



**CHICAGOLAND
RISK FORUM**
CHICAGO & MID-ILLINOIS RIMS CHAPTERS



REDUCING TOTAL COST OF RISK THROUGH ANALYTICS

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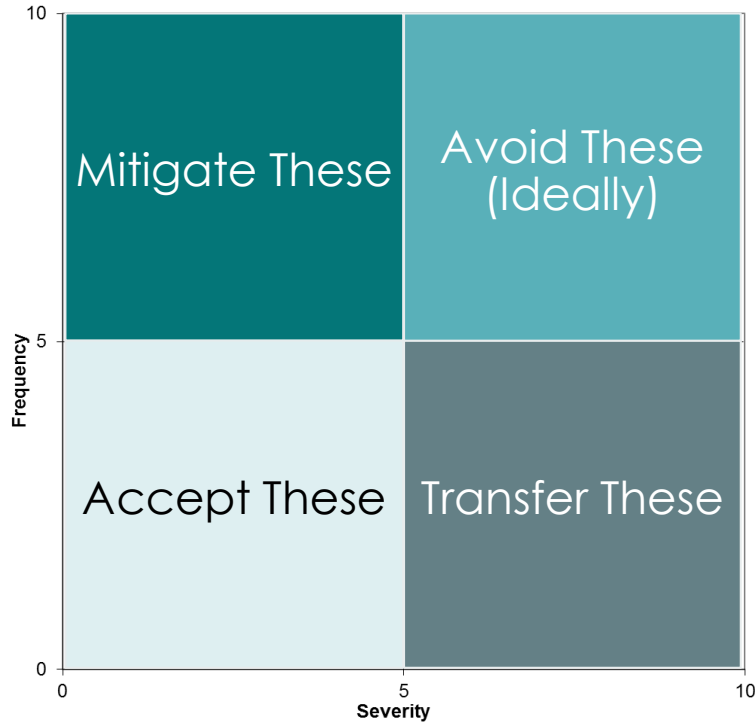


Risk Has a Cost Whether or Not You Buy Insurance



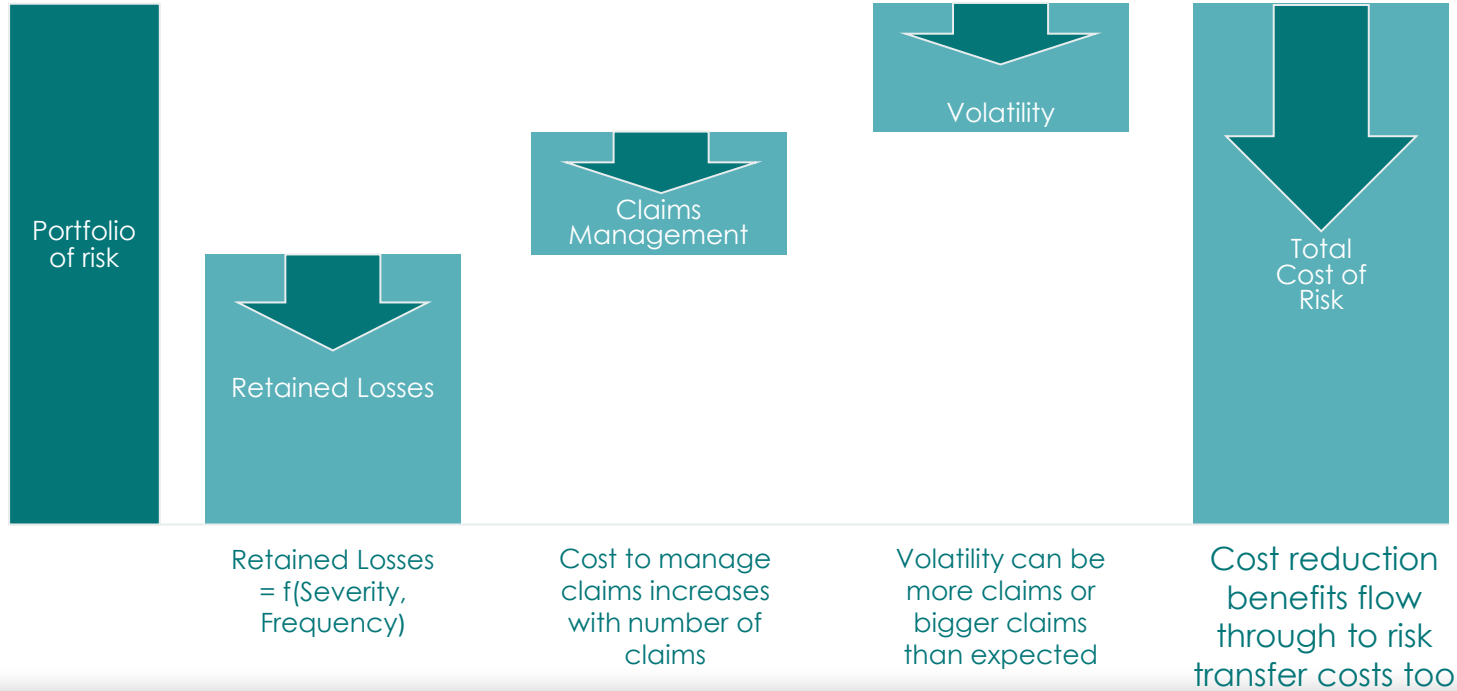
All of these costs are variable – depend on frequency and severity of claims and particular risk issue

