

How manufacturing and automotive companies can reduce their casualty cost of risk

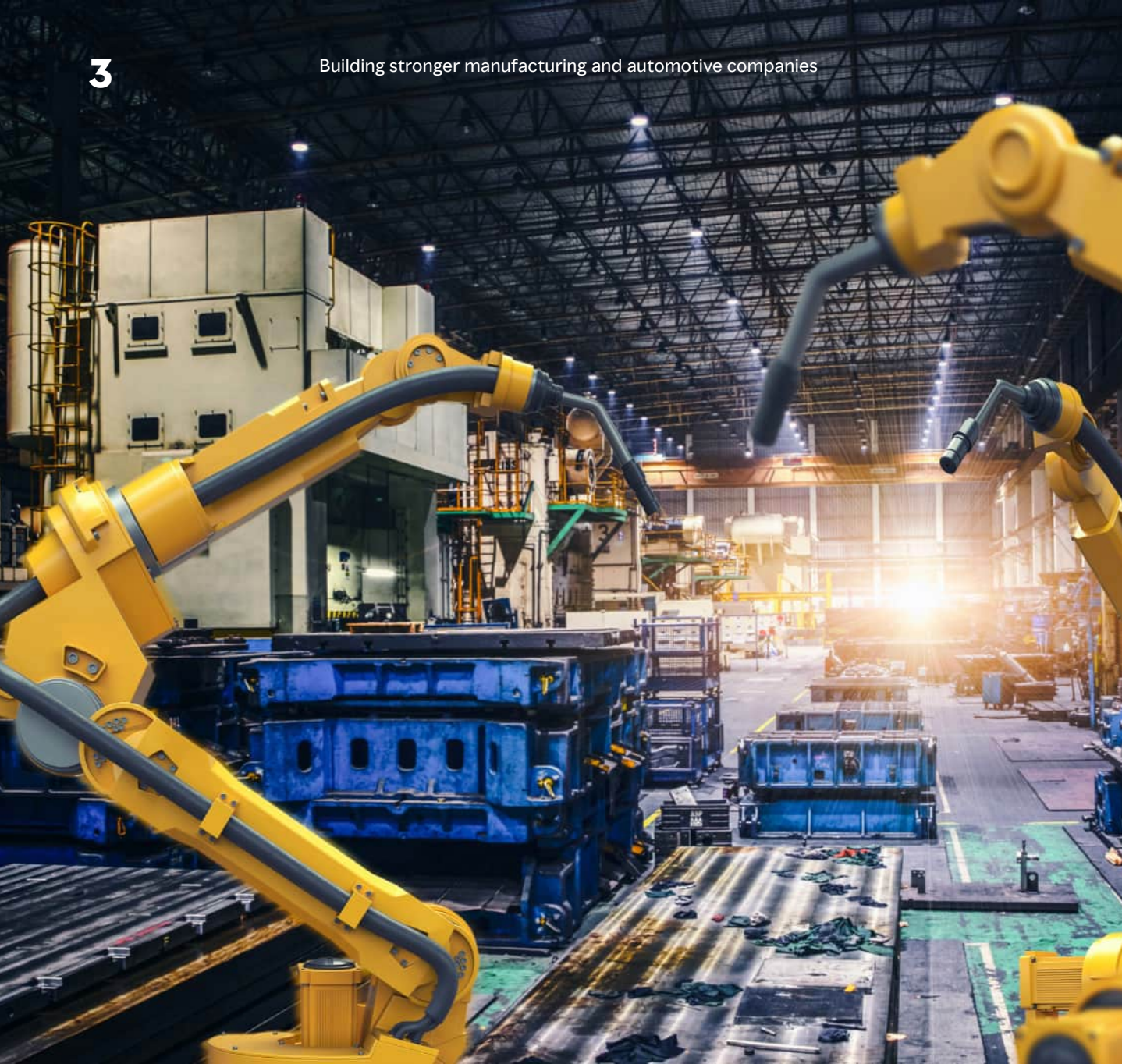
A planning guide for risk professionals



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Identifying opportunities for cost reduction

As companies face a new normal for their operations, many of the financial impacts of 2020 — including increases in inflation and labor costs — remain significant hurdles. It's thus no surprise that controlling costs through expense reduction is a top priority for boards and C-Suite executives.

- As manufacturing and automotive risk professionals are asked to reexamine their expenses, many are now revisiting their total cost of risk (TCOR) calculations. Marsh has developed this guide to share key areas risk professionals, senior executives, and others within manufacturing and auto companies should review to help them define their TCOR and create strategic plans to reduce key cost drivers.
- TCOR can have many components, including cost drivers associated with managing risks within an organization. TCOR generally consists of retained (uninsured) losses, loss adjustment expenses, administrative costs, and premiums or transfer costs. As addressing all of these cost drivers simultaneously can be overwhelming, this guide can help organizations prioritize, so they can focus on reducing their largest costs.

