

Does Your Organization Practice Risk Management?

PARMA February 9, 2023

Recognize where the risk function fits in your organization and is that optimal

This Slide is a Placeholder

This presentation will be amended to include points addressed verbally and will include questions and answers posed from the presentation. The final version will be posted within ten days of the conclusion of the conference. The final version is expanded with more than 30% additional information

Public Entity Risk Definition Discussed here today

For purposes of this presentation, we limit the presentation to Hazard Risk emanating from property, liability, and personnel exposures.

Operational, Financial and Strategic Risk are important, but most of what everyone in the room handles falls within the Hazard Risk arena.

Learning Objectives Today

History of Public Entity Risk and Pooling

Audience will learn something to take back

Where Risk Management fits in the organization

Reports and Elements of Risk Management

Real World Examples and Tools to be Effective

How to improve knowledge and standing in the profession

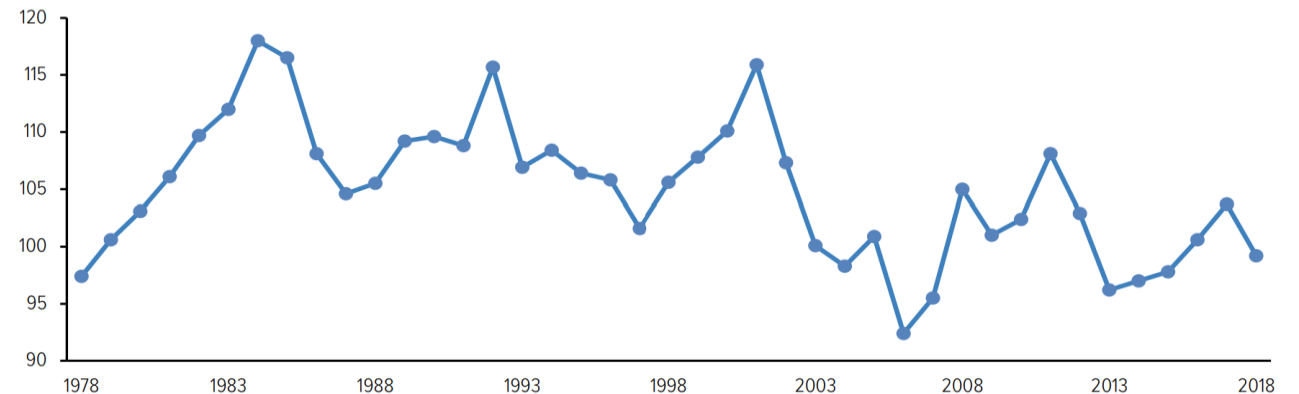
History of Risk Management in the Public Sector

- Pooling Workers' Compensation late 70's
- Pooling Liability mid-1980's
- Why pooling?
- Where did the early Risk Managers come from?

Evolution of Risk Management and Insurance Cycle

- 1985/86 Insurance Crisis pooling boom
- 1992 Workers' Comp Reform
- 2001 9/11, War, and Tech bubble deflated
- 2009-2011 Housing and Mortgage-Backed Securities
- Combined Ratio = Losses + Expenses / Earned Premium
- Combined Ratio below 100 equals an underwriting profit

Property/Casualty Insurance Combined Ratio, 1978-2018¹



¹Excludes state funds and other residual insurers.
Source: ISO®, a Verisk Analytics® business.

Impact to Total Cost of Risk for Public Entities due to good risk management Principles

What worked well over the decades?

How have we had such success?

Rise and fall of knowledge base of Risk Managers in the Public Sector

The profession is a victim of its own success

Retirement Waves and their impact

The peace dividend

Downsizing-Right Sizing and elimination of talent

Organizations get lean and outsource specialty services

Calm and Stability-A new normal?

Do what we do best-Outsource the rest

9/11 Work Comp and Property cost impacts

Enhanced retirement programs-What do you mean PERS returns of the 1990's won't continue?

2008 downturn layoffs and buyouts of long-term employrrs

The New Normal, Borrow from Peter to Pay Paul

Redevelopment Agencies disappear

PEPRA

Raids of Insurance Funds and funding at expected losses

Excessive force, sexual molestation and wildfires

Good news-Workers' Compensation

Where in the Organization should the Risk Function Report?

- The four areas to report in preferred order are:
 - Office of Chief Executive
 - Director of Finance
 - Human Resources
 - Office of Counsel
- Operating departments should have risk resources commensurate to their specific areas such as police liability and construction type work.
- Operating department loss control personnel should have a dotted line relationship to the enterprise-wide risk programs to ensure organizational consistency.

