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Integrating Your Approach to Safety and Claims Management

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Abstract

As more and more organizations assume additional financial risk and move toward higher deductibles and self-insured retention programs, their ability to prevent losses and control claim costs will play a significant role in resulting profitability and success. An organization's ultimate goal is to reduce its overall total cost of risk (TCOR), which includes insurance premiums, accident/injury costs, broker and vendor fees, and internal safety and claim department budgets. This paper focuses on the key issues and considerations related to integrating safety and claim management efforts and how integrated efforts can reduce TCOR. We will also share key integration steps which we encourage within our client organizations.

Introduction: Are the Right and Left Hand Talking?

Risk is defined as anything – good or bad, big or small – that could prevent the achievement of a goal. Risk is a natural part of life and although we can identify, measure, and mitigate it, we can never completely eliminate risk (ISO 2009).

Risk Management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities (Hubbard 2009; ISO 2009). Organizational risk can come from uncertainty in financial markets, legal liabilities, credit risk, accidents and injuries, natural causes and disasters, as well as deliberate attacks from an adversary.

Volumes have been written about risk management and treatment of risk, but simply put, organizational risk is avoided, transferred or retained. Risk Finance is the arm of the process that determines avoidance or coordinates the transfer of risk through insurance contracts or sub-contractors. Risk Control is the arm of the process that deals the organization's retained risk – its employees, facilities, operations, equipment, and vehicles – in an effort to prevent and control the risk/exposure.

As more and more organizations assume additional financial risk and move toward higher deductibles and self insured retention programs, their ability to prevent accidents and injuries and control costs that arise play a key role in relation to profitability and success. An integrated safety and injury management approach with prevention focus can help facilitate a more effective process and reduce injuries long term. However, too often we see the safety and claims functions within organizations are not working in a coordinated effort. For instance;

- Internal reporting structure: typically, claims reports through human resources, safety reports through facilities/operations, and risk management or finance handles the Insurance. The departments do not typically meet to coordinate short or long term goals, plans and activities.
- Goals and objectives are not aligned between departments; separate goals and interests are often pursued with no process triggers in place to support needed communications and data integration that targets prevention and ultimate reduction of TCOR.
- Activities are not aligned: safety and claims activities are not part of an integrated process, resulting in task redundancies and missed opportunities, like a more robust investigation process or return to work program.
- Communication between the safety and claim departments is reactive and typically triggered by an injury.
- Accountabilities: no defined activities and metrics are in place to make sure left and right are engaging each other to align activities.

Integrating the approach for safety and claims management has helped Aon clients prevent injuries and reduce costs by creating an effective safety and claims management process that includes an integrated platform, defined roles, improved communications, and teamwork. When the right and left hand are working together towards the ultimate goal of prevention, the organization will profit and its bottom line will improve.

Insurance Markets and the Integrated Approach

Insurance Premiums and the Effect on the Integrated Approach

The trends of the casualty insurance market, which includes workers' compensation, general liability, and auto liability coverage, have underlying effects on the everyday handling of safety issues and can have a big impact on how safety and claim professionals prioritize activities and perform their jobs.

Claim frequency (claim count) and severity (claim cost) are well-known cost drivers in the insurance market. Safety professionals generally focus on reducing the frequency and claim professionals focus on minimizing the severity of the claim by controlling the costs. Insurance premiums are calculated on a number of factors, but the ones that safety and claim professionals can have a direct impact on are a company's historical loss profile and risk profile, which includes the credit rating and the Experience Modification Factor (EMF)

Underwriters typically request a company's five (5) year loss history to get a sense of the underwriting "risk" they are considering. They will review several factors including some of the following:

- Frequency; the number of claims within a given year
- Severity; the amount of money that each claim is costing
- Claim duration; how long the claims are staying opened
- Claim descriptions; the type of claims that are occurring
- Cause descriptions; for example slips/trips or ergonomic
- Body parts descriptions; the body part that was injured

Upon their analysis, an underwriter will often request from a company a review or an explanation of what safety programs are in place to mitigate these losses. In line with this review, they will request an explanation of the large losses and what a company is internally doing to help mitigate those costs. Processes they look for that a company is doing, for example, is a return-to-work program, and some states even give discount insurance premium rates for companies that have such a program.