Reducing Cost of Risk Requires Understanding Nature of Risks



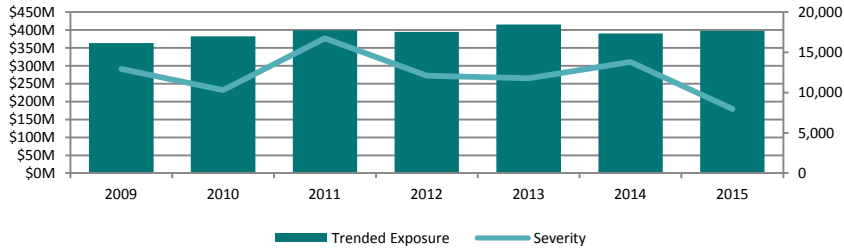
- High likelihood and low financial impact
 - Implement controls to reduce cuts
- Low likelihood and high financial impact
 - Transfer risk via insurance, hedging, outsourcing etc.
- High likelihood and high financial impact
 - Avoid if possible or mitigate and transfer
- Low likelihood and low financial impact
 - Cost to mitigate or transfer may be higher than cost to retain

Risk Mitigation is Most Powerful for Reducing Costs

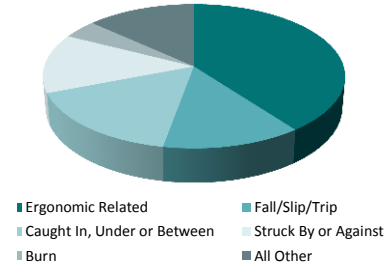


Analyze Historical Claims Trends to Identify Opportunity

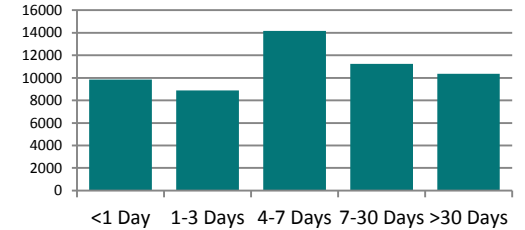
