

# TOTAL COST OF RISK



IMA's Complex Risk Solutions team helps a company create better stakeholder value by reviewing their Total Cost of Risk. The process involves helping clients address a broader scope of the risks that sap precious resources from achieving boardroom goals and strategies. IMA's scope of risk management goes far beyond traditional methods associated with the industry. A total review of all company risk costs can be summarized into four key buckets: **Administrative, Risk Transfer, Retained Losses, Miscellaneous.**

## DIRECT

Line item expenses that may or may not be included in a company's budgeted total cost of risk.

## INDIRECT

Consequences of direct costs that reduce profitability, shareholder value and a company's competitive advantage.



## RISK TRANSFER

The costs associated with purchasing an insurance vehicle to accept some level of risk.

DIRECT

INDIRECT

The most common elements of insurance. Costs include:

- Insurance premium
- Contractual risk transfer
- Premium taxes, surcharges

Indirect costs that reduce financial performance:

- Time/expense maintaining policies
- Time/expense reporting claims
- Distraction of senior management



## RETAINED LOSSES

The known and unknown risks a company will self-finance.

DIRECT

INDIRECT

The losses a company willing to self-finance:

- Deductibles
- Uninsured risks
- Self-insured retentions

The costs "below the surface":

- Loss of productivity
- Regulatory investigations
- Missed opportunity to fully leverage capital
- Damage to brand



## ADMINISTRATION

The administrative costs associated with running your risk management department.

DIRECT

INDIRECT

Depending on the size and sophistication, there could be numerous layers to a company's direct administrative costs, which include:

- Safety/Risk Management Personnel
- Operational Expenses

Management distraction & oversight:

- Lack of risk management core competency
- Impediment to achieving strategic goals



## MISCELLANEOUS

The costs not associated with the other pillars of a Total Cost of Risk approach.

DIRECT

INDIRECT

Expenses that contribute to a company's Total Cost of Risk:

- Collateral fees
- Broker fees
- Claims administration
- RMIS
- Captive Operating Costs

- Opportunity cost of reduced availability in credit facility
- Cash flow management