

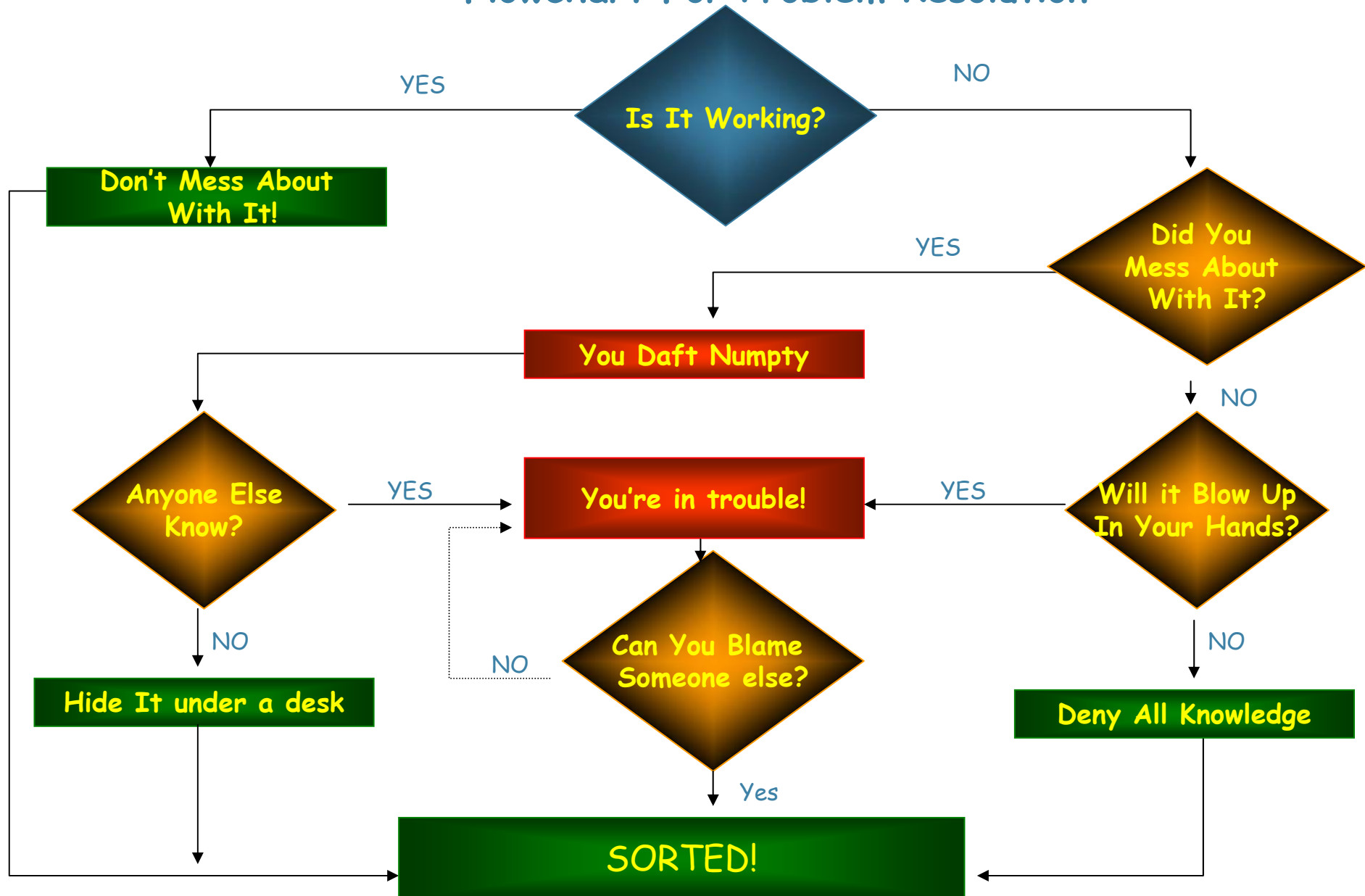


**Advance XL  
Manage Costs through Effective Loss Control**

**Terry Nichol, Regional Manager, UK Middle Markets**

# Risk Control – the traditional approach?

## Flowchart For Problem Resolution



# The Cost Issues - 1



- Extended soft market conditions have undermined risk pricing
- ‘pound swapping’ between Insured and Insurer still evident
- Pressure on training and safety management budgets
- Failure of company management to grasp the real cost to business of accidents and absence
- ‘tick box’ and compliance mentality have taken focus from effective improvement approach
- Claims inflation and fraud / ‘exaggeration’ increasing due to economic conditions

# The Cost Issues (2)

## Average Uninsured Costs\*

Type of Incident	Average cost per Incident	Number of Incidents per year	Total Cost per year
Fatality	£800,000	2	£1,600,000
Major Injury	£5,500	2 5 10	£11,000 £27,500 £55,000
Lost time/reportable injury	£2,100	2 5 10	£4,200 £10,500 £21,000
First Aid but not HSE reportable	£400	2 5 10	£800 £2,000 £4,000
No lost time injury	£33	2 5 10	£66 £165 £330
None injury accident	£150	2 5 10	£300 £750 £1,500

\*Source BCI plc & NURS derived from HSE



## The Cost Issues (3)

Level of **sales** needed to offset uninsured accident costs if the company profit margin is:

Profit Margin	1%	3%	5%
Accident costs	Revenue	Revenue	Revenue
£1,000	£100,000	£33,000	£20,000
£10,000	£1,000,000	£330,000	£200,000
£100,000	£10,000,000	£3,300,000	£2,000,000

\*Source IOSH/HSC

# The Cost Issues (4)

Or put another way '**Leakage**' to the business:

Profit Margin	5%	5%	5%
Accident costs	<b>£500</b>	<b>£1,000</b>	<b>£5,000</b>
Number of Incidents	100	100	100
Total Loss to the Business	£1m	£2m	£10m

\*Source IOSH/HSC

## Case Example

### — Company A –

- T/O £72m
- W/r £9m
- Profit Margin 3% = £2.16m

— 7 claims (2 Major Injury, 5 lost time/reportable) = £21,500 UNINSURED costs

— 70 other Accident Book Entries x average UNINSURED cost £400  
= £28,000 UNINSURED costs

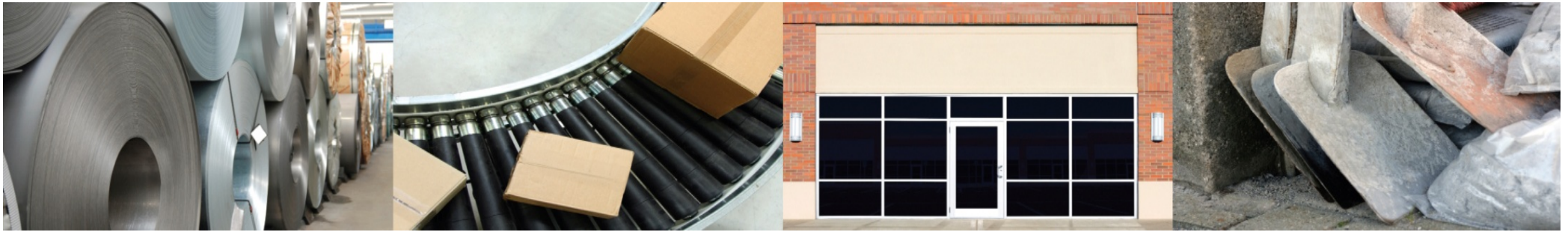
— **Total annual UNINSURED costs of £49,500**

— Total Revenue required to cover these costs is **£1,650,000!**

## Can insurers help to change this?

- Risk pricing discipline (controversial!)
- Reward superior performance
- Partner with Brokers and others to:
  - Introduce intelligent risk improvement solutions
  - Educate insured clients
  - Provide support through financial and other incentives





## **Advance XL** ***Effective loss prevention***

- **As part of wider incentivised risk transfer programme**
  - **Identify the key risk elements of specific business**
  - **Devise early warning ‘triggers’ to initiate expert support**
  - **Deliver relevant training**
  - **Implement risk improvement recommendations**
  - **Return cost of intervention to client business at renewal**

## ***Case Example - Company A***

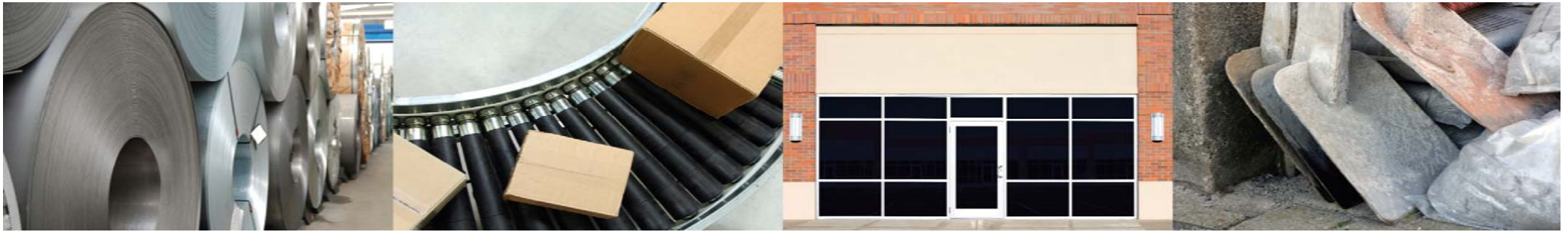
**5 of 7 claims were Slip/Trip/Fall**

- **50 of 70 other Accident Book Entries were either S/T/F or manual handling**
- **Risk improvement solutions target these areas and a 50% reduction in incidents during year 1**
- **If target achieved, UNINSURED costs reduced by **£20,750**  
= a saving in revenue requirement of **£691,667****
- **excludes reduced cost of claims and their effect on premium spend.**

## ***Case Example - Company A***

### **Suggestion**

1. Create workforce loss improvement bonus pool of £20,750
2. Set annual target. When achieved Company will have saved on premium spend
  - improved employee morale
  - improved productivity
  - positive change in culture
3. Pay annual sum equal to year 1 savings into bonus pool



## The Result

### Effective loss prevention

- Flexibility allows for risk/industry specific triggers to ensure effective and relevant risk control interventions.
- Early warning ‘trigger’ linked to above will benefit Client and Insurer
- Resource is directed to the key risk areas
- Pragmatic risk improvements reduce exposure, improve risk profile and benefits the business ‘bottom line’
- Insurer and Broker support builds true partnership and helps client better serve their own customers
- For low frequency cases cost only incurred if agreed trigger is initiated
- **Cost** of intervention **is refunded** if recommendations actioned and policy is renewed

# Culture Change – send out the message!

- **Claims hurt the business even if the risk is insured**
- **Workforce (especially unionised) need to understand the implications for all employees of a ‘claims culture’**
- **Be Transparent and Communicate the facts and figures**
- **Build OH&S and Absence Management performance into remuneration/bonus arrangements**
- **Offer assistance through rehabilitation and structured safe return to work programs**
- **Claims need a speedy yet robust and pragmatic approach with close cooperation between Insured and Insurer**



“If you always do what you always did –  
you always get what you always got”

Forrest Gump