

Containing Employer's Liability Costs

By Sue Copeman

How can companies contain their employer's liability insurance costs and differentiate themselves from their peers? Improving risk management is vital - and insurers' risk surveys can help.

Providing comprehensive and transparent information is the key initial step for companies seeking the best response from their EL insurers. Such information should cover:

- risk activity, processes and exposure
- health and safety programmes
- risk management, loss prevention, surveys and risk analysis
- claims - and what is being done to prevent similar losses.

Where this information is insufficient to make an underwriting decision, or in some cases as a matter of routine, insurers may carry out a health and safety survey. This focuses as much on gaining an understanding of the management's approach and the kind of culture prevailing in the company as on identifying specific hazards.

Most insurers carry out this kind of inspection for large, complex risks or where there has been a poor claims record. Says Phil Bell, technical insurance manager, Royal & Sun Alliance: (RSA), "With over 100,000 EL policyholders, it is not practical to survey more than a small percentage and we tend not to revisit the same company unless it is a very large risk or has had a lot of problems." Zurich Financial Services also focuses its inspections on larger risks. However, AIG Europe, which started a programme of risk engineering for EL policyholders last year, believes that

regular, routine inspections are crucial in helping businesses achieve an embedded risk management culture and identify potential claims issues.

Policyholders' attitude

Policyholders are generally changing their attitude towards health and safety surveys. In the past, some businesses viewed health and safety legislation as an obstacle to entrepreneurship, but they are now becoming far more sensitive to the need for effective processes. According to AIG Europe's UK primary casualty manager Paul Baynham, many health and safety officers who have good risk management in place are pleased for the opportunity to demonstrate this, particularly if they consider their efforts are insufficiently recognised within the organisation itself.

"They can use our casualty report as a means of putting leverage on their own business," he says. "Reports can put pressure on senior management to get the health and safety issue off the shop floor by identifying weaknesses and raising awareness."

David Smith, head of market management for Zurich Financial Services' UK commercial business, stresses that EL centres around people rather than premises. "Health and safety surveys are very much about making sure businesses start to address the culture within the business rather than just satisfying the basics." And senior management buy-in is a good indicator of how seriously a business takes its health and safety responsibilities.

David Smith says that increasingly inspections start with a strategic health and safety meeting with the senior management of the company. "We're not just looking at aspects such as how they document things but also their inherent approach and how they value health and safety within the company." Phil Bell agrees that a critical aspect is the management's commitment and approach to health and safety - "not just lip service but

what happens in practice". Signs of a positive proactive approach include the person responsible for health and safety having a degree of influence within the organisation.

Surveyors' questions

Apart from the obvious issue of compliance with health and safety regulations, what else do insurers' health and safety surveyors look for? Documentation is important, says Paul Baynham. For example, surveyors will wish to see businesses keeping good training records, as these could be essential in defending a claim.

In engineering and manufacturing risks, surveyors will also be concerned to identify situations which could increase vulnerability to claims from the most common causes: slips and trips; people falling from height; objects falling from height onto people; and use of electrical and transport equipment. Inspectors will look for signs of drug and alcohol abuse too, particularly for safety critical work

Stress can be an issue in the services sector, and according to Paul Baynham, inspectors need to spot the telltale signs. Where an organisation has recently gone through significant change, such as a merger or substantial re-organisation, it might be expected to have stress management processes in place. Stress can also be an issue in some professional firms that have cultures of long hours, tight deadlines and a competitive internal environment.

While surveys clearly help underwriters distinguish between well and poorly managed risks and make better informed decisions, insurers generally agree that they also produce real benefits for the businesses concerned.

Following a survey, insurers will provide feedback to the organisation concerned. This can range from requirements to make the

risk safe and acceptable with a timetable for taking the necessary action, to recommendations for improving safety performance. Good health and safety does not have to cost a lot of money; insurers' surveyors are generally aware of the financial constraints facing many businesses. Phil Bell gives the example of an abattoir where employees were suffering from repetitive strain injury. "Our surveyor advised them to use sharper knives. It eliminated the problem and also increased productivity."

Paul Baynham believes that a regular inspection programme provides a good opportunity to update clients, for example on new legislation or the implications of any changes to their operations. It also draws management attention to the need to evaluate risk systematically. "We aim to work in partnership with our liability policyholders so a good rapport between client and risk engineer is essential."

Says David Smith: "Companies certainly get some very practical advice about things that they can do to help their business from the extreme of helping them avoid prosecution through to advice on the way in which they can manage their business better. What we can't do is to change the culture. All we can do is suggest improvements to the health and safety management culture in the business, and hope they take it on board. It helps us and also helps the business."

The hidden costs of a workplace accident can be far more than just a financial claim. Accident investigations are a drain on management time, while decisions have to be made on whether to improve procedures, replace equipment, etc. There can be production delays, bad publicity and employees' morale may suffer.

Achieving the goal of a fully integrated risk management culture can take two or three years where an organisation is starting from scratch. Insurers' reports can contribute, alerting management not just to potential problems but also opportunities. The ultimate reward is containing both

premiums and those other costs - human as well as financial – associated with liability claims.