Reducing Municipal Total Cost of Risk

September 21st, 2017
Agenda

• Introduction
• Insurance: Commodity vs Service
• Definition: Total Cost of Risk (TCoR)
• Custom Approach
• 5 Steps to Reduce your TCoR
• TCoR Illustration
• Q & A
About the Presenter

• Larry Ryan, CPA
• 25 years municipal experience at Region and lower tier
• Last municipal position 15 years as a Regional CFO
• President of Frank Cowan Company
About Frank Cowan Company

• Frank Cowan Company (FCC) is a Managing General Agent
• Insurance companies have delegated claims and underwriting authority to us and we manage all under one roof
• 90 years partnering with municipalities, insurance companies and independent brokers
• We employ over 130 people who help service our 300+ municipalities across Canada
• 190+ are located in Ontario (and counting!)
Municipal Environment

- Long tail claims
- Perceived deep pockets
- Multiple exposures:
  - Roads – MVA’s
    - Sightlines, signage, MMS compliance, design
  - Sidewalks – trip and falls
  - Municipal building inspections – E & O
  - Toboggan hills
  - Trails
  - Bike lanes
  - Transit
Insurance Commodity vs. Service

Insurance is a service:
• TCoR highlights the full cost of the insurance program
• TCoR demonstrates that municipalities need a partner that can provide the assessment and review tools to manage risk and reduce cost
• In terms of optimizing your insurance program, municipalities must think long-term and focus on sustainability
Definition of Total Cost of Risk

- TCoR = total cost of municipal insurance program
  - Annual premium
  - Cost of claims below the deductible
  - Cost of municipal insurance staff & related expenses
  - Cost of consultants
    = TCoR
Custom Approach

- One size does not fit all, approach must be customized
- Variables
  - Size of deductible
  - Local exposures
  - Frequency and severity of claims
- Ultimately must determine the key driver for increasing claims costs
5 Steps to Reduce Your TCoR

1. Identify the types of claims that are driving costs below the deductible and above the deductible.

2. Isolate the root causes of claims.

3. Review how well your claims are being managed.

4. Implement claims management best practices.

5. Develop partnerships with other departments and insurer.
Step 1: Identify the types of claims that are driving costs below & above the deductible

- What is driving frequency and severity?
  - Roads – MVA’s
  - Sidewalks – trip and falls
  - Municipal building inspections/permit – E & O
  - Property
  - Auto
  - Transit
Step 2: Isolate the root causes of claims & develop an action plan to mitigate/eliminate

- May require a technical expert to undertake assessment
  - Roads review, MMS compliance, sidewalk inspections

- Examples of root causes:
  - Trip ledge maintenance - high frequency of trip and falls
  - Non-compliance with MMS - motor vehicle accidents
  - Inadequate documentation to support building inspection approvals – E & O claim

- Develop action plans
  - Road expert may recommend GPS to document your winter control activities
  - Implement a sidewalk inspection and maintenance program
  - Update signage in compliance with Ontario Traffic Manual
  - Training targeted to root causes
Step 3: Review how well your claims are being managed

Why is this important?

Time = money = TCoR savings

• As claims age they become more costly
• Quicker claims resolution also provides better customer service
• Don’t abandon file to external vendors – provide clear expectations with timelines
• Leakage for typical claims department ranges from 5% to 10%
Step 4: Implement claims management best practices

- Initiate a best practice claims review to measure efficiency and effectiveness of claims processing
- Municipalities with high deductible and/or high frequency of claims can save significant $
  - Are liability investigations timely?
  - Are resolution strategies in place to resolve all claims?
  - Do you measure/monitor/manage your claims activity?
  - What is your closing ratio?
  - What is your cycle time?
  - How many claims files per examiner/adjuster?
  - What is the trend on your aged pending (>18 months)?
  - What is your trend on legal spend per liability claim?
Step 4: Implement claims management best practices

• Assess where you are, set targets:
  • Existing closing ratio = .95 to 1, set a goal to close old files (aged pending review) and target a closing ratio of 1.15 to 1.
  • Consider using a claims management system.
    • Big effort, long-term perspective
    • Change management
    • Metrics driven
• Can your insurer provide this service?
Step 5: Develop partnerships with other departments and insurer

