

THE ALS GROUP

Managing Risk to Influence Successful Outcomes

What Is Total Cost of Risk? (And Why You Should Care)

Key Takeaways

- Total cost of risk ("TCoR") is everything risk costs your business in a year, not just your insurance premiums.
- It has five parts: premiums, retained losses, risk control, outside help and lost productivity.
- Once you measure TCoR, you can manage it, and lower it.

What gets measured… gets managed. The question we are asked all the time: what is TCoR, and why should I care about it? Most people assume the cost of risk is their insurance premiums alone. They are only partially correct.

1. TCoR is the full price of risk, in one number

Simply put, TCoR adds up every dollar your business spends because risk exists. It turns a scattered set of costs (some in the insurance budget, some in operations, some buried in payroll) into one figure leadership can track year over year.

2. It has five parts

- **Insurance premiums:** what you pay carriers for coverage, including fees and taxes
- **Retained losses:** deductibles, self-insured retentions and losses insurance doesn't cover
- **Risk control:** what you spend to protect employees and customers, like safety programs, training and equipment
- **Outside help:** fees for consultants, attorneys, claims support and other firms that help with risk and insurance
- **Lost productivity:** time managers and staff spend on claims, incidents and disruptions instead of running the business

An example: an employee spills coffee on a client's suit. Paying for the dry cleaning is a retained loss. The hour a manager spends sorting it out is lost productivity. Neither shows up in your premium, but both are real costs.

3. Watching premiums alone can raise your total cost

A lower premium can come with a higher deductible, a new exclusion or weaker coverage. The premium goes down, but retained losses go up, and the total cost of risk rises. Looking at TCoR shows the real trade-off before you sign.

4. What you measure, you can lower

Once TCoR is tracked, you can manage each part:

- Right-size limits and deductibles to what the business can absorb
- Move risk to the right party through contracts and vendor insurance requirements
- Invest in the safety steps that cut losses the most

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- Manage claims closely so reserves and loss history don't drive premiums up

How ALS Helps

We calculate your total cost of risk, show where the money is going, and build a plan to bring it down. Because we're independent and fee-based, we don't earn more when you buy more insurance. We've been helping clients measure and manage TCoR since 1994.

There you have it: what total cost of risk is, and why it matters more than your premium.

Frequently Asked Questions

How do you calculate total cost of risk? Add up a year of insurance premiums, retained losses, risk control spending, outside fees for risk and insurance help, and an estimate of lost productivity. Many companies also divide the total by revenue so they can compare year over year.

Is total cost of risk the same as insurance cost? No. Insurance premiums are one part of TCoR. Retained losses, safety spending, outside fees and lost productivity often add up to a large share of the total.

Why does total cost of risk matter? It shows the real cost of your risk decisions. A cheaper policy with a higher deductible might lower premiums but raise your total cost. TCoR helps leadership see the full trade-off.

How can a business lower its total cost of risk? Common steps include right-sizing limits and deductibles, moving risk to vendors through contracts, investing in safety, and managing claims closely. The right mix depends on where your costs actually sit.

Who should calculate our total cost of risk? Your finance team can gather most of the numbers. An independent risk consultant can help fill the gaps, benchmark the results and turn them into a plan, without a commission riding on the outcome.

If you need more information on any of the topics covered here, or are interested in a Risk Management Assessment ("RMA"), please contact our Managing Principal, Albert Sica, at asica@thealsgroup.com or at 732.395.4251.