In addition to analyzing a company's loss profile, the underwriter will also analyze the company's risk profile which includes but is not limited to the type of business the company is engaged in such as low, medium or high hazard and a company's credit rating and financial stability.

Another common misconception is that the experience modification factor compares a company's past premiums with past losses. It does not. Instead, the formula compares actual reported loss information for that particular employer with average loss data for all employers in that state who are also in the same classification codes. So the experience modification factor (EMF) is assigned based on how the company compares to its peer organizations. A 1.0 EMF is average. A EMF higher then 1.0 is worse then industry peers and will likely result in a rate increase; a EMF lower than 1.0 is better then industry peers and will likely result in a rate reduction. Therefore safety and claims professionals within a company can have a big impact on how a company's EMF is calculated.

Another factor that underwriters use when calculating premiums is a company's credit rating. A company with a good credit rating is financially sound and therefore would be in a better position to assume more risk, such as becoming self-insured or retaining risk by assuming higher deductibles, as opposed to transferring the entire risk back to the insurance company, which often times means giving up some control on the eventual settlement of claims.

Retaining risk simply means that a company chooses to "self-insure" or maintain a large "deductible" for part of the risk. For example, an underwriter advises that it will cost the company $1,000,000 for their workers' compensation insurance premium. If the company has the financial ability to retain $500,000 of their own risk, then the premium could be reduced by that $500,000. The company's' financial interests in preventing and controlling loss have increased and should be a strategic initiative. Utilizing an integrated approach between the injury prevention (safety) and injury management (claim) professionals will have a direct impact on improving your risk profile and managing your TCOR. It will require those professionals work more effectively together and will improve the data and communications that are so important to the safety and injury management process.

Market Conditions and Its Effect on the Integrated Approach

Insurance market cycles are referred to as "soft" and "hard" markets. Either can impact insurance premiums. A soft market is a period marked by low premiums, dwindling profits, high capital base and fierce competition. A hard market is the period which follows the soft market, usually after a wide scale catastrophe when underwriting standards become more rigid, premiums increase, and competition loosens. A hard market is an effort for insurance companies to return to profitability by charging higher premiums and eliminating policyholders that have had high losses (Hartwig 2011; CIA 2011).

At present we are experiencing a soft market. Effective risk management programs and a favorable loss experience are averaging flat to 3% rate reductions in their casualty premiums, which includes workers' compensation. That means if you have a "best in class" safety and claims program and a positive loss experience, your insurance costs are likely staying the same. It is expected soft market conditions will continue in 2011 for companies with a flat risk profile, limited exposure change and favorable loss development. Companies in the more hazardous risk categories or those with poor loss records should anticipate limited insurance company competition and can expect more difficult renewal conditions.

The importance of loss control, post injury management, and organizational effectiveness can not be underestimated in a soft and gradually deteriorating underwriting market. Although a continuing soft market is expected for the upcoming year, applying the principles of safety and claims integration apply regardless of market conditions. It is not only important to get ahead of the curve, but it's the right thing to do.

Having a viable, robust integrated safety and claims management approach has a ripple affect; one that not only provides a safe workplace for employees, which is a basic responsibility for all employers, but also in assisting with a company's financial and risk health which better prepares them for opportunities to expand and be in a superior position economically for growth; especially when the economy comes back, and a hard market prevails.

Safety and Claims Management – the Arms of Risk Control

Risk control management is focused on two main principles – prevention and control. In most organizations, the safety department manages the safety/injury prevention programs and the human resources department coordinates the claims/injury management process. The safety and claims professionals usually reside in different departments, report to different managers, have separate goals and agendas, and may only communicate following a claim or when litigation arises. Yet, in order to be truly effective in their jobs, the safety and claims professionals need to coordinate the overlapping objectives of their jobs and share the information, data and expertise the other has to offer.