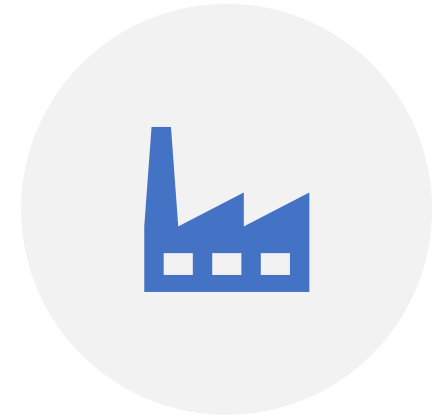
Main Elements of a Risk Management Program



RISK ADMINISTRATION
AND FINANCE



CLAIMS



INDUSTRIAL SAFETY

Risk Administration and Finance

- This area coordinates all programs including claims and industrial safety. Areas of specialization include:
 - Insurance Procurement
 - Pool Participation
 - Contractual Risk Transfer
 - Budget and Rate Making
 - Actuarial Analysis
 - Program Design
 - Internal Risk Consulting

Claims

Liability and Property Claims

- Liability and property claims can be handled in-house or through a third-party administrator (TPA)
- Claims staffing can be a combination of the above. In-house staffing can be performed by loss control staff as an adjunct function. In-house personnel can provide a level of service to claimants whether they be students or residents that is challenging for TPA's to achieve. In-house staffing can also be beneficial for consulting to operating departments.

Workers' Compensation

- Most workers' compensation programs are handled by a third-party administrator (TPA). There are large entities that handle claims in-house or have dedicated units at a TPA. The volume of claims required to maintain quality staffing makes this a challenge for all but the largest entities. Some entities disbanded self-administered units due to the challenge of maintaining trained staff through normal turnover and vacation and leaves of staff. It is beneficial for a dedicated staff person to monitor the TPA and serve as a resource to the injured worker.

Industrial Safety

- This function ideally should be staffed by a Certified Safety Professional
 - Field and Office work including drafting new programs, data analysis, and facilitating training classes
 - This position would manage an Executive Safety Committee to ensure that a safe workplace is promoted and maintained with support of upper management.

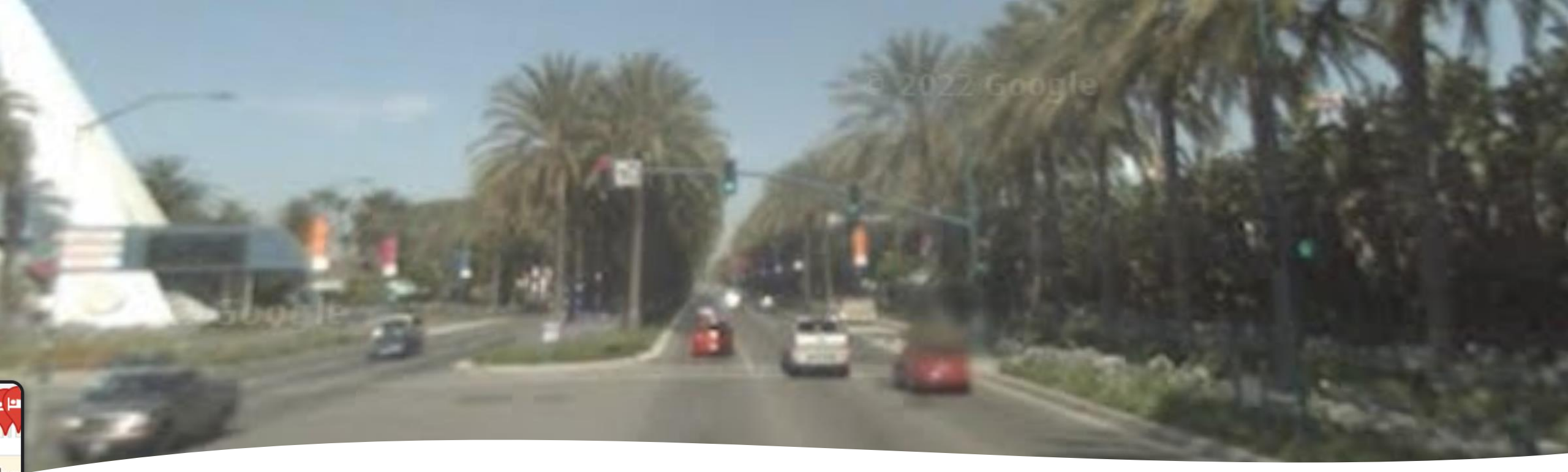
We can only support one management person for the Risk Function,
What do we do?

- Hire a strong generalist skilled in insurance, claims and analytics.
- Develop bench
- Avoid allowing position to be vacant for any length of time as continuity of programs is key for long-term stability



Broad Knowledge Saves Money

- What is wrong with Road Design?
- Is this City or Cal-Trans?
- Death Claim
- Adjacent to Large Venue
- Find other coverage
- Good testimony
- Social Media hurts plaintiff



Broad Knowledge Saves Money

- What is wrong with the Road Design
- Horrific Injuries
- How was area built
- Find other coverage
- What about at fault driver?

