



# Risk Management Loss Control: How Companies Can Manage Losses to Reduce Costs

## Introduction

Many companies manage risk reactively rather than proactively. At these organizations, senior managers view risk management solely as a defensive discipline. Alternatively, at companies that are applying lean principles to the risk-management function, senior managers view managing risk as a value-adding discipline, and their organizations are more sustainable as a result. These leaders recognize the competitive need to align risk management with the overall business strategy of the company — including setting goals and incentives — to create shareholder value. They expect risk management to be a driver for sustained future profitability and so work to create a risk-averse culture throughout the entire organization.

By Lori L. Siwik  
Founder and Managing Partner  
SandRun Risk



This approach is *proactive* in that it enables the company to use risk management to do more than protect the business from “risk.” For example, by using lean-management principles and practices, companies can empower all employees to identify risks (problems) and focus on detection and prevention through collaborative problem-solving activities. As a result, the company’s overall performance improves, and it experiences fewer and less severe losses. Engaging the entire company also increases visibility into risk, which makes risk more predictable; and when a loss occurs, the effect on the company’s bottom line is lessened.

Lean risk management’s key differentiator is the risk-focused problem-solving cycle, which — along with decreasing the impact of risk — offers the potential to reduce costs, increase return on assets, and improve quality and performance.

Companies using lean in this way are taking a range of steps to increase risk-management efficiencies, such as:

- Eliminating unnecessary steps from risk-management processes;
- Improving internal coordination to reduce risk across departments;
- Standardizing work to reduce variation in processes and performance that could lead to losses;
- Making risk-management performance visible and improving accountability;
- Revealing performance gaps and waste; and,
- Creating a culture of continuous improvement by exposing risks and their causes for all to see and act upon.

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This paper will specifically address how lean risk management can be applied to loss control and managing workers compensation losses.

An overarching guideline for applying lean risk management to any endeavor, however, is that a company cannot treat risk management as a standalone department. Lean risk-management capabilities must be integrated across the entire organization, with all employees acting as effective stewards for risk. This requires dedicated leadership because if a broader culture of risk awareness is not created, companies will struggle to realize the full benefits possible.





## Lean Risk Management in Loss Control

Loss control, as a part of a lean risk-management strategy, focuses on reducing and eliminating potential losses from identified risks. Taking a strategic approach to loss control is important because it can result in direct cost savings through reduced workers compensation costs, less overtime, increased productivity, reduced turnover, and improved labor/management relations.

By applying lean risk management to loss-control issues, a company can standardize the loss-control program, homogenize it, roll up uniform processes, significantly cut exposure, and improve the bottom line.

To implement lean risk-management loss control, a clear set of guidelines — including the expectation and direction of the company — must be communicated from the top levels of the organization to every employee. Clear roles and responsibilities must be identified.

For example, plant managers, who are usually focused only on making sure that the plants that they are in charge of are running smoothly, should also be focused on risk-management loss-control issues. Plant managers should respond immediately to any report of injury with a sense of urgency and compassion. The primary focus should be on meeting the immediate needs of the injured worker and protecting others from any remaining hazard and/or preserving evidence. They should be encouraged to report: all injuries, no matter how minor, immediately, but no later than the end of the shift; unsafe work conditions and

behaviors; and symptoms of discomfort. The plant manager should promptly document the incident and notify the claims administrator (TPA) of any injury requiring offsite medical care or lost time.

Senior leaders, from the CEO on down, must commit to learning lean risk-management loss-control principles and preparing the company for change. Training helps to ensure that all employees understand their specific roles in managing risk. Specifically, leaders should:

- Set a positive tone for risk accountability among the employees;
- Review opportunities with all of the employees so that the importance of risk is understood;
- Conduct business in a risk-aware manner;
- Encourage employees to escalate any issues or losses quickly;
- Make sure all employees effectively identify, assess, and manage risk within their sphere of control;
- Provide tools to empower the employees because they are on the front lines of mitigating risk; and,
- Review existing controls to identify any gaps, and ineffective, poorly designed or unnecessary controls.

