



Commercial

INSURANCE SERVICES

insight

Issue 6

How to Give Your Business a Health Check



There are a wide range of issues that can be damaging to a business and affect its ability to recover from a serious incident.

Obvious risks, such as property damage, can be given great prominence whilst other risks, such as fraud, are sometimes overlooked.

Using our Risk Analysis computer software we can provide you with a full 'health check' of your business, without the need to pay a specialist consultant.

With our knowledge and experience of your company, we examine the risk management levels within your business using a series of simple questions. In particular, we look at potential hazards and how they can be controlled. The results are then converted into a tailored risk report action plan. Any issues that threaten the survival, or profitability, of your business can be targeted and constrained.

The program conducts a systematic examination of the

business across fourteen key areas:

- Premises Management
- Disaster Planning
- Vehicle Management
- Security
- Cash
- Embezzlement
- IT Security
- Financial Protection
- Employment
- Health & Safety
- Environmental Management
- Credit Management
- Contracts & Administration
- Financials, Customers & Markets

For a more in-depth look at what's available to your specific industry sector we can consult with you using CoverPro, which ensures that you obtain the correct level of cover and a premium that accurately reflects the risk. This helps guarantee that you will pay the correct premium without under or over insuring.

Whilst business interruption insurance can provide financial safety and recover any losses, it cannot secure the future of the business. To help protect this, we can also help you create a customised Business Continuity Plan which helps you restore your business functions in case of a major incident.

The plan is tailored to your needs and, in the event of an incident it provides a platform for managing the implications of the incident and restoring the business operations. Through an organised contact list, customers and suppliers can be easily contacted and procedures, with delegated owners, ensure actions can be initiated immediately.

For further information or a consultation on Risk Analysis, CoverPro or Business Continuity Planning please give us a call now.

inside



Claims
Defensibility



Subject to
Average



Work-related
Road safety



Steel
Yourself



Maintaining
Competency



Claims defensibility – are you prepared?

Zurich Insurance highlights the key areas for businesses to look at to improve their ability to defend claims.

A key priority for businesses is to ensure the health, safety and welfare of their employees by preventing accidents and occupational ill-health. However, accidents and cases of ill-health do still occur and often lead to claims. In order to minimise the number of successful claims and their cost, it is important that employers have robust systems in place for both accident investigation and claims-handling and management. Such systems should be an integral part of the overall management system for the control of risk and employee health and safety.

Employers need to have formal procedures in place for the recording, reporting and investigation of both accidents and cases of occupational ill-health. It is essential that all accidents, no matter how trivial they may seem, are recorded and brought to the employer's attention as soon as possible, and certainly no later than the end of the working period. This should prompt an immediate investigation to ensure that the facts can be established as soon as possible and that witnesses can be identified. Early intervention allows evidence to be collected before any possible changes are made and whilst the event is still fresh in the witnesses' memories.

Timely collection of witness statements ensures the integrity of the information given. The time needed to complete the investigation depends on the complexity or severity of the event. It is important to gather as much evidence as possible during the investigation, instead of waiting for a claim to be made, as claimants have up to three years to make a claim.

The evidence that needs to be collected at the time of the investigation includes:

- witness statements (giving both positive and negative information)
- photographs
- plans
- drawings
- sketches
- risk assessments (both before and after the event)
- operating procedures
- safe systems of work
- training records
- recent safety inspection and audit reports.



This list of documents is not exhaustive.

Depending on the circumstances encountered in the investigation other relevant documents may be identified or may be generated at a later stage. It is crucially important that all accident investigators are given appropriate training on the techniques of accident investigation, the reasons why investigations are necessary, and the importance of the collection of documentary evidence for claims defence purposes.

'Subject to average'

What does this really mean?

To most, the word 'average' is derived from a French word, which is defined as 'the result of adding several amounts together then dividing the total by the number of amounts producing an average'.

Insurers, in their passion for jargon, use an Arabic derivation of average, which applied to the fair sharing of losses at sea between the owner of the vessel and its cargo. Now nearly every policy covering assets owned by businesses is said to be 'subject to average'. This term may be shown on the risk register or statement of fact we supply to you. It is important that businesses understand what it means.

