

Manager/Supervisor Risk Management

#11– 12/8/2011

TOPIC: FREQUENCY BREEDS SEVERITY

This will be a reoccurring theme. The idea is that you can have a number of claims without much exposure, but at some point your luck will run out, and you will be hit with a big one. The more claims you have, the worse your odds become. In auto liability your employee rear-ends a new BMW instead of the 30-year-old pickup that was in front of it. The claimant is a 50-year-old brain surgeon that now has permanent injuries to his neck instead of a teenager whose body is still pliable. A supervisor cannot have the attitude that “it could have been worse,” because given enough accidents it will be – it could be the next one, but no one will ever know until it happens.

YCPARMIA does not see all of the auto liability claims. Many small property damage claims that fall under our member’s deductibles are handled in-house by entity staff. We generally only see the claims that involve bodily injury, or have damages that will exceed the member’s deductible. The chart below tracks the auto liability claims received over the last ten years showing the fiscal year, the number of claims, and the incurred cost for the claimant’s damages:

01-02	8	\$ 93K
02-03	3	\$ 29K
03-04	18	\$571K
04-05	11	\$220K
05-06	12	\$ 74K
06-07	14	\$ 67K
07-08	24	\$261K
08-09	11	\$ 83K
09-10	15	\$152K
<u>10-11</u>	<u>5</u>	<u>\$ 5K</u>
Total	121	\$1.555M

Our average is about 12 claims a year, with a yearly incurred average of about \$130K. The average cost of each claim is almost \$13K. Breaking down the 121 claims, we had one claim that was close to \$500K, but we had 14 where we paid nothing. And that proves the rule. You can be lucky and have a string of accidents that cost little, but inevitably there will be a catastrophic accident that results in big payouts. You can have a “great year” like 02-03 followed by a “terrible year” like 03-04, and how do you explain a year like 10-11?

There are other costs arising out of the accidents that are not reflected in the above totals. For an accident to be coded auto liability there had to be an entity vehicle involved, and, in all but the rarest cases, that member’s vehicle will have suffered damage – much of which would fall under the entity’s \$10K auto physical damage deductible. In all of the accidents there would be an employee operating the member’s vehicle; if they are injured there is the resulting cost of a workers’ compensation claim. One auto accident can, and often does, trigger exposures and payouts from YCPARMIA’s Liability, Property, and Workers’ Compensation Programs.

The auto liability exposure can only be controlled through the active supervision of employees, and employer intolerance for bad driving practices; this ongoing responsibility falls largely on the supervisor.

Next topic: Suspended or revoked drivers’ licenses