Severity Projections



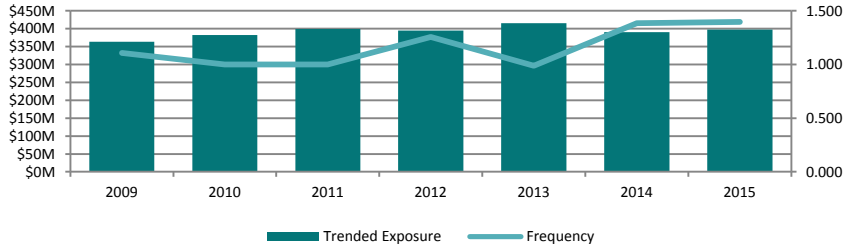
Top Five Causes of Loss



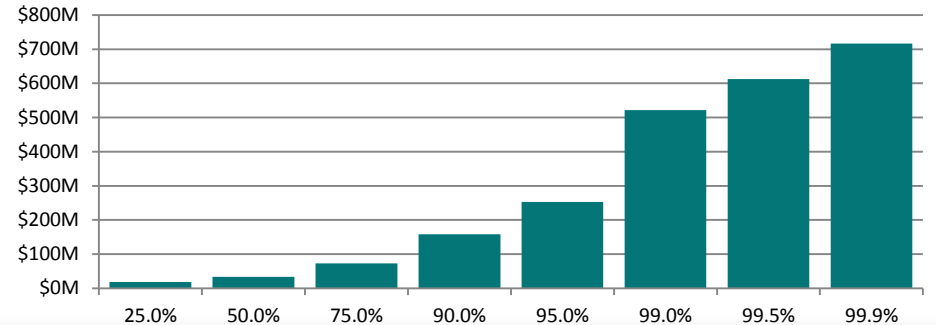
Average Incurred by Reporting Lag



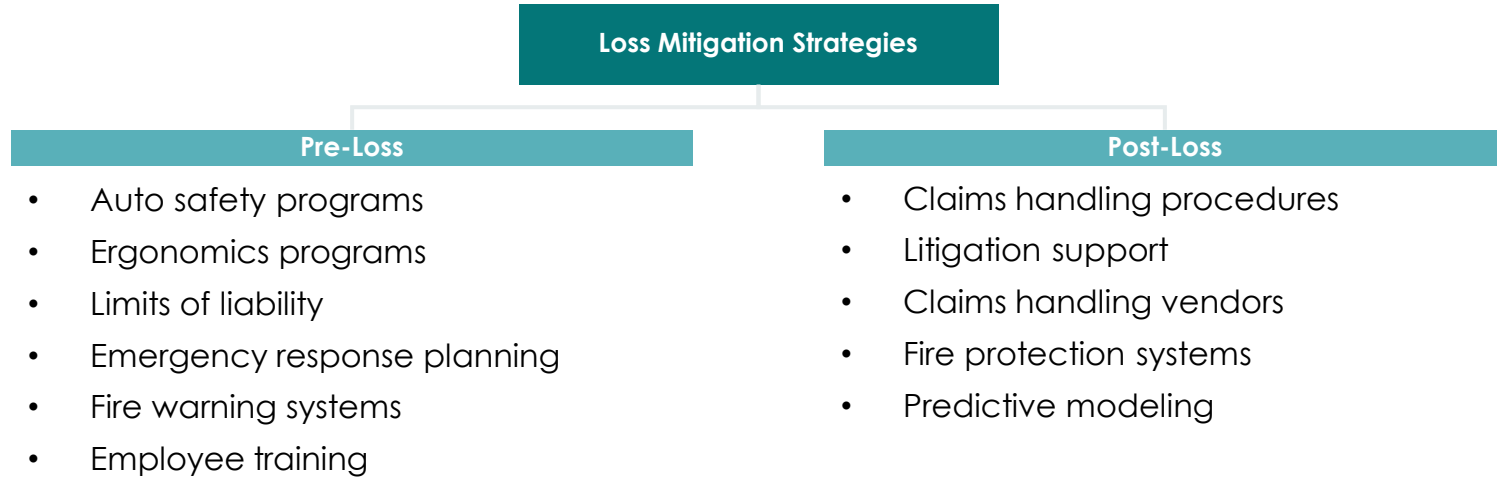
Frequency Projections



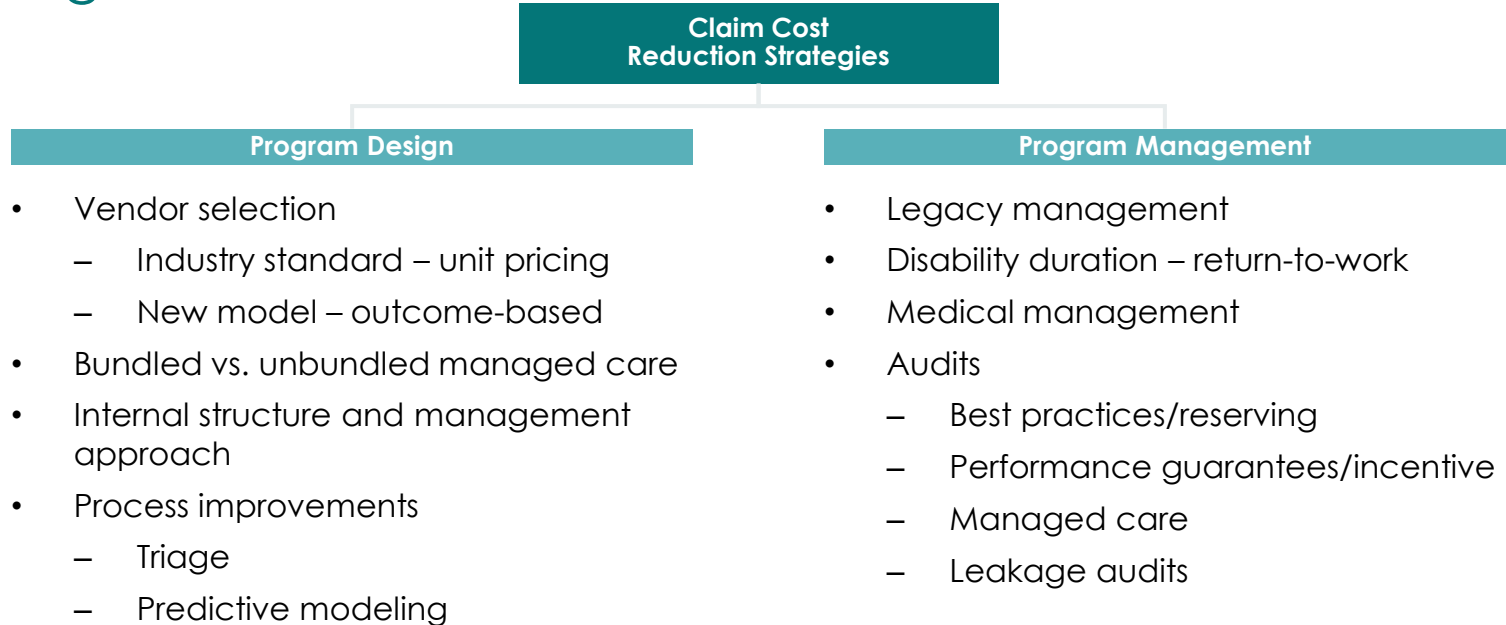
Selected Losses for Products/Premises Liability



Reducing Loss and Volatility With Pre- and Post-Loss Solutions



Reducing Claims Costs Through Program Design and Management



Buying Insurance Introduces Two New Cost Categories

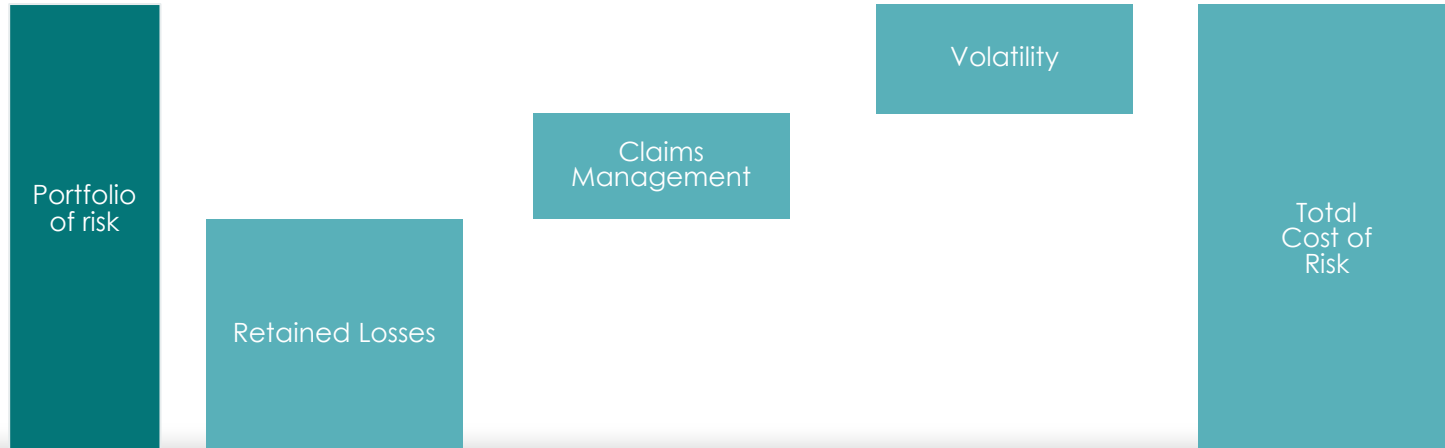
- Premium is a known amount paid to an insurer to transfer unknown amount of loss and volatility
 - Applies to all insurance