Management and Evaluation of Programs

- Without measurement how can evaluations be made
- Data rules

SIR Evaluation Excess Workers' Compensation
 Move from a \$1M SIR
 Total Incurred exceeding \$500K 2007-2017
 Trended 4% medical inflation *simplistic conservative if fully reserved on DOL

		Incurred		Trend 2017	\$1.5M SIR	\$2M SIR	
1	2009	\$800,000		\$1,075,000	\$75,000	\$75,000	
2	2011	\$600,000		\$760,000			
3	2011	\$550,000		\$700,000			
4	2009	\$575,000		\$800,000			
5	2015	\$800,000		\$850,000			
6	2010	\$1,750,000		\$2,300,000	\$500,000	\$1,000,000	
7	2010	\$550,000		\$735,000			
8	2009	\$500,000		\$700,000			
					\$575,000	\$1,075,000	
SIR	Premium	Savings	Save 10 Year	Cost 10 Year	Net Saving		
\$1,000,000	\$600,000						
\$1,500,000	\$440,000	\$160,000	\$1,600,000	\$575,000	\$1,025,000		
\$2,000,000	\$350,000	\$250,000	\$2,500,000	\$1,075,000	\$1,425,000		

Quarterly Safety Statistical Report

Work Unit-All				Report Period		
Current Quarter			Prior Yr Qtr	Year to Date		Prior YTD
Employees		Hours Worked		Total Hours Worked	3,806,839	3,702,347
Full Time	1,871	997,908	995,465	Total Recordable Injuries	203	167
Part Time	1,273	308,775	282,936	Total Ergonomic Injuries	10	15
Totals	3,144	1,306,663	1,278,401	Total Other Recordable	193	152
				Total Disabling Injuries	30	26
Total Recordable Injuries		67	52	Total Days Away From Work	6,990	4,480
Total Ergonomic Injuries		3	5	Total First Aid Injuries	21	30
Total Other Recordable Injuries		64	47			
Total Disabling Injuries		10	4	Incident Rates per 100 ee		
Total Days Away From Work		1,404	1,658	Total Recordable Injuries	10.67	9.02
				Total Ergonomic Injuries	0.53	0.81
				Total Other Reportable	10.14	8.21
				Total Disabling Injuries	1.58	1.4

Benchmark Claims Work Comp Claims Data
 Dept of Industrial Relations Annual Reports
 Example 9 Cities with Police and Fire

City	Open Claims	Total Liability	Total Employee	Total Wages	Cases/EE Five Yr Avg	Liability/EE Five Yr Avg
A	437	\$17,843,769	3,106	\$251,752,974	13.98	\$6,781
B	284	\$17,641,791	2,635	\$196,322,152	10.83	\$7,356
C	1,938	\$67,838,837	5,708	\$474,036,762	30.13	\$12,454
D	711	\$25,787,086	2,386	\$191,737,510	30.32	\$11,309
E	174	\$5,984,662	889	\$68,811,471	18.49	\$7,104
F	445	\$21,790,093	1,421	\$140,683,654	35.7	\$17,325
G	314	\$15,433,929	1,696	\$114,172,085	18.21	\$8,215
H	680	\$37,309,724	1,431	\$116,252,937	39.41	\$21,022
I	656	\$39,104,937	1,888	\$138,508,555	36.4	\$18,336

Benchmark Claims Work Comp Claims Data
 Dept of Industrial Relations Annual Reports
 Example 4 School Districts and 2 School JPA's

School	Open Claims	Total Liability	Total Employees	Total Wages	Cases/EE Five Yr Avg	Liability/EE Five Yr Avg
A	628	\$16,502,565	8,957	\$442312,567	7.18	\$1,439
B	292	\$21,677,478	2,455	\$120,881,926	12.46	\$6,726
C	104	\$4,082,798	5,374	\$306,949,561	2.2	\$727
D	207	\$4,529,599	4,728	\$216,496,178	4.61	\$1,110
JPA	1,034	\$53,947,912	22,715	\$1,119,417,070	5.11	\$2,518
JPA	266	\$7,372,976	10,942	\$567,804,415	2.98	\$822

Reviews and Evaluations Nothing Should Be a Surprise

- Vendor management and Evaluation is critical
- Items to score
- Annual Review Scoresheet

Category	Expected Points	Weight	Weighted Points	Scored Points	Comments
Back Office Support					
Accuracy	90	1	90		Correct certs and policies
Communication	85	1	85		Policies uploaded timely
Qualitative	90	1	90		Billing and policies withing X days
Delivery					
Coverage analysis	90	1	90		Identify gaps and uninsured exp
Communication	85	1	85		Respond within X days of inquiry
Claims Mngt	85	0.5	42.5		Little need but some need
Innovative Solutions	90	1	90		What alternatives to fund exp
Renewal					
Market Analysis	90	1.5	135		Estimates at 10/1, 1/1 and 3/15
Timely strategy	85	1.2	102		Market plan delivered by 11/15
Negotiation	90	1.5	135		Comparison est by 1/15
Post Renewal	90	1.2	108		Thorns and roses discussion 9/15
Total	970		1,052.5		

How you can become the Risk Manager in Demand or get elevated in your Organization

- Education not just training
- MBA not MPA
- ARM and CPCU bring proof of your dedication to the profession
- Manage up, don't be managed.
- Practice RMBWA, thanks to Peters and Waterman In Search of Excellence
 - Risk
 - Management
 - By
 - Wandering
 - Around

Questions



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