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Work

It's Good for Us!

Although work may be risky—many jobs have significant elements of physical danger—not working may be even worse. P16

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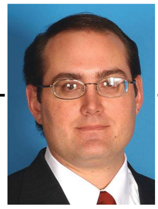

Improve Your Risk Profile and Improve Your Bottom Line

By David R. Leng

Over the past 20 years, I would guess that I have talked with or interviewed close to 1,200 corporate executives. At some point in our discussions, I always ask the same question: "Would you agree or disagree that your premium is based on the insurance company's perception of your risk?" Without a doubt, everyone agrees. I then ask them, "What does your risk profile look like? Is it becoming worse, staying status quo, or improving?" They almost always answer, "I have no idea."

Not knowing your risk profile is like trying to defend a fort from attack without knowing which walls are the weakest and most vulnerable. Without that knowledge, you have no idea where improvement is needed.

When you improve your risk profile and reduce your risks, you improve your safety, which in turn reduces your claims, and ultimately drives down your rates. However, you have to remember that everything revolves around the underwriter's perception of your risk profile.

You can positively influence this perception by clearly conveying how much you have improved your risk and addressed claims over the past five years. This requires a focus on your entire risk management process, which involves a five-step ongoing process:

1. Risk identification
2. Risk analysis
3. Risk control
4. Risk transfer and implementation
5. Risk review and refinement

Many insurance agents jump directly to step four by quoting your insurance costs and transferring that risk to an insurance company. If they do not spend the necessary time in the risk identification phase, how can they help you address your risks? Here is an overview of each step:

Risk Identification

During this step, you identify all of the risks inside your organization. This will allow you to analyze the risks and determine how best to deal with them—by establishing better controls, transferring the risk, or buying insurance.

Risk Analysis

After developing a

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thorough understanding of your business, corporate culture, operating procedures, and the risks your operation faces, you now start to move beyond insurance and toward risk profile improvement. In the risk analysis stage, determine the potential impact of the identified risks by measuring and prioritizing them so that you can determine if it makes sense to address a certain risk now or later, and eventually how much time, money, and effort you should spend dealing with a certain risk.

Risk Control

During the risk control phase, determine which programs and processes are most effective to reduce the frequency and/or severity of that risk, and ultimately reduce the total cost of risk to the organization. Take the time to understand and analyze each risk that you have identified. When it comes to determining how best to control the risk, analyze the cost versus the benefit of controlling it. The goal is to have controls in place for a risk that enable you to reduce or eliminate that risk. Eventually, you will want to have programs and processes in place to improve as many of those risks as you can.

Why pay insurance premiums to cover risks that rarely occur or have very little consequence? Instead, spend the time addressing or controlling these risks to keep them from reoccurring. On the other hand, if you have a significant risk, the best advice is to purchase insurance or reinsurance for that risk. However, remember that the insurance company is charging you a premium based on its perception of this risk. Therefore, keep your rates down by digging deep into that risk and figuring out how to best control it, thus reducing the potential severity and its likelihood of reoccurring.

Risk Transfer and Implementation

Now it is time to implement the risk control programs and processes geared to reducing the frequency and/or severity of losses, and then to conduct your risk transfer. The implementation process consists of specifically tailored programs and strategies designed to reduce those risks, which ultimately will lead to reduced insurance costs.

The whole idea behind risk profile improvement is to go through the entire risk management process cycle. By ultimately focusing on your risks, you will be able to drive down your premiums.

After you implement these programs and processes and improve your risk profile, it is time to apply your negotiating advantage in the insurance marketplace. Clearly and precisely convey to the insurance companies the improvements that you have undertaken, which should drive down your rates. This is also the time to look at different insurance programs and alternative financing arrangements containing higher deductibles or other strategies.

Risk Review and Refinement

It is during this final step that you should evaluate the effectiveness of your risk management programs, practices, and resources under real-world conditions in order to make certain the programs and processes work correctly. Risk management is an ongoing process, one that you must continually oversee to ensure that the programs are working. You also may want to identify new risks, and then analyze and control them by implementing new programs. If you do not control your risks, you are subject to the risks controlling you.

The whole idea behind risk profile improvement is to go through the entire risk management process cycle. By ultimately focusing on your risks, you will be able to drive down your premiums.

Some of the risks you will be able to tackle as a group, and some you may have to address individually. Complete them one by one, pick away at the prioritized list of risks, and put your processes in place.

Nothing happens overnight. Because risk profile improvement is a marathon, not a sprint, it takes time, energy, and commitment. However, it is definitely a race well worth running. ■

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