Premium

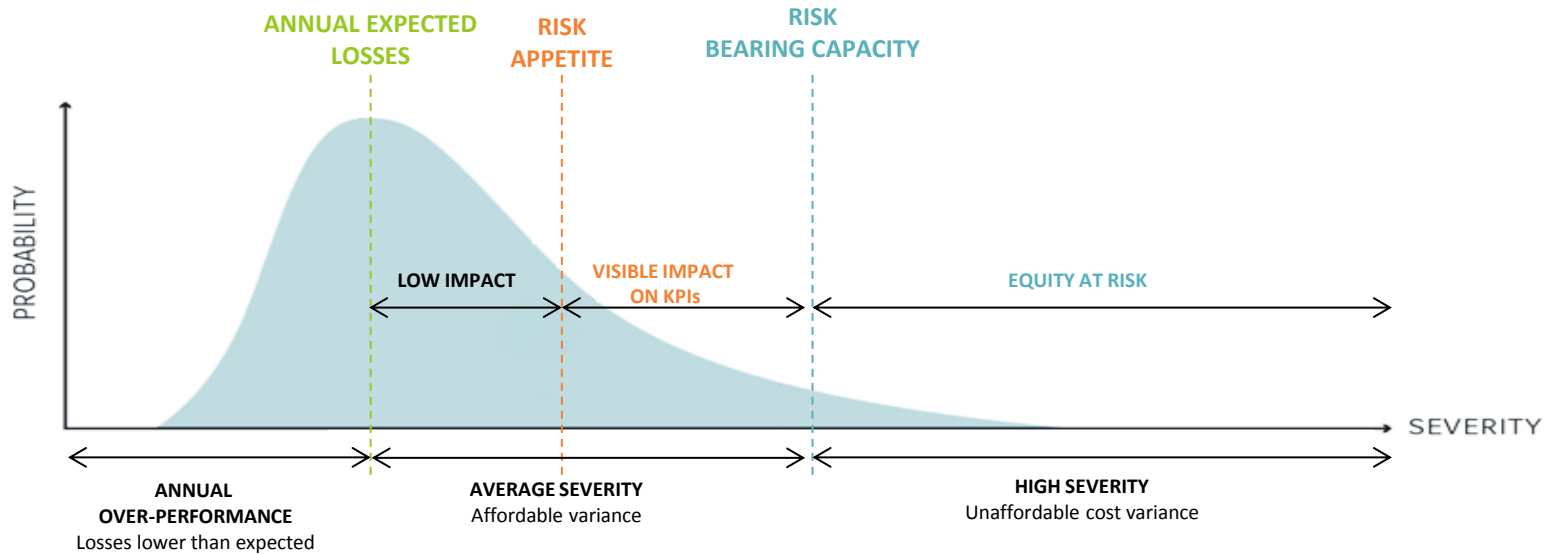
Collateral

- Collateral is security required by insurers for deductible programs to protect insurers from credit risk of insured
 - Applies only to certain types of insurance

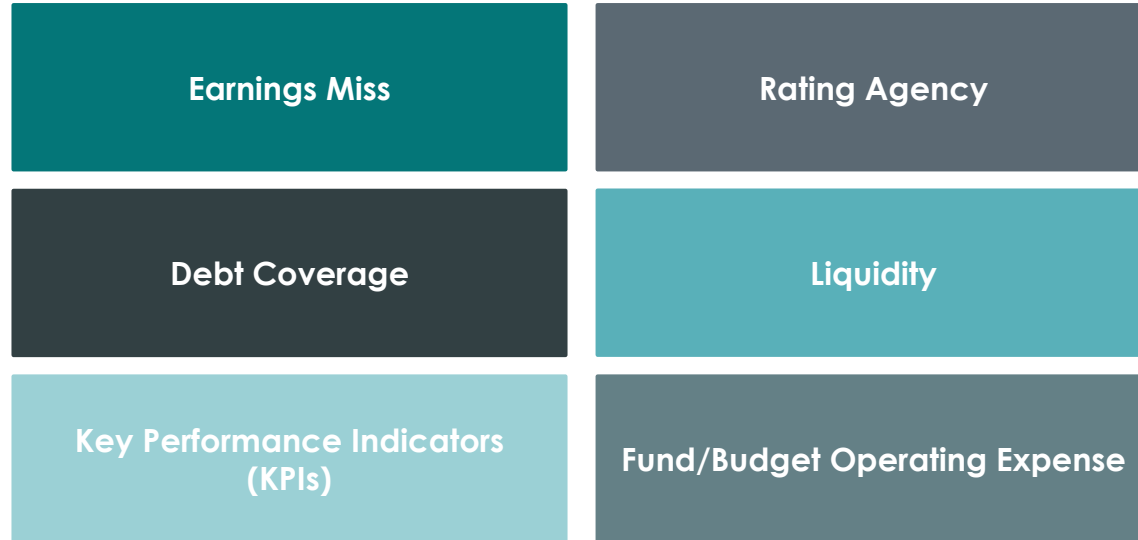
We should see a reduction in Retained Losses, Claims Management Expenses and Volatility in exchange