Regular follow up is necessary to ensure that changes are taking place and that desired results are being reached. A successful lean risk-management loss-control program has a

*“Risk managers should understand every activity in the processes they use, determine whether these add value, and remove those activities and processes that don't add value for the company.”*

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workforce focused on identifying and managing operational risk, and a culture of accountability supported by performance goals designed with risk mitigation and transparency as a priority. Every employee in the company should have a risk-accountability objective that is measured as part of a performance review.

## Applying Lean Principles to Managing Workers Compensation Losses

Workers compensation insurance premiums have risen to double-digit levels due to skyrocketing medical costs, poor return-to-work programs, and other factors. By introducing lean risk-management principles to the processing of workers compensation claims, companies can identify and implement best practices within these programs. With a finely tuned and well executed workers compensation claims management function within the company, companies can realize as much as 35 percent to 40 percent in annual workers compensation cost savings.

What do best practices in workers compensation programs “look” like? A good workers compensation program is coordinated, streamlined, well understood, and easy for all employees to follow. The program has standardized policies and procedures to manage claims that are communicated to all employees and supported by corporate leadership — including accountability. Optimally, the program has well-defined goals and objectives that include getting workers back to work as soon as possible, reducing time-loss paid, and reducing/controlling the company’s workers compensation insurance premium.

When an employee is out of work for long periods of time, there is a significant increase in the risk of poor health and mental illness, as well as depression and death.<sup>1</sup> There is a 50 percent chance that an injured worker who is off work for more than six months will not return to work.<sup>2</sup> That’s why getting the employee back to work, even if it is light-duty work, is so important. Pre-claim communication and early interventions should be undertaken to reduce time loss. There should be a spearheaded organizational outreach to injured employees from the day of injury. They should be provided with aid and assistance in completing the claim form. Provide the employee with information about light-duty work if possible. In the meantime, the investigation of the claim will be commenced and determined if it should be allowed.

Companies looking to apply lean risk management need to evaluate their workers compensation programs. As a part of that process, they should undertake a loss analysis, which will confirm possible loss cost-reduction targets, key loss drivers (cause, locations, repeaters, tasks), and post-claim management process and procedures; and evaluate claims-administration and medical-management vendors and practices. From there, they should perform a claims audit to ensure that best practices are being followed. This can include a

<sup>1</sup> Journal of Insurance Medicine

<sup>2</sup> Defense Civilian Personnel Advisory Service

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detailed review of the TPA and developing an outcomes-based action plan for specific claims to decrease medical costs, reduce lost-time duration, and resolve the claim quickly with the TPA/carrier.

Some results that a lean risk management department can achieve include:

- Reducing the average number of Temporary Total Disability (TTD) days per TTD claim by conducting an in-depth analysis on medical protocols and vocational rehabilitation efforts to try to reduce the duration of the more severe claims;
- Reducing the average value of paid indemnity claims by focusing risk control efforts on claims that drive severity (cause of loss and age demographic) and drive more effective performance from the TPA;
- Reducing medical-only to indemnity-claim conversions by identifying common traits or profiles of converted claims so that the third-party administrator is positioned to more aggressively manage the claims at the outset;
- Improving workers compensation claim report lag time and holding field management accountable; and,
- Facilitating a focused and aggressive claim closure initiative.

Lean risk management involves taking workers compensation claims operations to the next level by looking at every aspect of the program and eliminating cost leakage. Over time, these small efforts will reap big rewards. Companies should implement lean risk management to their workers compensation programs to achieve best practices and realize significant savings.



## Conclusion

Successful achievement of lean risk management applied to loss control and workers compensation claims can be reached only when all participants take ownership of their roles and responsibilities and carry them out in accordance with the stated policies and procedures. Lean risk management is an ongoing and evolving practice. To ensure compliance with the lean risk management program, critical areas of loss control and the workers compensation process should be reviewed periodically for consistency and effectiveness.

Companies need to take an “eyes-wide-open” approach to identifying and understanding the risks associated with their loss-control functions, especially their workers compensation program, so that they are managed properly to minimize impact on the company’s performance. Applying lean risk management to the workers compensation program is critical, and it’s a means to the greater end of improving the business and seizing opportunities — maximizing business performance by minimizing risk impact.

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