Organizations often see the immediate value in claims/injury management services more vividly because there is an injured person and lost time, lost productivity, and rising claim costs are easy to see. Although controlling claim costs is absolutely critical, the ultimate goal and best outcome for any organization is to prevent the incident from happening in the first place, and to learn from each incident that does occur to prevent reoccurrence. That is the focus Aon brings to safety and claims consultation - an integrated process approach with ultimate focus on prevention.

This is most effectively done in a team setting that includes at a minimum Operations, Safety, and Claims, and could also include risk management/finance and legal. Each team member brings subject matter expertise that is critical to analyzing jobs, preventing injuries, and identifying the root causes and preventative measures for the incidents that do occur. The safety professional has information on job hazards, safety procedures, and training. The operations manager has the facility, production, and work performance knowledge. Human resources have the employment practices, policies and personnel knowledge. The claim professional has information on the employee's physical capabilities, medical treatments and recovery process.

Integrating the risk control management (safety and claims) process means strategically coordinating efforts and communicating with internal organizational partners to create a more efficient and effective process which has proven to save time, money and reduce organizational TCOR. The process development and training required up front to integrate efforts are realized in proven return on investment results – see case study section. This is critical because as in any organizational endeavor, top management support and leadership is critical to buy-in.

Integrating Your Safety and Claims Approach

The integrated approach to safety and claims management has helped Aon clients prevent injuries and reduce costs. It is Aon's philosophy and experience that when the safety and claims professionals integrate efforts and define roles, communication improves, tasks are completed more effectively, and TCOR is positively impacted.

Integrating your approach to safety and claims management will require strategic plans, increased communication, cross training, and top management support for the process. In addition, providing a projected return on investment calculation or an increased efficiency projection will help support the profitability factor and bottom line impact. Aon works with its clients and shows them how to prepare development plans that include projected return on investment calculations to support the recommended organizational or operational change.

An integrated safety and claims approach should include:

- Team based approach – develop a standard meeting platform; team should include safety, claims, and operations at a minimum; platform should allow for the identification of common goals/objectives, approaches, communications, solutions and goals.
- Defined responsibilities – outline overlapping responsibilities of each team member and define roles, activities, and schedules; this approach should reduce task redundancy, increase productivity, and simplify communications.
- Defined metrics **-** to measure and monitor activities and goals at a set period, usually monthly and quarterly at a minimum.

When developing an integrated safety and claims management approach, it is important to identify the overlapping aspects of the two functions and work together as a team to share the information and data. For instance, when an employee reports a workplace injury, two things take place; one is a safety related incident investigation and the other is a claim investigation. From a safety perspective, the investigation seeks to prevent the incident from happening again by identifying the root cause and implementing proper preventative measures. The claim investigation seeks to determine validity and compensability. The objective of the claim investigation is to determine whether the claim should be paid or denied.

The employee's statement of events on the initial injury report and the detail on the supervisor's investigation report is critical since it can be used to validate the sequence of events leading up to and just after the event, as well as, initial injury related details and witnesses. All of this helps the claim handler determine compensability. In addition, this information is important to assessing the safety aspects of an incident and determining prevention measures.

The following key steps are recommended when considering an integrated safety and claims approach:

- **Identify your integrated team** – operations, safety, and claims each provide unique subject matter expertise and working together will improve solutions. Team should meet at least monthly and after each reported incident to ensure causes and preventative action are taken. Table 1 highlights the common overlap we see:

Department	Overlapping Responsibilities/Obligations	Department
Safety	• Job Descriptions – essential job functions • Job Analysis – physical requirements • Injury reporting – accuracy and lag time • Timely investigation and documentation • Root cause and preventative action claims • Claim compensability • Claim data and metrics	Claims
Finance	• Financial impact from the claim trends • Insurance trends and marketability of program. • Insurance development awareness and bottom line impact to your organization	Insurance
Human Resources	• Job descriptions / Job analysis • Employee safety and health • HR policies and legal considerations. • Operations need resources to perform the job duties and maintain a productive workplace.	Operations
Your Team	• Are there validity questions surrounding event? • Did equipment malfunction; subrogation potential? • Was there a safety violation or policy bypassed? • Are there secondary issues with the injured employee? • Did witness statements support the version of events? • Do the job duties appear to correlate with the injury?	Your Insurance Team

Table 1: Overlapping Responsibilities among Integrated Team Members.

