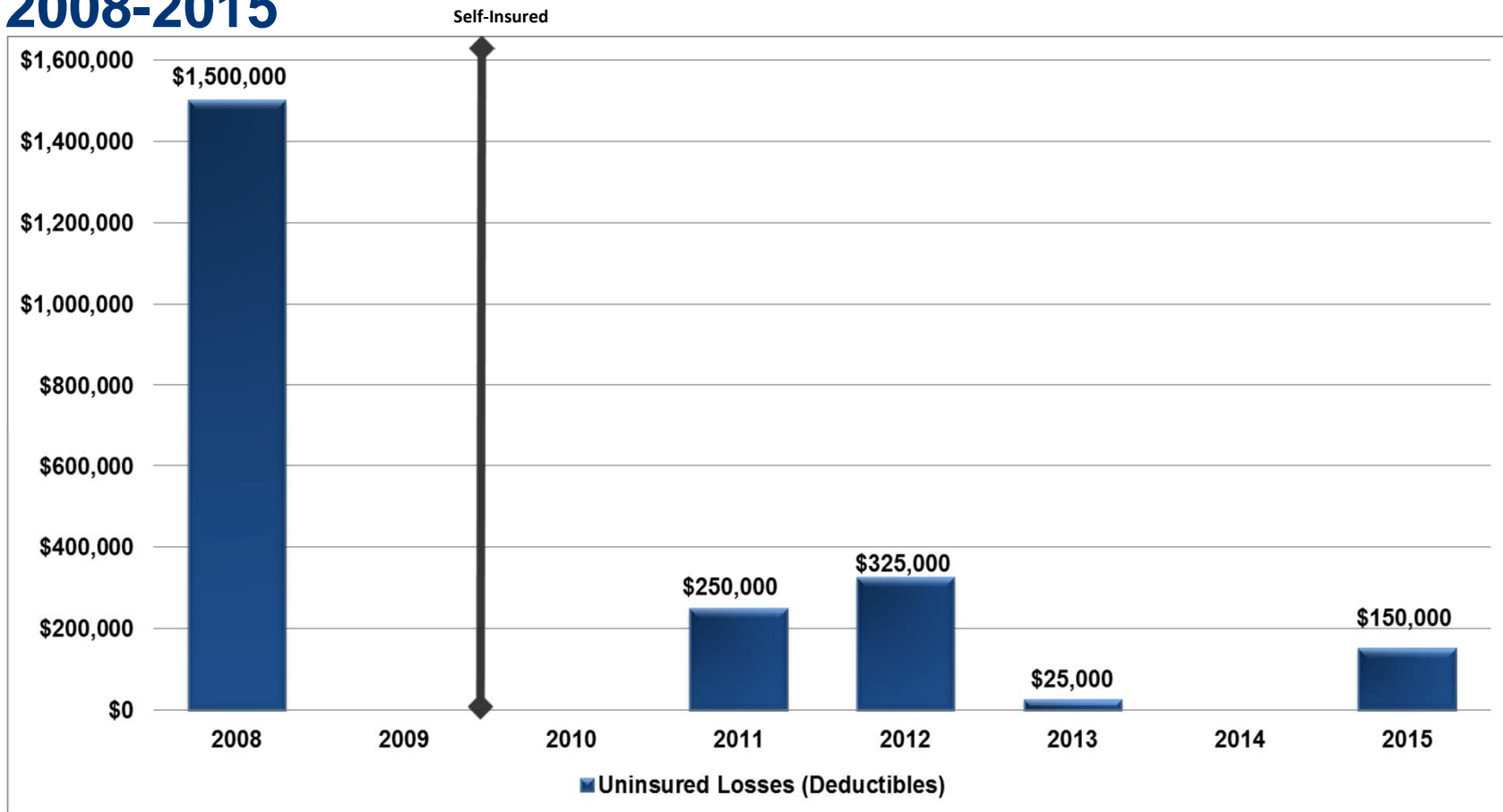


KEY POINTS:

- 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

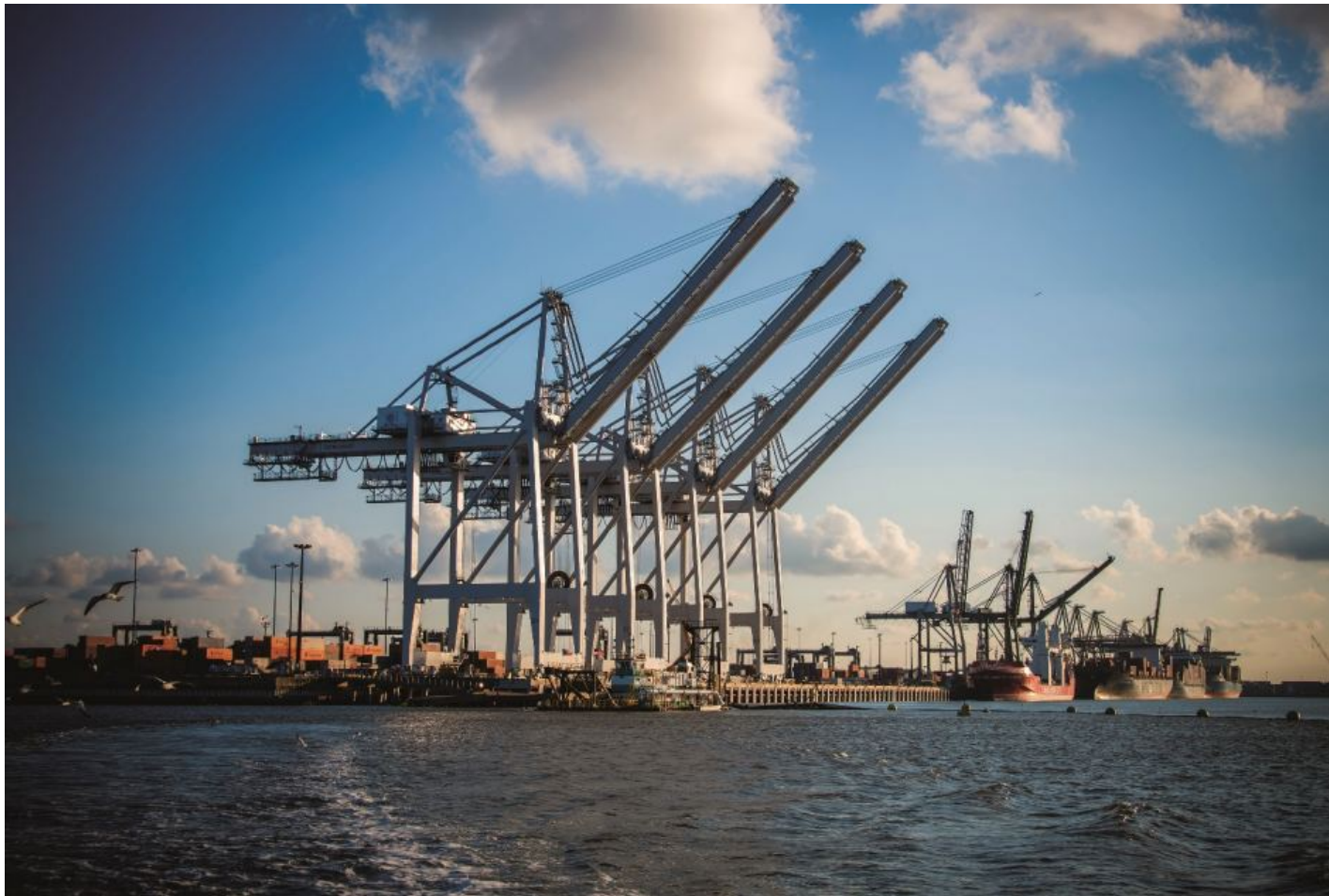


KEY POINTS:

- 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



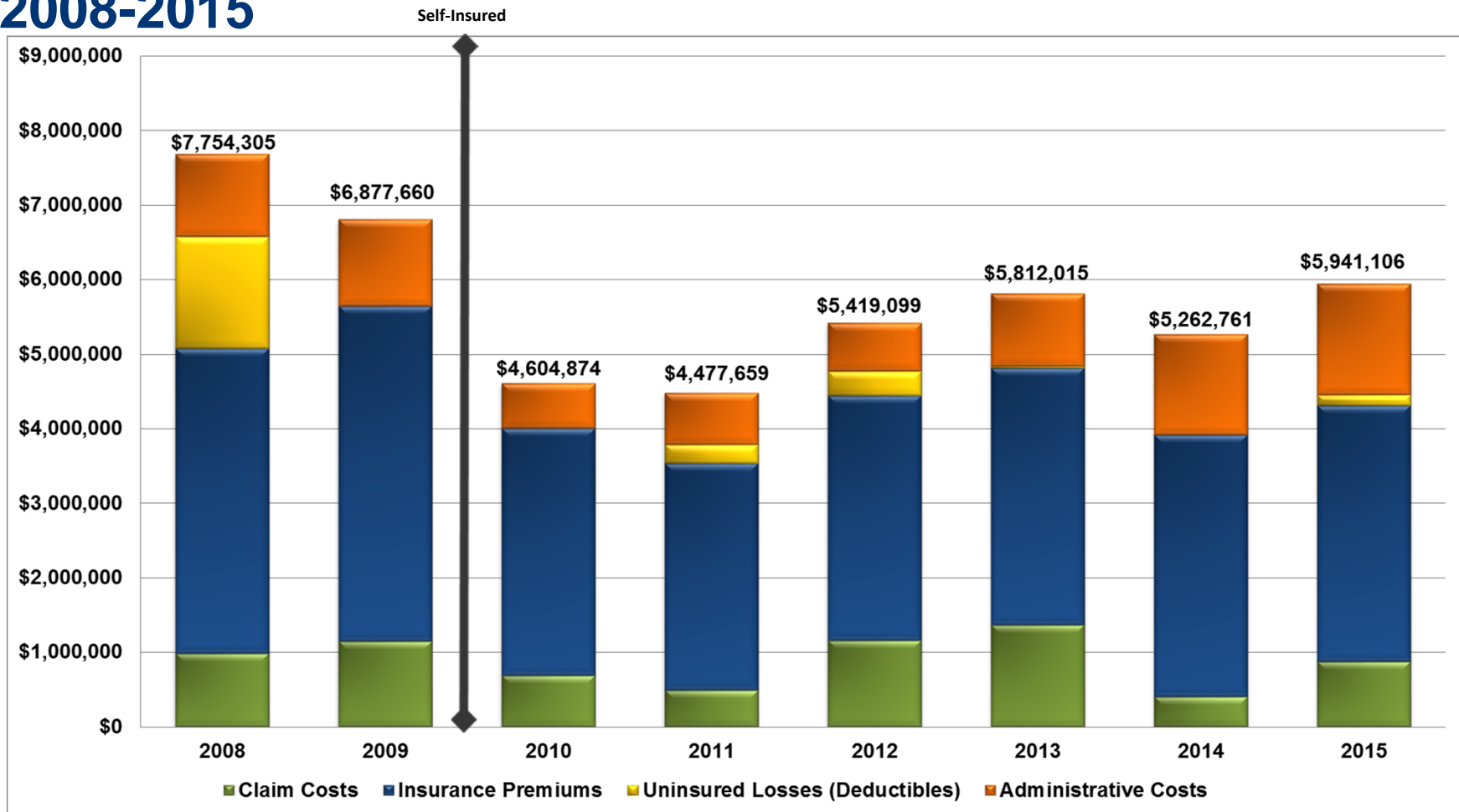
Uninsured Losses

March 18, 2012 Fireboat Bracewell \$25,000 Deductible



