Keeping the Fizz in Coke

Paul Berkemeier completely rebuilt the risk management program at Coca-Cola, with a focus on risk tolerance and a more efficient use of capital.

The Coca-Cola Company, one of the world's largest beverage companies, had a problem.

The company's risk transfer program had become increasingly costly and wasn't working as efficiently as it should over the last 10 years. It was in need of an overhaul to meet Coca-Cola's new business strategies.

For example, premiums for excess coverage on top of large retentions without insurance recoverables needed to be reviewed and tested against Coca-Cola's capital management objectives.

As part of the company's overall strategy to increase earnings per share, it also needed to cap retained losses on a per occurrence and aggregate basis, while making better use of its captives to cover most of the frequency layers of its property and casualty risks.

In the past, it had bought coverage on a line by line basis, but this failed to reflect the company's view of its overall risk exposure and make value savings in other areas.

Step in 2019 Risk All Star Paul Berkemeier, director of global risk finance at Coca-Cola, who completely rebuilt the program from scratch around compliance, risk tolerance and a more efficient use of capital.

To do so, Berkemeier and his team, working alongside insurance broker partner Beecher Carlson, used analytics to quantify the company's retained risks and understand the correlation between those risks, to identify alternative sources of risk capital beyond traditional insurance and to track all retained losses for those lines insured by its captives. They also used the data gathered to streamline the company's policy language for its captives.

"We were trying to rethink the way Coca-Cola approaches risk and to make sure that we had the most efficient coverage available," said Berkemeier.

"What we have created in effect is an aggregate insurance program that goes across a whole portfolio of risks, using our capital in the most efficient way."

Starting out at the end of 2017, first they needed to establish the company's risk appetite. They also needed to ensure that the new program was fully compliant with both U.S. federal, state and overseas regulatory insurance requirements.

Despite considerable pushback, and thanks to his perseverance, Berkemeier was able to harness the company's captives to better handle and retain risk in the space of just 18 months. He procured aggregate excess reinsurance coverage, thus lowering the company's total premiums. In fact, he managed to reduce Coca-Cola's overall cost of risk transfer by more than 50%, as well as securing additional capacity in the program's second year.

"There were a number of insurance markets that pushed back because they felt that they couldn't accommodate the program," said Berkemeier.

"But luckily we found a couple of them that understood what we were trying to achieve and once we got them on board others followed.

"I was only able to achieve this vision with the support of Coca-Cola's executive leadership team and our external partners," he said. "Another key factor is having the right risk modeling and people in place to carry it out so that you get the data you need." — *Alex Wright*

"There were a number of insurance markets that pushed back because they felt that they couldn't accommodate the program."

— Paul Berkemeier, *director of global finance, The Coca-Cola Company*

Paving the Way for Workers' Comp Growth

While it can be challenging to enact drastic changes in government or organizations that are set in their ways, Rodney Escobar knows ambitious plans can yield big results.

Since Rodney Escobar took the helm in 2013 as the director of risk management for the State of Tennessee, the state has changed its culture around workers' compensation, established a return-to-work program and reduced costs by more than 38%.

When Escobar came into the role, he performed a risk assessment and found the State of Tennessee divisions of claims and risk had few organizational goals with a lack of accountability for risk decisions being made at lower levels across the state.

Workers' comp programs were incurring nearly $18 million in costs per year and were managed by a TPA and multiple care providers. Employees didn't have clear procedures to follow on work-related injuries, leading to a lot of out-of-network treatment.

And with outdated legacy technology in place, administrators were accustomed to using manual processes that were prone to error, Escobar said.

Although the TPA had a claims product, few individuals had access to it, and the eight adjusters assigned to the state's workers' comp programs had to process more than 2,300 claims per year.

The state also didn't have a pharmacy benefits manager, and the lack of field nurses meant even minor injuries were referred to costly clinics.

"There were no procedures on how to report a work comp claim, they wouldn't follow up for medical treatment and there was no return-to-work program," Escobar said.

After four months of speaking with TPA professionals, Escobar developed a strategic plan to improve the state's workers' comp programs. This evolved into a five-year plan that incorporated enterprise and strategic risk management for all state entities.

Escobar met with treasury leadership to stress the importance of making risk management a part of daily operations and practices for all state agencies. The treasurer gave Escobar three main goals: to improve customer service, implement technology to improve risk communications and to install the best risk management practices throughout state government.

To break through the barriers of legacy and business-as-usual processes, Escobar had to show credibility and demonstrate it through a plan of action. His plan offered leadership options and recommendations that trimmed administrative costs and delivered savings.

To bring the agency up to date with the latest technology, they issued an RFP and spoke with subject matter experts. The state eventually partnered with CorVel to improve communications, claims management and cost containment services.

Enabling injured workers to return to the workforce by performing job tasks that are compliant with their medical restrictions has helped drive TTD payments for the state from $4.5 million in 2012 to less than $800,000 in 2019 so far.

As trust in Escobar grew, he was able to obtain additional administrative funds to improve other programs such as tort, property, insurance and loss control and safety. — *Craig Guillot*

"Leadership ... really supports us in the mission we are trying to move forward with in all of our programs, and is really trying to improve every time we see something that is not working."

— Rodney Escobar, *director of risk management, State of Tennessee*