

What are the Costs Versus the Benefits of Loss Control Efforts?

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How does the money spent to prevent workplace injuries actually transfer down to the bottom line of the company initiating such efforts? A basic question for an important issue because as management looks around the Income Statement to cut cost, safety activities may be reduced. The actual calculation of Return on Investment (ROI) for workplace safety investment is somewhat elusive and a hard number to peg as empirical data is hard to collect. So, the question to ponder: are safety activities worth the money? It is estimated that the total cost of workplace injuries is \$38.7 billion a year. (Liberty Mutual). When you factor in the indirect cost such as dealing with adjusters, lost productivity, re-hiring, OSHA inspections and fines, bad publicity, lower productivity due to lower morale, the number approaches 4 times that amount to \$155 billion. If a company can carve out some type of efficiency in process, service delivery and/or expense reduction, that company will enjoy a competitive advantage over their competitors. For example, assume a large manufacturer goes to the electric company and says "we are a large manufacturer that consumes a lot of electric and we request a discount on our kilowatts used." Assume the electric company agrees. Now that company has a competitive advantage as there operating expense, the cost of electricity, is lower. This, of course assumes that their competitors have not gone to their electric company to negotiate a similar deal. The same logic can be applied when a company incorporates a safety and injury management program whereby, over time, injuries are reduced/eliminated. When injuries are reduced, the companies Experience Modification Factor is lowered, which should lower insurance rates. Insurance premiums, which are a business expense, are lowered and the company has achieved a competitive advantage. Because the actual dollar amounts of what is spent on loss control verses what the actual savings are hard to obtain, perhaps the testimonials from other companies

will serve to convince the reader of the benefits of loss control efforts. Several articles attempt to explain the benefits of proactive loss control. According to The Executive Survey of Workplace Safety, Liberty Mutual indicates that 95% of mid-size to large business state that workplace safety programs have a direct impact on the company's bottom line. These companies' approximate a \$3 is saving s for every \$1 invested in safety. In that report, Joseph Giles, EVP, states that the actual number may be higher such as \$10 in savings for each \$1 invested.

In a publication named Risk and Insurance Management in the September 2001 issue an article appeared titled Health and Wellness Programs Reduce Work Comp Cost. The article indicates that the Xerox Corporation studies 3300 employees. Of those 943 (29%) participated in a Health Risk Appraisal Program. Of those who participated, only 5.6% of the group filed work comp claims. In contrast, 8.9% of the non-participants filed work comp claims, a difference of 3.3% The article draws a correlation that when companies develop programs to help workers reduce risk factors it leads to fewer medical needs. Another indication comes from the Compaq Computer Corporation who realized a 30% reduction in injuries in less than one year when they implemented the OSHA 180001 program. This program requires participants to conduct an annual risk assessment which is used to set goals and then taking steps to reach those goals. In a recent advertisement, a vendor of safety shoe products printed a testimonial of the benefits of employers implementing loss control techniques. Debbie Rickman, claims manager for a chain of family restaurants estimates that 75% of the company's 8000 employee (6000 workers) wear the non-skid shoe. She states that we do not know how much the program has saved us in reduced losses as we have several programs in place to create a safe workplace, but we do know losses are down. In another statement of the efforts of safety performance, M. Kullman stated; "We have strong evidence that organizations embracing safety as a core value with high-level

management involvement see sustainable change and remarkable improvements," she adds. "If we collaborate successfully on a means of standardizing and validating the value of safety practices, we can accelerate the ultimate benefits realized by business and society." Kullman cites DuPont as an example of how safety management can lead to enhanced business performance. During the last decade, the total number of incidents at DuPont, including injuries, illnesses, waste and emissions has decreased by 60 percent. Fewer incidents mean DuPont saves millions of dollars a year in costs associated with injuries, illnesses and property damage as well as indirect costs such as lost worker productivity, missed deliveries and overtime. Another success story is Lucent Technologies who had a lost workday rate of 0.2 which is 97% below the national average of 6.4 for this industry. United Space Alliance has enjoyed 37% fewer lost time injuries and 41% fewer recordable injuries since 1997. Since OSHA's inception in 1970 workplace fatalities have been cut in half and injuries have decreased by 40%. This is in spite of employment doubling from 56 million workers to 105 million workers during the same time period.

According to OSHA, every year workplace deaths, illnesses and injuries cost the nation \$170 billion. The American Society of Safety Engineers (ASSE) estimates that for every \$1 invested in a safety and health program, \$4 to \$6 is saved because injuries, illnesses and fatalities decline, and medical costs and workers' compensation costs decrease. I know of an insurance company that provides a Loss Control visit to every account, that's right, every account, no matter the size. The estimated Loss Ratio (Losses/Premium) for that companies book of business is about 45% every year. In contrast, I know of another company that does not have a loss control staff and is reluctant to pay the fees for consultants to deliver safety advice. There loss ratio was 108 last year. I have come to understand that when insurance companies provide loss control services to customers a flow of information exist between the carrier and customer. The same is

true when a safety director of a company attempts to prevent injuries on the job. It is my experience that customers appreciate a person reviewing their operations and safety policies to see that they are doing all they can to prevent injuries in the workplace. I suspect the same is true of the hard-working men and women of our workforce. They appreciate a company trying to protect them from injuries and see the safety efforts as an indication that management cares about their wellbeing. Some of the benefits for carriers and employers in the delivery of safety prevention efforts are;

- Hazard Analysis by safety professionals with remedial recommendations will prevent injuries and thereby lower cost.
- Possible avoidance of OSHA inspection and fines.
- Improved communication between Carrier/Employer via the Loss Control representative or improved communication between management and employee through the Safety Director.
- Improved claims handling if the Loss Control personnel deliver claims handling information or review open Lost Time cases.
- Improved subrogation recovery if the Loss Control personnel deliver information of recovery sources such as Second Injury Trust Funds.
- Improved morale in the workplace and productivity

Safety programs and the benefits that derive from such a program don't just happen. Nor can the program be run from the bottom up as lower-level employees do not have the authority, resources or time to initiate such actions. Safety programs and their success have to be from the leadership of top management. The more senior the

management the better the results can be expected. However, it will take more than just written or verbal statements to prevent injuries. It will take long-term commitment, hazard analysis, employee education and the consistent reviewing of results to make sure the objectives of management are being met. Regardless of the financial cost/ benefit we should recognize that there is a human protection net benefit in the preventing of injuries to personnel. Just because we can't measure it accurately does not mean that we shouldn't pursue it aggressively. For example, how much more crime would we have if we didn't have a police department. When a doctor tells a patient to exercise, how much more life and less illness is enjoyed. How to quantify, yet we know the advice has value. Injuries hurt people, production and profits. The good news is most, if not all, of them can be prevented with consistent leadership. So the answer to the opening sentence of this article is - no one really knows what the ROI of safety expense is on the bottom line. However, there is strong and documented evidence that the recognition and evaluation and control of hazards (conditions that cause injury) benefit the company from lower insurance cost and improved productivity as injured people can't produce positive benefits to the bottom line. Corporations of all sizes that invest in and implement effective safety programs realize reduced absenteeism, lower turnover, higher productivity, increased employee moral and a positive brand image. Safety is an investment that yields healthy dividends!

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