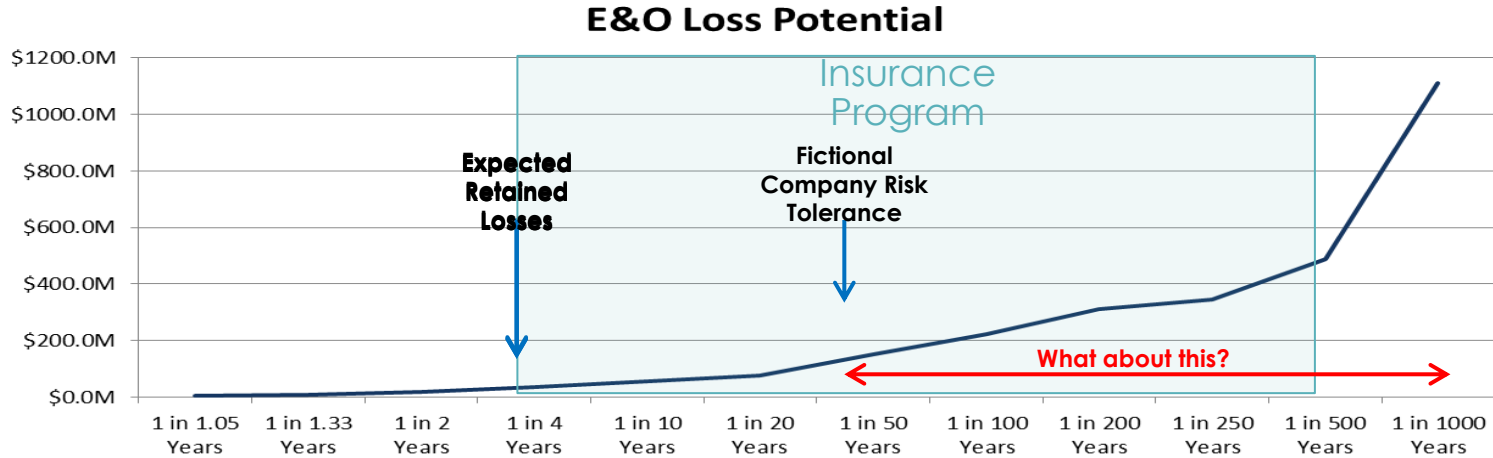
Risk Transfer is More About Reducing Cost Variance than Reducing Cost