Total Cost of Risk

2008-2015

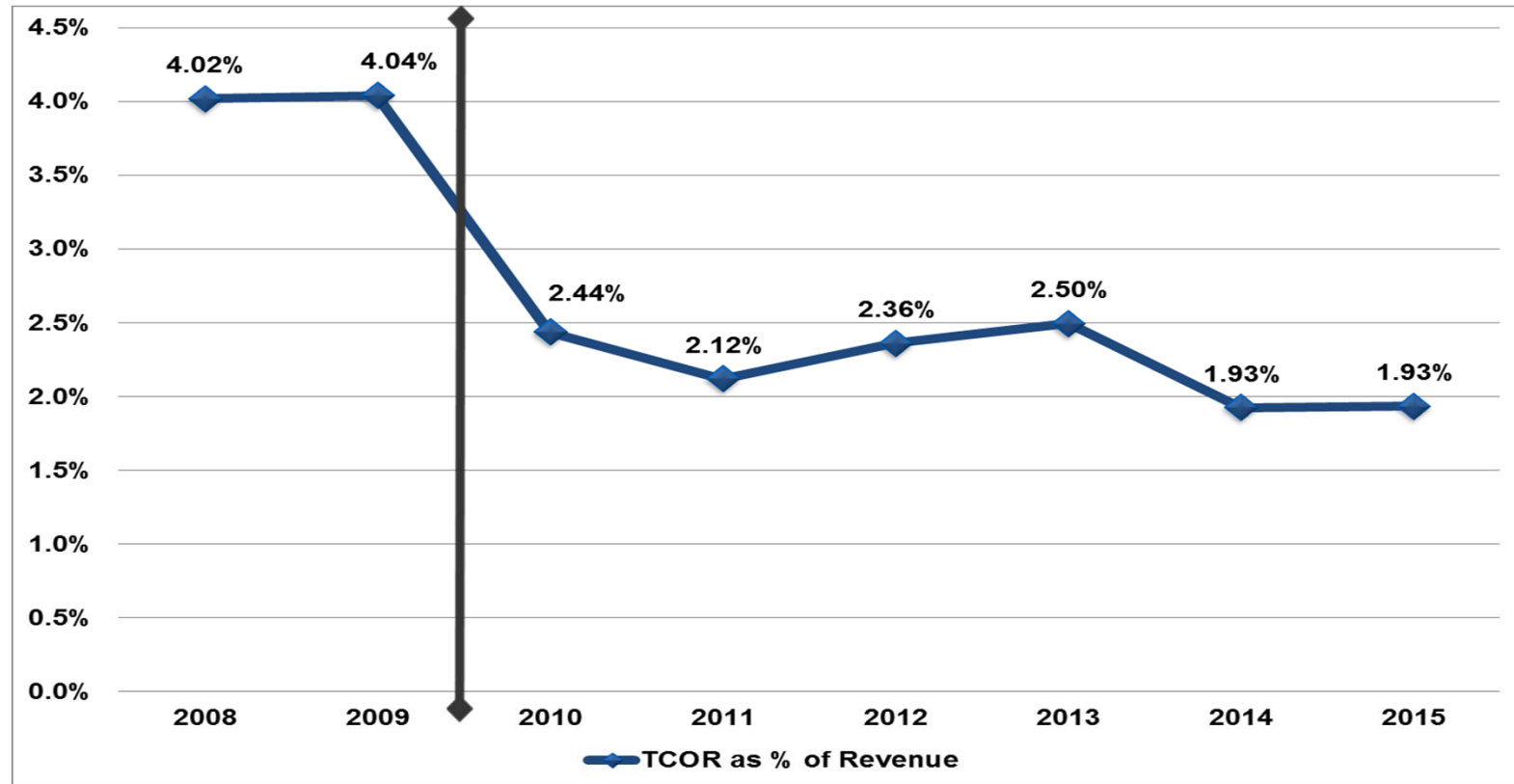


KEY POINTS:

- 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.



