

Municipal Risk

SUMMER 2023

LAS | AMO
Business
Services

For Good Measure: Know Your Total Cost of Risk

This quarterly publication provides helpful information on insurance and risk management.

[Contact us](#) if there are topics you want us to cover.



An important component of a successful risk management framework is monitoring if the tools and strategies aimed at reducing risk are working and keeping up with changes in the community and world. One way to measure how well your risk management program is working is to review the municipality's Total Cost of Risk.

Total Cost of Risk represents the sum of all costs related to an organization's risk strategies, such as insurance and other costs for transferring risk to others, uninsured losses, related loss adjustment expenses, and administrative costs.

The cost can also include all the processes, tools and operational measures involved in reducing possible harm to people and property. However, these costs are spread out across every municipal department and service and in some cases, like standards for winter road maintenance, they are legislated. These are not generally included as it would be challenging to capture all of these costs. However, it's worth noting that investing in such efforts will generally help reduce claims and therefore help reduce risk financing costs overall.

Why is it important?

When renewing insurance coverage, tracking the Total Cost of Risk is invaluable. Your insurer is analyzing data about your losses and costs of risk when they put together the renewal. Having your own analysis of costs will help you decide how much risk the municipality should retain and how much to transfer through to the insurer. It will also help form the story that you will tell the markets about where and how you invest in risk.

Components of Total Cost of Risk



Insurance Premiums: These are fixed and relatively easy to calculate as they are set at regular intervals.



Administrative costs: These account for costs for staffing and other administrative expenses related to risk management at the municipality.



Deductibles: This includes tracking how much has been paid out by the municipality in terms of deductibles, to help inform the right level of deductible.



Risk Management programs



Uninsured expenses and losses: Some claims may be below deductible, and others may be self-insured. The municipality needs to track what it's paid in losses that it is covering, (e.g., vehicle repairs) as well as other expenses for internal claim management and loss adjustment.



It is best to look at your Total Cost of Risk annually over a five-to-ten-year period: the longer the better. This way you, as you make changes within the risk financing program (i.e., increase retentions, add staff or add properties or vehicles), you can analyze the impact of such changes, whether they are working or not and if further changes are needed.

It's easy to think about risk financing only in terms of insurance costs, but it includes a broad umbrella of costs and expenses. Understanding all these expenses is the only way to manage risk cost-effectively and to ultimately protect residents, municipal employees and property in the municipality.

ClearRisk : A made-for-Ontario, digital solution

Through its Digital Partnerships, AMO has partnered with ClearRisk. This platform offers a range of capabilities to help municipalities manage claims and track their cost of risk.

ClearRisk's system streamlines claim processing and provides critical data insights and analytics that municipalities need to make informed decisions. Improved tracking of municipal insurance claims helps to target risk management efforts, reducing the frequency and severity of claims to lower total cost of risk.