Assessing Risk Bearing Capacity

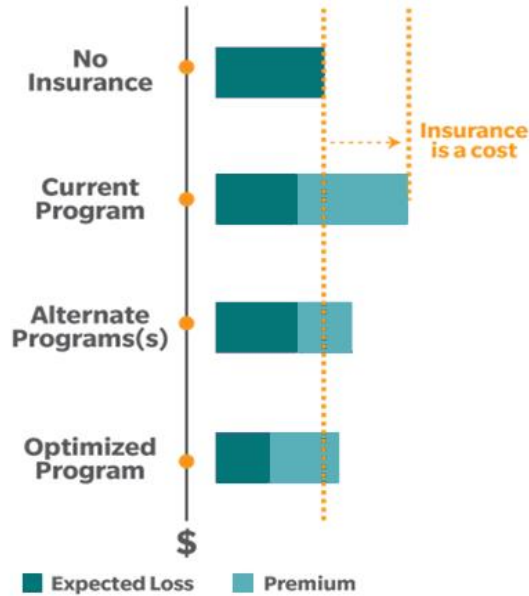


Premiums Are Easy Targets For Cost Reduction But May Ignore Other Costs

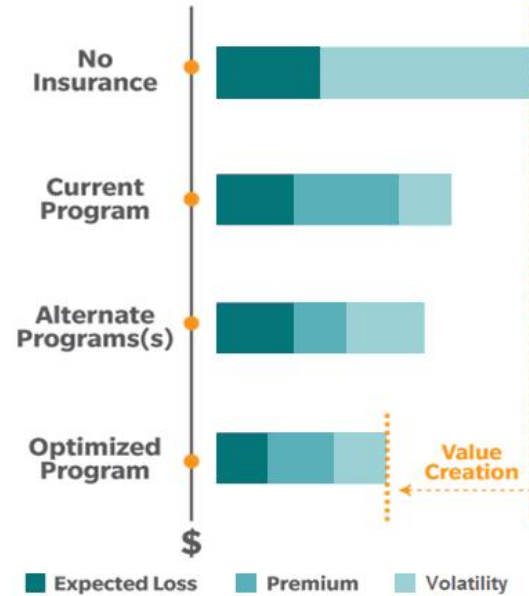


Incorporating Volatility Puts Various Risk Treatment Options on a Level Playing Field