GLASBERGEN

© Randy Glasbergen / glasbergen.com



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

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

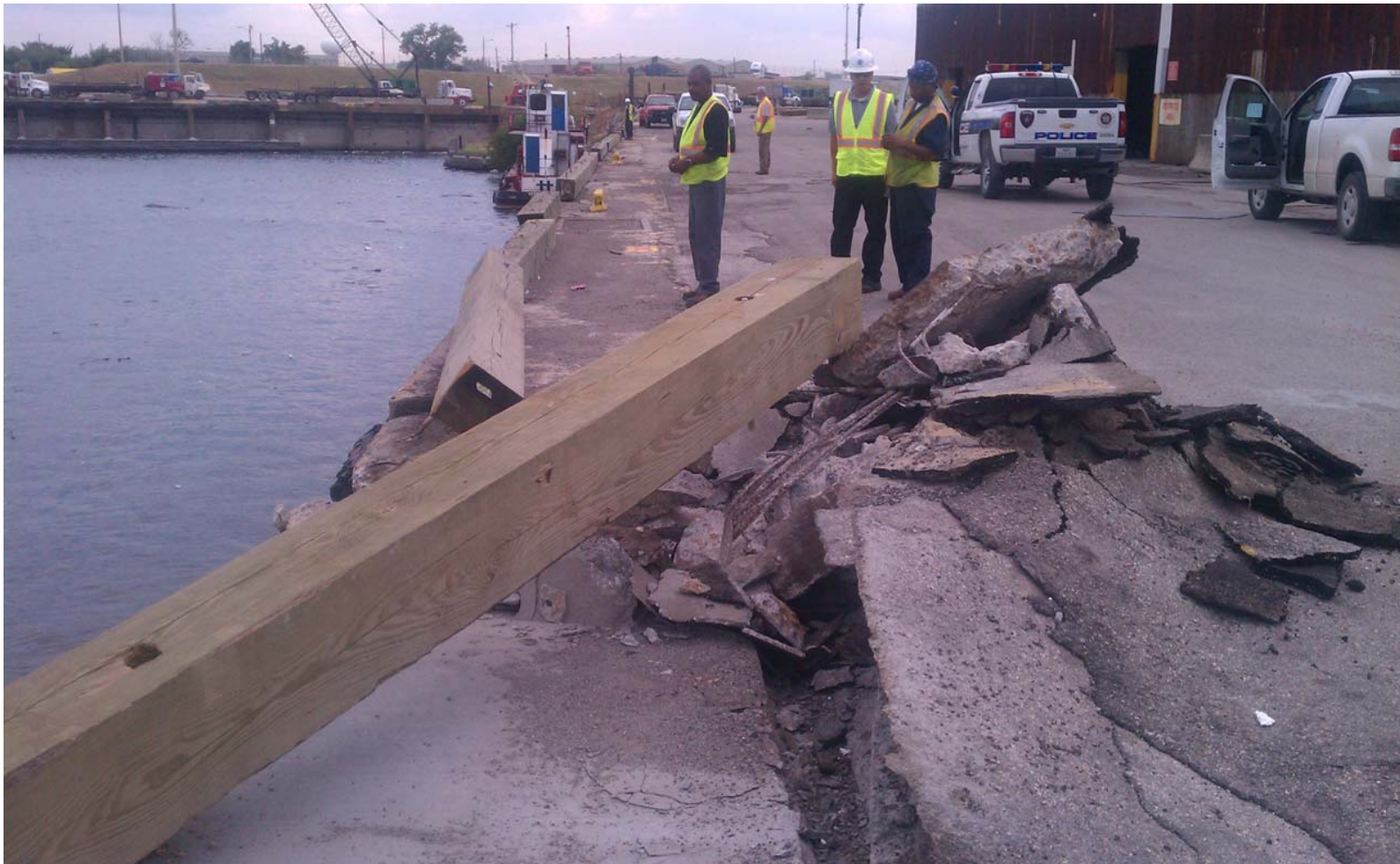


Lessons Learned--*Quotes you might want to remember.*

- 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

Date	Claims Closed	Total Billed	Total Recovery	% Recovered
3/09 - 2/10	51	735,160	669,258	91%
3/10 - 2/11	29	638,607	614,293	96%
3/11 - 2/12	30	578,618	546,802	95%
3/12 - 2/13	33	624,386	583,657	93%
3/13 - 2/14	63	483,674	442,793	92%
3/14 - 2/15	43	2,623,546	2,402,211	92%
3/15 - 2/16	53	472,589	465,964	99%
3/16 - 2/17	32	179,163	179,163	100%
Totals	334	\$ 6,335,743	\$ 5,904,141	93%



Questions??