The journey to reducing your overall cost of risk

Marsh has determined that the largest loss cost drivers for manufacturing and automotive companies are caused by employee injuries — and, increasingly, the variable costs associated with workers' compensation claims, which typically make up more than three-quarters of these organizations' TCOR. The path to reducing total cost of risk may be different for each company. But Marsh has identified five key actions on the journey to reducing workers' compensation costs:



Defining casualty cost of risk and identifying key cost drivers

Implementing a cost reduction strategy requires organizations to develop a consistent approach to measuring key cost areas and prioritizing activities that can maximize savings.



Applying a comprehensive approach to safety programs

Focusing on the elimination of workers' compensation claims through the improvement of safety programs is the first step in the source of more than three-quarters of total cost of risk for most manufacturers and automakers.



Predicting the evolution of current claims

Early identification and management can enable you to close claims before they escalate into larger ones.



Administering proper management of employee claim costs

Closing legacy claims that continue to incur claim costs and drive up collateral requirements can contribute to an overall reduction of casualty costs.



Managing the quality of claim data

Maintaining data quality and dashboard reporting capabilities increases your ability to identify trends, root causes and track overall cost reduction performance.

This guide and Marsh's resources can help you initiate your journey to reducing casualty cost of risk.

Organizations that have initiated programs focused on these key cost drivers can save an average of 15% to 25% of their total cost of casualty risk. Taking these steps can also help position an employer as a more favorable risk with underwriters, yielding additional potential cost savings.



Take the first step in reducing cost of risk

Identifying critical gaps in safety systems is an important exercise for any employer seeking to become safer. Marsh's Safety Performance Ind^x (SPI) survey tool, a high-level diagnostic, can help organizations expose important gaps that can impede overall safety performance. This survey can be a good starting point for your organization to uncover what is driving your casualty risk costs and determining a plan of action.

After you complete the survey — which should take no longer than 10 minutes — Marsh will tabulate the results and schedule time with you to share a report on your responses and review your organization against 36 key safety management system best practices.

[Complete the SPI survey here.](#)

Defining casualty cost of risk and identifying key cost drivers

Manufacturing and automotive companies often struggle to understand exactly what their casualty cost of risk is, and what their key cost drivers are. That in turn makes it difficult for them to set priorities for cost reduction across several areas, including workers' compensation, auto liability, property, general liability, product liability, and directors and officers liability.

Questions to ask

- Do you have an annually updated method to calculate your casualty cost of risk and cost reduction strategies across all risk exposures?
- Does your organization have cost reduction and claim measurement objectives in place? Are technology-enabled tracking and reporting indicators included in this?
- Definitions of casualty cost of risk vary across industries. One definition is the sum of every aspect of a company's functions relating to risk, consisting of retained (uninsured) losses, related loss adjustment expenses, administrative costs, and premiums or transfer costs. How does your organization define casualty cost of risk?
- Does your organization benchmark its risk costs to others within your industry?

Potential solutions

Defining an organization's casualty cost of risk is necessary before you can take steps to reduce it. Marsh can help you estimate your cost of risk; perform advanced benchmarking by your industry, revenue, and lines of coverage; and drill down into specific lines of coverage, using Blue[i] Cost of Risk, our digital interactive dashboard platform. This can help you identify areas for improvement and optimize your risk management efforts.



Applying a comprehensive approach to safety programs

Oftentimes, safety improvement projects within manufacturing and automotive companies are undertaken from the bottom up; it's left to safety managers and middle managers to try to prevent injuries, conduct training, and more on their own, with little guidance from senior management. A more strategic approach, led by senior management and driven by organization-wide goals can yield better results and more lasting impacts for employers.

Questions to ask

- Does your organization understand the gaps inherent in current safety systems and do you have a method to identify and correct those gaps?
- Are these gaps hindering your organization from accomplishing its safety objectives, goals, strategies and metrics?

Potential solutions

Marsh's Safety Performance Ind^x (SPI), a high-level self-assessment diagnostic survey tool designed to identify safety management gaps, can be a starting point in any workers' compensation cost reduction initiative. The SPI can help you better understand the strengths and weaknesses of your safety program before beginning prioritization and implementation of mitigation strategies.



Predicting the evolution of current claims

Many of the costliest claims for employers can be avoided through early intervention. It's thus important for employers to identify those potentially problematic claims in a timely manner.