After identifying the overlapping obligations and roles within your organizations integrated team, the next steps are to:

- **Define Responsibilities –** define the roles and responsibilities of each member as it pertains to the team.

- **Cross-train safety and claims staff**. It is important that the safety professional understand the claims and injury management laws and best practices and that the claims professional understands OSHA compliance and injury prevention best practices. This will be key when setting up your communication platform and triggers.

- **Conduct integrated safety and claims program assessment** to benchmark current management structure, programs, and metrics. Identify gaps and improvement opportunities.
- **Ensure incident reporting, investigation process is thorough and well defined**. This should be determined through the assessment. Claims professional needs to know if there was there was a safety violation (some states discount penalty) or if there was equipment failure for subrogation? (Recover costs from manufacturer).
- **Ensure Job descriptions** include physical requirements and essential job functions. An accurate job description is essential to hiring, training, incident investigation, compensability determinations, and the return-to-work process.
- **Ensure prevention is the ultimate goal** – controlling costs is not enough, the ultimate goals of best in class organizations is prevention, or the zero injury culture.
- **Close any gaps or make improvements**. Develop integrated strategic plans/that include measurable goals, defined activities, and performance metrics

The ultimate goal is prevention and proactive controls to reduce exposures and injuries. The integrated process and open communication allows for quicker safety and injury management interventions and solutions. Several resources may be able to assist you including brokers, consultants, and insurance carrier safety and claims professionals**.**

Case Studies

The following case studies are examples of Aon clients where an integrated safety and claim approach was performed.

<u>Client 1</u>
Profile - A U.S. Retailer with approximately 900 corporate team members and 5,000 distribution team members. The company's workers' compensation claim frequency and severity were increasing. There were four departments involved in safety and claims management – Operations, Risk Management, Safety, and Fleet. The Distribution Centers did not have specialized safety/injury prevention or claims/injury management expertise for risk control and claim management initiatives. Corporate Risk Management wanted more focus on injury prevention at the distribution centers, which were the leading cost drivers in the organization

Approach – Integrated safety and claims management approach. Conducted safety and injury management training at all distribution centers. Aon worked with Loss Prevention and Human Resources to improve integrated efforts. The incident investigation process was improved to include form enhancement and formal incident review team. Performed strategic claim reviews and injury management mentoring to HR and Safety personnel. Developed enhanced handling guidelines with the Third Party Assistant (TPA). Implemented TPA performance guarantee program and annual audit process. Developed Workers' Compensation Cost Allocation System that includes annual goals and quarterly performance metrics and an aggregate and location level loss prevention report.

Results - Results below are over a five=year period from 2004 – 2009. Reduced claims per $100,000 of payroll by 50%. Reduced lost time claim frequency by 25%. . Ultimate incurred estimates for workers' compensation decreased by $2 M. Actuarial claim frequency forecasting decreased by 20% and incurred loss forecasting was 40% better when compared to prior program. Lost time count reductions were largest where enhanced oversight was provided for distribution centers in California, Illinois, New York and Virginia. Return on investment was 12 to 1

Challenges – Management silos existed between corporate risk management, safety, fleet, human resources/claims, and the security/loss prevention departments. Performing integrated safety and injury management training at the site level for managers and supervisors of these departments had short term effects. Facility Managers at each location were then provided integrated safety and claims train-the-trainer sessions which focused on incident investigation, root cause analysis, and preventative measures. This also had had a positive, but limited effect. It wasn't until the corporate workers' compensation charge back program was finally developed and rolled out, that the department silos started working more together in a more coordinated and effective process. Further work will be needed to identify loss drivers at each facility and develop and implement sustainable integrated solutions.

Client 2

Profile - Client is a multi-state, not-for-profit health care system headquartered in the Midwest. The system is comprised of 40 locations in seven states. The client became Self Insured under a captive insurance program and cost containment was imperative. Safety and injury prevention programs were decentralized and the claim management process lacked involvement of field operations and was not focused on goal-based results. Aon was given the opportunity to conduct a comprehensive safety and claim management benchmark assessments

Approach – Following the assessment, the following actions were taken; the first step was to develop corporate safety and workers' compensation Steering Committee that met quarterly and drove the safety and claims program development. The next step was to conduct claims and injury management training at all locations. A safety and claims management program manual and a Safe Patient Handling (SPH) program development guide were developed and training was conducted at all locations. A safety and workers' compensation annual dashboard and monthly metrics reports were also developed to track organizational safety and claims performance.

