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Laidlaw Reduced Reserves by Millions

By Alan B. Cantor

How RiskMap® Analyses of Driver Training Drove Operational Changes

VP Corporate Risk Manager for Laidlaw Jeff Cassell was preparing to call his actuary for their quarterly appointment. Mr. Cassell was ready to report that he now had some new insights about operational losses. And he was preparing to discuss these projected losses in a new and more informed manner with his actuary.

BACKGROUND: Laidlaw operated over 50,000 school buses for districts in the US and Canada. As Mr. Cassell surveyed his domain, gaining control of risk meant safely picking up and delivering students to school and then returning them home again safely. It also meant that sporting events, field trips and other extra-curricular program participants were transported successfully as planned, without schedule glitches or unfortunate occurrences.

Laidlaw's risk management department did a very good and efficient job compiling incident reports, processing claims and creating policies and procedures to support driver safety training; nevertheless, Mr. Cassell felt he had no control over, or understanding of, the loss costs. The risk management group generated data for their actuaries' loss projections, but had no basis to provide either meaningful insight nor display any convincing control over operational behavior. He had huge concerns every time the actuary was due to re-calculate the loss forecasts, knowing that increases in the loss cost directly reduced the company's earnings. Millions of dollars of reserves could be added to Laidlaw's balance sheet when the actuaries' trend and loss projections were delivered.

All of this changed after Mr. Cassell participated in a National RIMS Conference, where he attended one of Alan Cantor's presentations on Quantitative Analysis of Risk. Mr. Cantor, a Wharton operations research and finance MBA, presented to the risk professionals several case study examples, which reflected methodologies on how they could gain much better control over their cost of risk. He portrayed how, if they were to continuously evaluate their risks in a more systematic and intensive manner utilizing advanced quantitative analytical tools, they could achieve superior results. When applied properly with the appropriate expertise, the resulting analyses offered insights to better understand the true cost of their organization's operational risks.

Cantor's analysis provided the risk managers with the knowledge and data to better work with their actuaries and underwriters, to achieve dramatically improved results. They were now able to better understand the key risk drivers in their operational behavior.



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THE PROCESS: Mr. Cassell was intrigued. He began envisioning ways to implement changes at Laidlaw that would drive down their enterprise risk cost with Cantor’s processes and guidance.

Mr. Cantor was initially engaged to help systematically assess, quantify and gauge training effectiveness for the driver safety courses that were prepared for various school districts. Cantor’s proprietary analytical tool for auditable deep dives for actionable insights into masses of data (“RiskMap®”), established baseline metrics. Through successive monthly analyses, the risk management professionals were able to document the impact of new training methods and protocols in dollars. This significantly facilitated and expedited the flow of Best Practices throughout the organization. Cassell said, “Laidlaw now understood the dynamics that affected the loss costs.” He then convinced the actuaries that the reduced loss costs resulted from their carefully crafted and continuously refined driver-safety intervention programs. The changes were systemic, ongoing and statistically verifiable through RiskMap® built-in audit trails. With Cantor’s help, Laidlaw’s risk management department was able to document the cause-and-effect relationship between driver-safety programs and the dual objectives of greater control over risk and reduced loss cost.

Over time, the benefits were manifold. Data systems were reviewed. New methodologies were introduced. Optimal data flows were mapped. New protocols to continuously validate the data were implemented. These new analytical processes facilitated Cassell’s ability to better understand, document and demonstrate the cost effectiveness of his department’s initiatives.

Top management and the Board recognized the improvements and approved an increase of 5-fold to Laidlaw’s SIR, by millions! Insurance underwriters, who experienced the positive changes in enterprise risk culture, acknowledged this new paradigm, and changed how they competed for Laidlaw’s business. Because of the new form of continuous risk analysis introduced by Cantor, Mr. Cassell was able to successfully negotiate a controlled multi-year release of millions of dollars in reserves.

Moreover, because of the empowerment of the risk management department that followed these successes, according to Mr. Cassell, “We were no longer at the mercy of the actuary.” The relationship transformed into a partnership that validated the changes that flowed from the RiskMap® analyses.

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