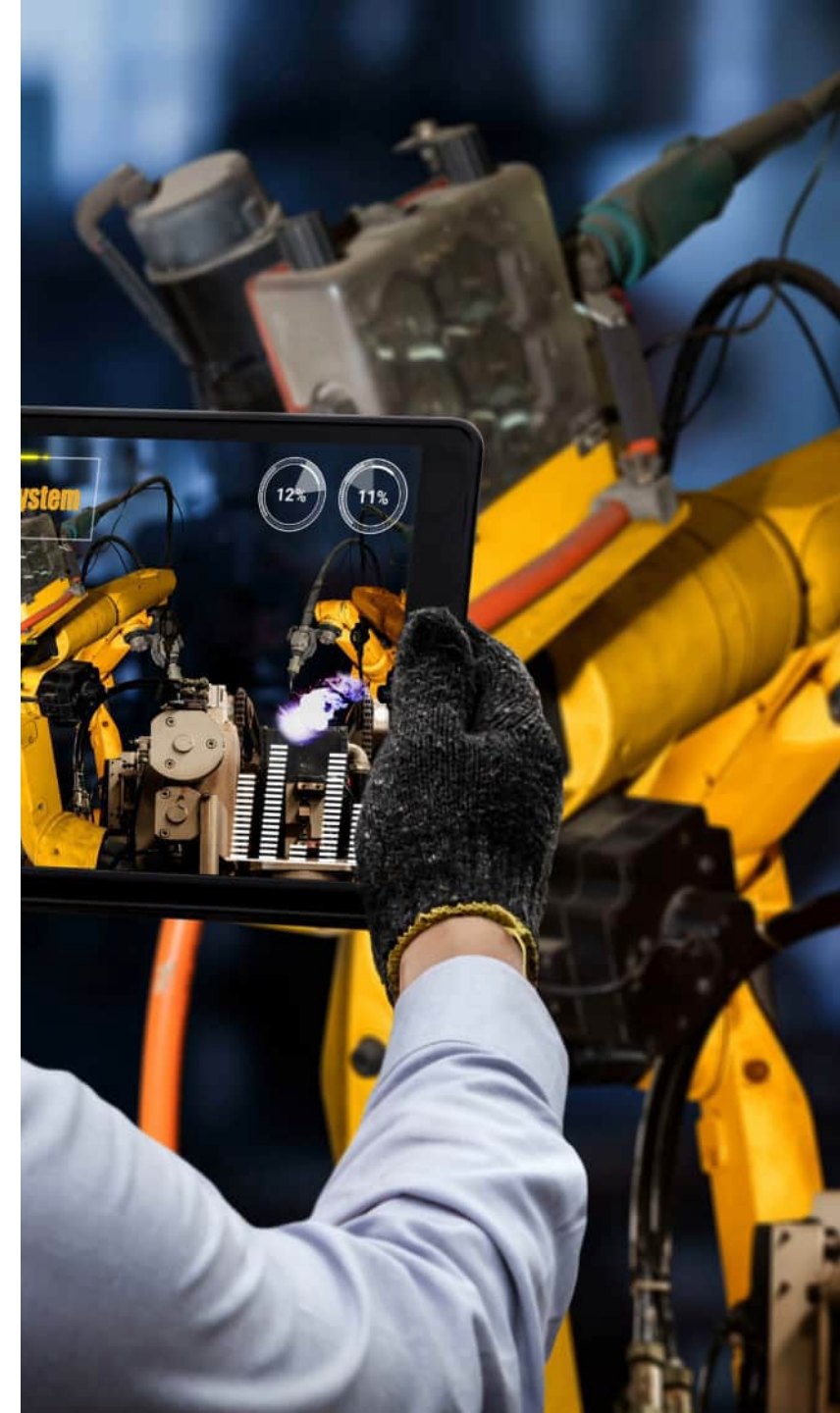
Questions to ask

- Does your organization have a process to identify claims that need early intervention to prevent them from growing into much larger claims?
- Has your organization identified the criteria — specific to your industry — that can predict future escalation?

Potential solutions

Marsh can help manufacturers and automakers with the early identification of potentially problematic claims. Our Blue[i] Claims digital platform uses workers' compensation claims data to produce a single integrated view into your program performance. That enables you to identify clear, actionable cost-saving opportunities across your program.

Using modeling capabilities, we can help predict which claims will require more resources upfront and align internal and external resources to drive better claim outcomes. This can put you in greater control of your spend by providing you with the data, analytics, and claims specialists to more effectively oversee and manage your workers' compensation program.



