# Corporate Exposure

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Today's organizations are riding a roller coaster of erratic insurance cycles that impact unpredictably on insurance premiums. At the end of the ride, the insurance market will "harden," with certain coverages no longer available and with uncontrollable increases in remaining premiums. All organizations need to assess their risk factors and devise effective risk control plans as soon as possible.

## False Security

Using present premiums as a risk barometer is extremely naive and dangerous, considering the current state of the insurance industry.

The insurance market has been in a down, or "soft," mode for the last few quarters, stabilizing insurance premiums. The carriers needed to book premium dollars. Often the desire for these bookings outweighed a proper consideration of the nature of the risk, lulling many organizations into a false sense of security. Since premiums have leveled off and most standard coverages are now available, some firms have erroneously concluded they are "good risks."

## Risk Management Approach

Regardless of the cost of insurance, each organization should devote attention to reducing its loss potential. Once losses are under control, the organization will be in a position to direct its own destiny and remove itself from the roller coaster cycles so common in the industry.

To receive the greatest return on investment, we advocate reviewing the "post-loss" (loss management) factors before analyzing the "pre-loss" (risk control) conditions. Many organizations lose valuable resources by purchasing pre-packaged gimmicks to reduce losses. These have proved to be worthless, and organizations have thrown money into activities that did not address the real causes of the losses.

We suggest that an organization begin by reviewing claims costs. First, identify the types of losses occurring in the organization, and second, audit how well claims are being managed by your insurance carrier or outside adjusting firm.

Organizations can realize tremendous savings simply by meeting with their claims representatives to discuss their reserving philosophy and practices. Some risk managers have been hesitant to analyze this area, feeling that they are not proficient in the claims management field and that this area is best left to the "claims experts." Claims reserving and management is a subjective discipline, not a definitive science. Two identical claims can be reserved/settled at substantially different amounts due to a number of factors: adjustor experience, client involvement, attorney presence, organizational requirements, geographical considerations, etc. Simply asking the adjustor to explain why reserves or settlements are offered at the figure stated can impact reserve figures. Once the audit has been completed, the organization can segregate claims into categories: slips/falls from the same level, slips/falls on stairs, cuts, lifting, etc. Once this is done, the organization can recognize those incidents producing the greatest number of claims (frequency) and those producing the highest cost (severity).

A client recently noted that the highest number of claims were related to lifting/back injuries, yet all the company's safety efforts to date had been directed toward the general liability (slips/falls) exposures. The question often asked is, should one address those claims with the highest frequency, or those with the highest severity potential? The obvious answer is both. Actually, the correct response will vary with the organization. But once the organization has determined what type of losses are occurring, and where, and has established the reserve/settlement practices successfully, it can direct its efforts to the "pre-loss" (risk control) areas.

Pre-loss activities require both imagination and customization of approaches. Because a safety approach has worked at one company does not mean it will produce the desired results at another. This is the single greatest downfall of most organizations that want to reduce their exposures to loss. Every organization has a philosophy and culture unto itself. Although two firms may have identified back injuries as the loss-producing cause they wish to eliminate or reduce, the means by which they accomplish this can vary. In one operation, redesigning the work station may be the only option, whereas in another setting, education/training will be most effective.

## Summary

Only those organizations that can demonstrate their ability to control both "pre-loss" (risk control) and "post-loss" (loss management) activities/programs will be afforded alternatives in future insurance markets.

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