In business, taking risks is inevitable but taking the right risks is invaluable.

Managing your total cost of risk (TCOR) is approaching risk management holistically and with a long-term lens.

By understanding and managing TCOR, you help your organization make well-informed decisions about which risks are necessary and which can be eliminated. You also save money by running a safer operation that reduces your claims and other costs.

Typical business’s TCOR

- **85%** Losses
- **15%** Excess premiums, claims handling

Where should you focus your efforts?
Understanding your TCOR helps you:

- Invest your time, money, and other resources to deliver the highest returns
- Achieve your goals, including taking the money saved by reducing the cost of loss and using it to expand product lines, improve customer service, and grow
- Protect your brand, stay competitive, and improve your overall business results

We worked with a Fortune 100 customer to analyze its total cost of risk.

Over three years, our efforts focused on programs — some off-the-shelf, others customized to its business — that would deliver the most ROI. The most effective TCOR initiatives included:

- A permanent job modification program, including an on-site physical therapist
- Restructuring its return to work program and instituting a management incentive
- An accelerated workers compensation financial allocation to eliminate a three-year fiscal reporting lag
- Adopting Liberty Mutual’s evidence-based medicine standards
- Reshaping the union contract to align disability pensions with Social Security approval

The estimated savings thus far:

$20 million
Reducing direct and indirect costs

Digging into TCOR helps you understand the indirect costs, such as hiring and training temporary workers and paying overtime, that should be included in your calculations. In addition, productivity and customer service may also suffer, potentially damaging your reputation and leading to a loss of business. Seeing beyond your direct costs to discover your indirect costs helps you better manage your expenses.

Working with a large energy services customer, we were able to identify cost drivers and recommend a variety of solutions that included:

- Increasing management visits to job sites
- Connecting year-end bonuses to safety records

The result:

- Fewer third-party injuries
- Reduced costs

The cost of adding job site visits was just a fraction of the amount the company had been spending on third-party injuries. It was able to hire additional installers and improve customer service.
Choosing the right program structure

Does your insurance program help you achieve your financial goals? Should you consider a fully insured program?

Or, if you are confident in your claims cost trends, would a large deductible or self-insured program, coupled with the claims services of a third-party administrator (TPA), make the most sense?

Direct costs are determined, in part, by how an insurance program is structured.

Talk to your broker about the advantages of each of the following:

- Self-insured
- Captive
- Carrier and a TPA
- Large deductible
- Collateral, including surety bonds, cash collateral, and prefunded deductibles
- Loss portfolio transfers
Managing TCOR in five key steps

Here are five steps you, your insurer, and your broker must take to get started:

1. **Measure where you are**
   - Gather the loss trends over at least five years, including the frequency and severity of injury types.
   - Quantify the effectiveness of current safety and claims handling programs.
   - Benchmark your organization’s performance against that of your peers.

2. **Get buy-in**
   A cost-benefit analysis can show how your TCOR is holding back profitability and how managing your TCOR can help you reach your business goals.

3. **Make your plan**
   - Where do you want to go in quantifiable terms?
   - What will you adjust to drive down costs?
   - What risks are preventable and how will you prevent them?
   - What will you do to reduce claims costs and produce better outcomes?

4. **Choose the right partner**
   Your broker, carrier, and TPA can help you benchmark your organization against your peers and share best practices used by similar businesses.

5. **Assess and adjust**
   Regularly assess the effectiveness of your risk management efforts. If a new program isn’t making the impact you hoped for, consult your broker and carrier for suggestions on how to improve it. If you have a program that has helped lower claim frequency and severity, implement the same program at additional locations.
To better understand your organization’s TCOR and use the principles of TCOR to reduce costs, achieve your goals, and strengthen your financial position, contact your agent, broker, or Liberty Mutual representative today.