Administering proper management of employee claim costs

Manufacturing and auto companies often struggle to contain escalating workers' compensation medical and indemnity costs, along with insurers' high collateral requirements. They are further challenged to properly oversee and manage the costs of their claim service providers.



Questions to ask

- What cost-saving initiatives is your organization exploring in regard to early claims closures, collateral reduction initiatives and management of TPA costs?
- Have specific cost savings calculations been developed for the organization?



Potential solutions

Marsh can help manufacturers and automakers identify a number of areas for immediate cost savings. We can:

- Guide you through the process of closing claims and reducing collateral requirements for workers' compensation insurance programs.
- Provide operational claims management assessments to define the current state of your claims administration efforts and identify gaps and deficiencies for potential corrective action.
- Help you evaluate competing vendors based on several criteria.
- Deliver a complimentary analysis of the potential savings an organization can realize through a claims closure exercise.



Managing data and developing data management strategies

Successful manufacturing and auto companies consistently make effective decisions through active maintenance and monitoring of secure, quality, actionable data, obtained through efficient workflow processes. When organizations are looking to reduce risk, improve cash flow, or manage their program costs, high-quality information is essential.

Questions to ask

- How is your organization managing and using collected data to identify incident root causes?
- Are dashboards and reports being used to monitor results of cost-saving initiatives?

Potential solutions

Marsh's data scientists have the knowledge and expertise to work with manufacturers and automakers to implement data management strategies that include:

- Data workflow process mapping and process optimization.
- System needs identification and time studies to determine RMIS applicability and ROI.
- Advising on custom, on-demand dashboards to eliminate unreliable reports and improve an organization's ability to generate metrics that focus on identifying root cause of claims and measure safety program performance.





How Marsh can help

To implement effective casualty cost of risk reduction strategies, it's essential that companies in the manufacturing and automotive industry work with the right risk advisor. Marsh can serve as your trusted advisor, offering assessment tools and other resources to support that journey — starting with our [Safety Performance Ind^x \(SPI\) survey](#), which can help you identify critical gaps in your existing programs and key casualty cost drivers.

To take our SPI survey or to learn more about how Marsh can help you reduce your total cost of casualty risk, visit marsh.com or contact your Marsh representative or:

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CASE STUDY: A MANUFACTURER'S APPROACH

A large US manufacturer with global operations wanted to understand if there was a way to reduce its overall cost of risk, specifically in relation to its open claim portfolios and outstanding liabilities for workers' compensation claims dating back to the 1970s. The company had attempted to address the issue with its human resources department and TPA, but had failed to materially reduce open claims.

Marsh was engaged to develop a strategy to reduce the company's open claim inventory, with a specific emphasis on improving the experience for injured workers and obtaining greater financial certainty.

Quantifying savings potential

Together with Oliver Wyman, Marsh modeled potential savings of a claim inventory workout project against the manufacturer's cost of capital, which identified the potential for:

- Total savings of up to \$35 million, based on the company's current financial accrual.
- Neutral cash flow within five years, following accelerated cash requirements in years 1 and 2 of the project.
- Estimated collateral reductions of \$20 million to \$30 million in self-insured states.

This financial analysis was completed within two weeks of receiving loss data from the manufacturer. The company's risk manager and treasurer agreed to move forward with the project, while the Marsh team developed a project timeline and claim assignments, and began meeting with the manufacturer's TPA.

Understanding the open claim portfolio

Marsh consultants began their initial triage review of open claims, classifying them based on the injured workers' medical status, employment status, outstanding issues for resolution, litigation status, and if a Medicare set-aside (MSA) was required due to the aging demographic of the manufacturer's claimants. The team also identified claims for which a prior settlement attempt had been made, and any barriers to settlement that arose in those prior attempts.

Segmenting open claims in this way allowed Marsh and the employer to take a data-driven approach to the claim portfolio and prioritize files for settlement. Based on this prioritization, a forecast of expected closures by financial quarter was created to support cash flow requirements and provide a baseline for measuring closure performance.

Taking action

Marsh, the manufacturer, and its TPA collaborated with a specialized team of jurisdictional experts, attorneys, medical and disability experts, benefit pricing, and settlement negotiation champions. Marsh's resolution metrics enabled this team to use dashboards to more easily identify claim closure bottlenecks, prioritize information and resources, and more effectively make decisions to support closure.

Strong results

With Marsh's help, the manufacturer successfully closed over 50% of aged pending claims that were open for more than one year from date of loss, including closing more than 30% of claims that had been open for more than 20 years. A significant reduction in collateral has been negotiated from self-insured states, and annual TPA costs were cut by more than 20%. In total, the project delivered total savings of over \$35 million.



About Marsh

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