

# Risk Management Answers

***Insurance Solutions to Reduce Cost and Increase Profit***

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A Client Service from Stephen B. Paulin, CIC

## How the Movie Moneyball Can Help You

### Manage Risk to Capture Profit

**By Stephen B. Paulin, CIC**



Billy Beane, general manager of Major League Baseball's Oakland Athletics (A's), used a multivariable, data-driven analysis he termed "Moneyball" to put his team at a competitive advantage that bigger teams could not match. Beane bypassed routine scouting reports and dug deeper to find data that drove strategic decisions, improving both his team and profit margin.

When Beane arrived in 1998, the A's, a small-market American League team, had a win percentage below .500 for the prior nine seasons. Beane used [Sabermetric](#) principles, the measurement of baseball statistics, to understand what made a great hitter and pitcher in an inefficient market that overvalued power and a hitter's batting average (BA), and undervalued his on-base percentage (OBP). He was not

satisfied with relying upon traditional scouting reports that had been the benchmark for analyzing talent for the 140 year-old sport.

By the 2002 season, the A's had a .636 win percentage and played in its third consecutive American League Division Series (West). While the A's lost, the team distinguished itself with the second league MVP in three years. In that same season, the New York Yankees had an identical record and lost the ALDS (East). The Yankees' payroll was \$125M compared to Oakland's \$41M, thereby producing wins at one-third the cost. The complete title of the book by Michael Lewis—*Moneyball: The Art of Winning an Unfair Game*.

#### **Workers Comp: An Unfair Game**

The California's Workers' Compensation System is perceived to be an unfair game. Numerous stakeholders vie to protect self-interests while the business owner pays higher premiums due to inefficiencies created by the system. This 100-year-old regulatory program has evolved from a "no-

fault” proposition into a bureaucracy where disagreements in determining an injured employee’s compensation often end up in a courtroom.

For workers’ compensation, this begins with identifying the sequential events arising from your business process that can lead to an injured worker, and understanding the underlying proximate cause to minimize employee injuries. Unfortunately, the loss information provided by insurance companies does not include the necessary analysis to diagnose and resolve potential losses. For example, the time honored loss ratio, is not an effective comparison because payroll, number of employers and claims vary annually.

## **Analysis Creates Winners**

Aside from some formatting changes, workers’ compensation loss reports have not changed much in 25 years. Relying just on this typical information, which includes types of injury, paid and reserved amounts and the current loss ratio is like Billy Beane using only traditional scouting reports to make his draft picks and negotiate trades. As Beane used a data-driven analysis to create success with his team, your insurance broker should do the same using predictive analytics to create improved outcomes for our clients’ workers’ compensation programs. While reports provide data, the real insights are obtained in the analysis. As such, loss runs do not contain consistent benchmarks and baselines to accurately correlate results from year to year, or between shifts, departments and locations.

Because you can’t improve what you do not measure, Orion Risk Management utilizes predictive analytics to assess a wide variety of data from operations and risk management areas of your business to establish quantifiable metrics. This data is evaluated for insight into your organization’s activities and results, and is reviewed in relation to other data sets. We develop a unique and meaningful profile of your operation that leads to new ways of tracking, measuring and improving risk, resulting in lower expense and more profit for your company.

Orion constructs an alternative risk model and develops the management tools necessary to bring it to fruition. We identify patterns and potential sequential events in your business process that could lead to an injured worker, and help you abate any underlying proximate cause to minimize employee injuries.

SCM establishes relevant metrics to analyze and compare loss data and track specific outcomes. Just as OBP is a better metric than BA, a recordable incident rate (I/R), and lost time incident rate (LTR), is more effective to set baselines for departments, shifts or locations, which can be consistently compared monthly, quarterly, or over a multi-year period. We analyze data points to consider your organization’s frequency rate, average cost per claim and loss source analysis. Additionally, a complete benchmarking analysis that compares your company’s results with others in your industry is created. As a managerial tool, key performance indicators are summarized in a dashboard, for quick reference to measure progress.

Sulliball has recorded tremendous bottom line results for clients that have embraced our perspective to more effectively measure activity and improve results. Businesses that had exceedingly high experience modifications are benefiting today with factors that are now well below their competitors, saving hundreds of thousands of dollars in the process.

## Go With the Pros

Without professional guidance and the detailed data-driven risk analysis provided by SCM, businesses generally rely on non-analytical methodology such as intuition and “gut feel” to drive risk management decisions. Often the wrong workers’ compensation solution is implemented because the risk issues are misidentified. Subsequently, resources are misallocated and time is lost as injuries continue, leaking profits from the company.

You can’t afford *not* to be using SCM’s predictive analytics for your workers’ compensation program to increase productivity and profit, while gaining the advantage. Maybe you can’t have Billy Beane as your general manager, but with Steve Paulin and Sulliball, you will have the analysis you need to keep your company winning the game.

*Steve Paulin, CIC, is a risk management professional specializing in integrating middle market companies’ property, casualty and workers’ compensation coverage to reduce risk and increase profits. His three decades of risk management experience, combined with Orion Risk Management’s expertise in providing specialty services including risk control, claims management, captive formation and programs specific to key industries, means Steve’s clients receive unparalleled insurance coverage value. He can be reached at [spaulin@orionrisk.com](mailto:spaulin@orionrisk.com) or by calling 949.502.0850.*

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