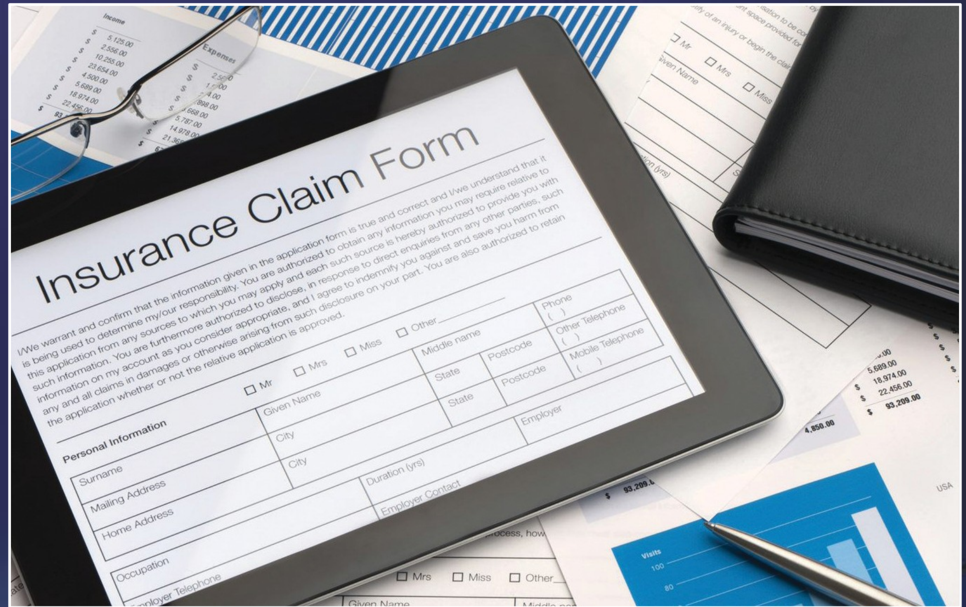
Driving Risk Management Improvements

By Lisa Martell, Senior Manager, and Mike Wong, Senior Associate, BDO

Every organization has a risk universe that presents opportunities to drive greater operational and cost efficiencies as well as risk reduction. This can include everything from risk identification to risk transfer to best-in-class claims management. Identifying where your organization is in this journey will allow you to develop a plan to tackle these opportunities and manage your cost and risk.



Transferring Risk through Insurance

Purchasing insurance is one of the most common methods to transfer risk, and missteps can drive up costs quickly. While making sure risks are identified and measured properly may seem elementary, improper documentation or quantification of exposures can cause inaccuracies. Another area ripe with opportunity includes review of the risk strategy to ensure that the insurance is appropriate and covers the exposures. The exercise can eliminate duplication of coverage, reveal coverage gaps, and even identify unnecessary purchase of insurance limits and deductibles.

Some of the most common issues include:

- Insurance limits and retentions that are not aligned with the organization's risk tolerance;
- Duplicate coverage purchased within or outside of the risk management department;
- Poor articulation or quantification of risk to the insurance markets; and
- Lack of understanding of risk and coverage.

Identifying whether these areas warrant further review can bring potential opportunities into focus and lead the organization down the path of addressing them.

Maximizing Contractual Risk Transfer

Another way to reduce risk is to transfer it to subcontractors and vendors. This requires monitoring and thorough review of the contracts and insurance programs of subcontractors and vendors. The monitoring should include:

1. Review of relevant contracts;
2. Ensuring contracts meet requirements from the upstream contracts;
3. Determining whether risk is adequately transferred to downstream parties; and
4. Identifying whether downstream contracted parties carry insurance coverages and limits to cover the exposures.

General contractors should align insurance requirements with vendor and subcontractor agreements and ensure that both the owner and lender requirements are reflected. It is critical to verify that subcontractors provide subcontractor agreements and would be able to rely on their insurance programs to pay the losses that they have promised to indemnify. If there are gaps in the subcontractor's insurance program, what often happens is that the general contractor, who maintains their own insurance policy, pays for the claim — this can result in a significant increase in their insurance premium.

As an example, a subcontractor headquartered in Detroit was performing sprinkler work in an apartment building located in Manhattan. They signed the contracts without modifications on the insurance requirements and agreed with broad form indemnity. When a trade worker fell from a ladder and broke his arm, the insurance company declined the claim because they failed to review gaps in their subcontractor programs. The subcontractor did not have coverage or funds to pay the $2 million claim that they had agreed to indemnify.

Ensuring that downstream parties carry the adequate insurance to cover their exposures protects all of the parties from potential risk of loss that may incur and drives down costs and risk.

Effective Claims Management

Claims management should be at the forefront of all insurance departments. While the frequency and severity of claims can vary, a simple way to reduce risk and cost is through a clear and consistent record of any incidents that occur. This should include incident details and next steps, as it may be unclear that an incident will result in a claim. In some instances, individuals or companies don't file claims until days or even weeks after an incident has taken place. If incident details are lacking, physical evidence is gone, or the individuals involved can no longer be reached, the organization may not be able to provide the necessary information to report a claim and maximize recovery.

Most organizations standardize recordkeeping by having a third-party administrator (TPA) manage claims. TPAs are often engaged by insurance carriers to manage claims, although organizations can also leverage a TPA to manage their incident and claims and provide knowledge of the most current laws and regulations governing them. Companies maintaining strict processes and procedures minimize the risk of claims leakage.

Organizations utilizing a TPA may also experience claims leakage, and the impact can accumulate quickly. When companies look back at losses, it is common to see opportunities where claims could have been more actively managed. Conducting a periodic analysis of closed claims and overall trends can reveal opportunities to drive the cost of claims down.

Conclusion

The insurance dollar is being stretched through increases in insurance premiums and large losses across all industry segments. Organizations should review the effectiveness of their risk management spending across their insurance programs, contracts, and claims to maximize spending and reduce risk. Identifying the maturity of your company's risk management program is the first step to driving risk management improvements.

About the Authors

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