- A long-term perspective is needed in order to execute a successful TCoR plan
  - Reducing claims severity/frequency requires support and buy-in from other depts.
  - Will need external assistance to provide assessment of claims.
  - Finance can run the numbers - spending more on a sidewalk maintenance program will reduce claims.
5 Steps to Reduce Your TCoR

Illustration: fictitious municipality - Claims City:

- +100k population
- $50k deductible, $3.0M annual premium
- Frequently goes to market, saves $ but within 2 years gets back to high premium levels
- High claims activity, many slip and falls
- Cost of claims below the deductible $2.0 mill annually, loss ratio undeveloped = 100%
- Risk manager has 3 claims staff: manage 1,250 claims a year, claims staff overworked and carry 250 claims/FTE, can’t increase headcount
# TCoR Illustration

## Claims City Total Cost of Risk

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount ($millions)</th>
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<tbody>
<tr>
<td>Annual premium</td>
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<tr>
<td>Claims Cost below deductible</td>
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<td>Staffing/program costs (4 staff + op. costs)</td>
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<tr>
<td>Consultants</td>
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<tr>
<td><strong>TCoR</strong></td>
<td><strong>$5.6mill</strong></td>
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1. 10 year claims review cost drivers:

   • Key findings:
     
     • High frequency/some severity of trip and fall claims
     • 100 liability claims per year, 50 sidewalk trip and fall
     • 13 liability claims annually above deductible ($650k annual cost for municipality, $750k for insurer)
TCoR Illustration

2. Engage insurer or external road’s expert to assess sidewalk program

- Key findings:
  - Poor inspection practices, MMS requirements
  - Moderate increase in maintenance budget will provide corrective action on a more timely basis
  - Finance can perform a cost benefit analysis to substantiate budget increase
  - Improved inspection and sidewalk repair programs results in claim reduction by half
  - Annual savings once sidewalk program fully in place = $375k for insurer and $325k for municipality
TCoR Illustration

3. Engage insurer or consultant to initiate a best practice claims review to measure efficiency and effectiveness of claims processing

- Key findings:
  - Proportion of aged pending files (>18 months) too high
  - Case per adjuster too high at 250 s/b 200
  - Cycle time higher than industry norm (+3 months)
  - Legal expense per file higher than industry norm
TCoR Illustration

4. Implement a best practice claim process

- Key findings:
  - Adopt standards of service
    - Develop initial strategy, vendor management strategy, customer contact…
  - Set target for closing ratio of 1.15 to 1
  - Target a case/adjuster examiner from 250 to 200
  - Close out old claims through monthly review of aged pending
  - Adopt service agreements with external vendors
TCoR Illustration

4. Results of best practice claims implementation (metrics):

- Within 6 months claims results improving:
  - Closing ratio improvements
  - Cycle time
  - Aged pending reduced
  - Caseload per adjuster falling
- Savings = 7.5% of cost of claims ($2.0 mill total) under the deductible or $150,000 annually. Claims examiners caseload falling, pushed off need for additional staff
## TCoR Illustration

### Claims City Total Cost of Risk ($millions)

<table>
<thead>
<tr>
<th></th>
<th>Yr. 1</th>
<th>Yr. 3</th>
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<tbody>
<tr>
<td>Annual premium</td>
<td>$3.0</td>
<td>$2.5</td>
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<tr>
<td>Claims Cost below deductible</td>
<td>2.0</td>
<td>1.5</td>
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<tr>
<td>Staffing/program costs</td>
<td>0.6</td>
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<tr>
<td>(4 staff + op. costs)</td>
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<tr>
<td><strong>TCoR</strong></td>
<td><strong>$5.6</strong></td>
<td><strong>$4.6</strong></td>
</tr>
</tbody>
</table>

Total Cost of Risk has fallen by $1.0 mill or 18%!
TCoR Summary

TCoR Critical Success Factors:
• Need a champion
• Commitment to implement change
• Partnerships:
  • Internal Depts. that are open to review/assessment
  • Selecting a partner that can bring the technical expertise to direct reviews
Key Takeaways

- TCoR saves $
- Not every insurer is capable of doing this
- Think of insurance as a service v. commodity
- Claims costs will continue to rise – you have the ability to influence your TCoR
Reducing Total Cost of Risk

Q & A
Contact

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