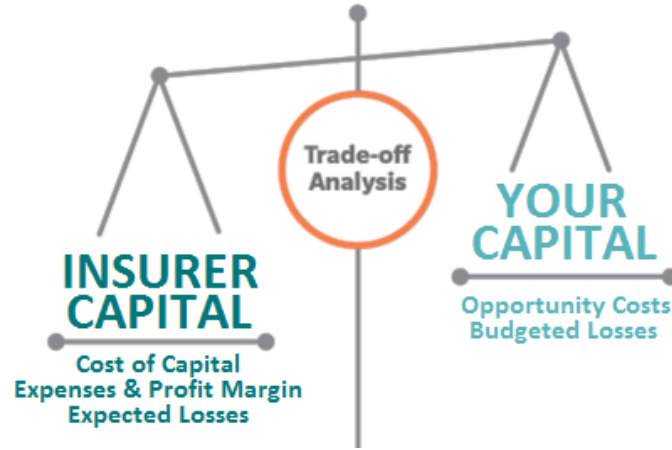
Traditional View of TCOR



How We Should View TCOR

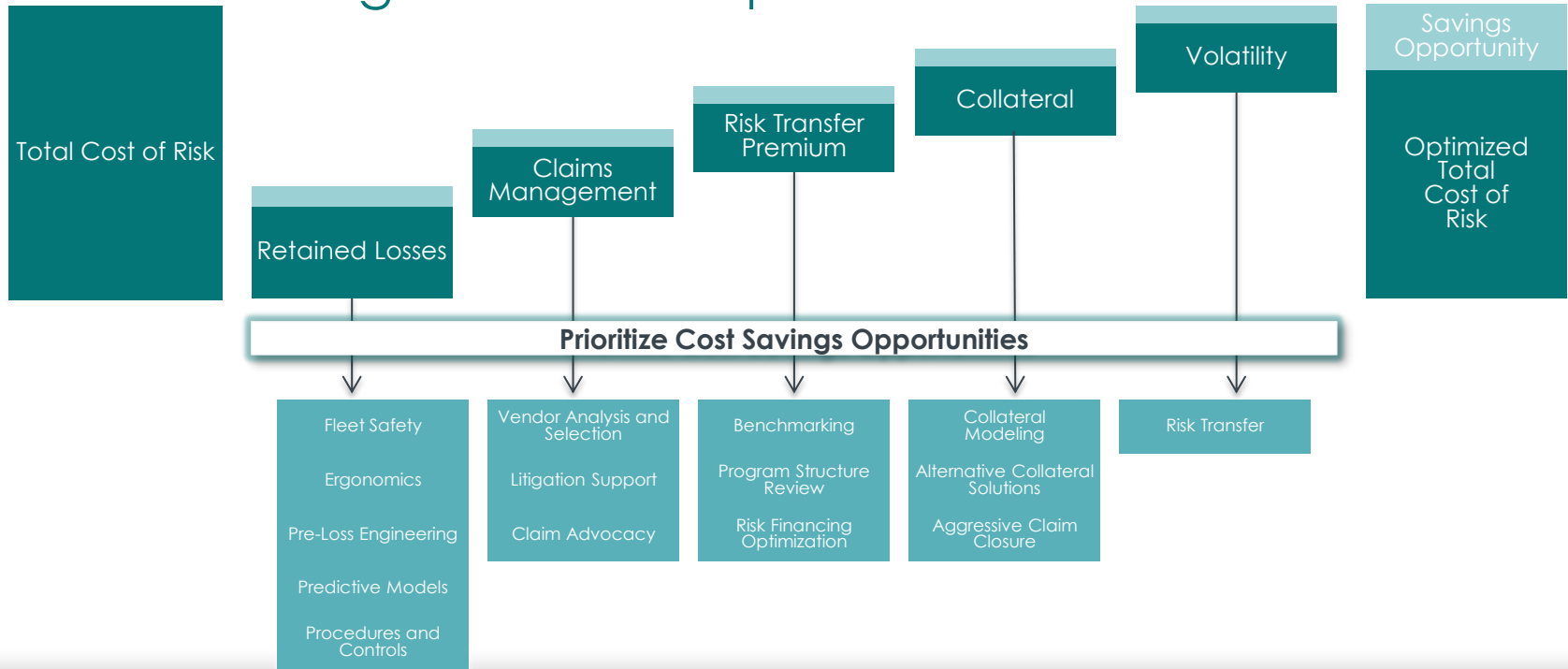


Assess Efficiency of Insurance Purchase Relative to Expected Loss and Volatility

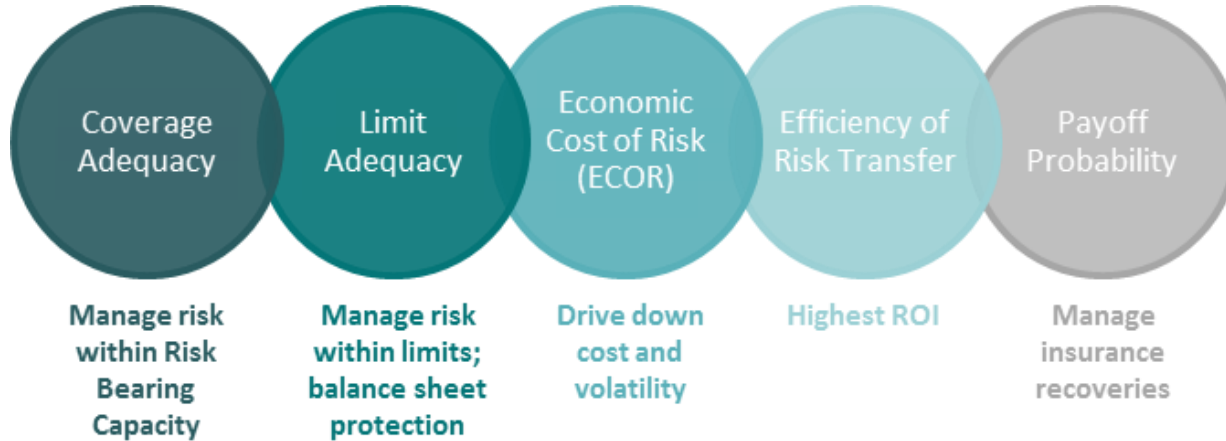


- What impact do unexpected losses have on your earnings? On your balance sheet?
- Consider insurance as a source of capital, not just an expense to be minimized

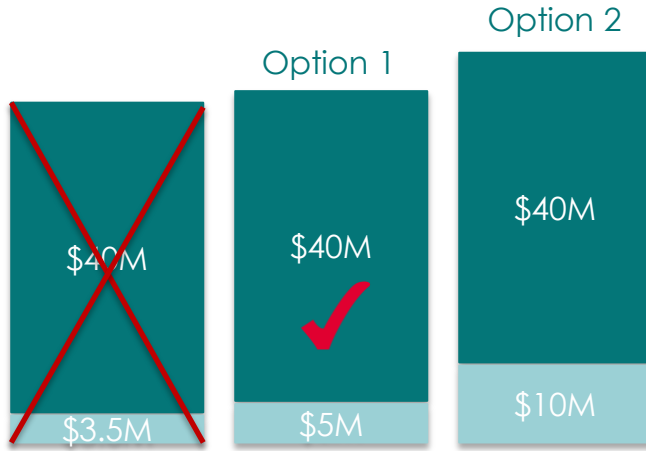
Optimizing Total Cost of Risk Requires Comprehensive Understanding of Cost Components for Each Risk



In Practice: Using Analytics for Risk Transfer Decision Making



In Practice: Using Analytics for Decision Making



There may be non-financial considerations that rule out an option

The remaining options might have trade-offs

Select option that best aligns with corporate objectives

Analysis might identify other considerations

Economic Cost of Risk	Efficiency of Risk Transfer	Payoff Probability	Limit Adequacy	Coverage Adequacy
Option 1	Option 1	Option 1	Option 1	Option 1
Option 2	Option 2	Option 2	Option 2	Option 2





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