Results - Reduced workers' compensation claims by 25%, the OSHA total recordable injury rate by 15%, and the OSHA DARTS rate by 10% over a three year period from 2006 - 2009. The client presented its SPH program and results at the national Safe Patient Handling & Movement conference in 2009. The project return on investment was 6 to 1.

Challenges – Getting executive management council approval for the five year plan that was developed and endorsement for becoming a no manual lift organization essentially took 2 years. A corporate steering committee was developed and charged with creating the plan and safe patient handling proposal. The organization was assessed from a loss history standpoint and an organizational safety and injury management structure standpoint. A major presentation was developed that outlined the current state and the projected goals, costs, and return on investment. Once approved, keeping all the parties involved and on plan was difficult. Everyone on the team wears multiple job hats and is pulled in several directions. Goals and activities need to be defined, tracked, and reviewed regularly. It was hard for the committee to stay on schedule and the organization relied heavily on consulting partners to maintain a steady progress. Enthusiasm for the process will flow high and low, but it is essential to keep making slow, continuous progress.

Client 3

Profile – Client is a global diversified manufacturer of highly engineered industrial products with approximately 10,000 employees working in five business segments across 25 countries. Each U.S. business segment has a dedicated safety professional with corporate oversight. Their U.S. workers' compensation frequency and severity were increasing in two of their business segments within ergonomic related incidents as a result of the safety program focusing more on government contract production and compliance for those contracts as opposed to having an overall comprehensive EH&S program.

Approach –Aon conducted integrated safety and claims management Operational Assessments at the two targeted business segments. The focus was on pre-hire/post-offer initiatives to ensure that potential new hires were properly physically matched to the job, and ensuring there was a clear understanding through training and education of the importance of the accident investigation process as it relates to compensability challenges. Also developed were precise job descriptions, which included the job demands analysis for Americans with Disabilities Act compliance. Enhanced the reporting process by showing the relationship between late reporting and claim costs. Enhanced the recognition of ergonomic related incidents by completing a train-the-trainer program for the safety committee to assist them in completing self-assessments of the ergonomic exposures during their monthly audit process.

Results – Reporting time dramatically increased from a low of 32% from 1/1/06 to 12/31/09 for claims reported within 0 – 3 days; to 85% of claims to be reported within the first 3 days for the period. an increase of 38%. Achieved a 13% reduction in severity for ergonomic related claims for a total reduction in the incurred dollars from $3,808,197 to $3,309,120. ROI = 6 to 1.

Challenges – The organizations U.S. workers' compensation frequency and severity were increasing in two of their business segments. Ergonomic related incidents were the loss drivers. The safety program was focusing more on government contract production and the compliance issues surrounding those contracts as opposed to having an overall comprehensive EH&S program and targeting organizational loss leaders. The challenge was quantifying the cost of the total absences taking into consideration the additional associated costs in overtime for supervisors as well as other employees to do the work for the out-of-work employees. We also quantified the overall and claim costs for the out-of-work employees. Once we were able to quantify some of those costs and, how that affected the business, Senior Management had a better understanding of how the integrated approach looked at these gaps from a holistic viewpoint and promoted the process.

Conclusion

Integrating the approach to safety and claims management is all about making jobs easier for those professionals in an organization by defining overlapping responsibilities, clearly defining roles, improving communications, and by highlighting how important the two functions are to each other, and how much time can be saved when they work together.

For the safety professional to be effective, accurate los data is needed to identify loss drivers and injury trends. The better the data, the more targeted and effective the solutions will be. Likewise, the claims professional is more effective if the claims reports are timely and include thorough and accurate information. Too often the process is described as garbage in and garbage out. Knowledge, communication and an integrated approach focused on prevention combats against this and will pay dividends in the end.

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