Insurers generally charge a rate per cent on the cost of replacing or rebuilding the asset and this produces the premium they charge. The correct information is only known by the business, and insurers are reliant upon this amount from you. Some businesses may declare lower amounts to reduce premiums, some only provide figures which they feel is the maximum loss they could have, whilst others use book values which are far less than replacement costs. There can often be external influences on prices such as exchange rates and rising raw material costs. The average condition is the insurers' way of paying out fairly for any loss or damage.

Expressed simply, if a business has a sum insured of say 60% of the replacement cost at the time of any damage, only 60% of any claim will be paid. Their view is that as 60% of the risk has been covered, the balance is self-insured.

There are many variations of this rule and we are able to offer solutions to reduce or eliminate the impact of many of these for you. However, the starting point of any discussion needs to be a realistic appreciation of the replacement cost of what is to be insured.



The financial case for managing work-related road safety

There are four fundamental reasons why a company should manage the risks faced by its employees whilst driving.

These are:

- reducing the risk of harm
- complying with the relevant legislation
- meeting their Corporate Social Responsibility
- minimising financial loss

It is the financial argument which is usually the most compelling from a business perspective, especially when the uninsured losses associated with every crash are taken into consideration. The International Loss Control Institute says that for every £1 a business recovers from its insurance policy there are £8 - £53 in uninsured losses, depending on the severity of the collision. The uninsured losses that a company faces will depend on the exact nature of its business, but could include lost productivity, late deliveries, brand damage (especially if liveried vehicles are used), higher staff turnover and associated recruitment costs – the list can become very long as you think about the implications of an employee being involved in a collision. The biggest issue for most companies, however, is usually absenteeism.

When someone is involved in a collision, even if it is quite a minor one, then time is lost in arranging for the vehicle to be repaired, filing the claim, filling out a collision report – time spent dealing with the administration is time when people are not being productive. If the collision is more serious then there is the potential for time off sick which makes the issue much worse. Absenteeism has consequences for the business in how effectively people are able to do their job. Colleagues may be asked to cover, which may in turn have an impact on their stress levels, thus affecting their own absenteeism rates.

These hidden costs aren't limited to company vehicle drivers. If an employee using their own vehicle is involved in a collision (e.g. someone taking a cash option instead of a company car), then, even though the direct costs will be the employee's responsibility, the hidden costs are still borne by the business. This can sometimes be worse as it will often take longer to make any collection and repairs of these vehicles as they are not managed in the same way that a company leased vehicle would be.

Another way of looking at these hidden costs is to compare it to the cost of the bent metal – something that is easily measurable. (Various estimates have been used for this, up to 32x the cost of the bent metal, but the generally accepted minimum estimate is 4x the cost of the bent metal). Assuming that the average bent-metal cost of a collision is £1,000 (typical for a high value or mixed vehicle fleet), this gives us an estimated average of £4,000 per collision for the uninsured losses. If the collision rate is estimated at 25%, and that the Return on

Sales for the business is 15%, then for each vehicle on the fleet, not just those involved in a collision each year, the business will need to generate £6,667 per vehicle to fund the direct and uninsured losses associated with each collision. If the collision rate is higher or the Return on Sales is lower, which is common in many businesses, this figure can be higher still.

Many companies go one stage further, and not only calculate how much revenue is required to fund the direct and uninsured losses associated with every collision, but they then equate this to how many units or days' consultancy they have to sell in order to fund the collision costs. This is exactly what Nestlé did when they analysed the collisions they were having across their European operation – they calculated that they have to sell 235 million KitKats® to fund the direct and uninsured losses associated with the collisions they were having.

By putting the costs into real terms that everyone understands, it helps focus the minds of senior managers and helps ensure that action is taken to reduce the collision rate. Any reduction in the collision rate will lead to revenue that will contribute straight to their bottom line, improving their profitability.

However, to reduce the collision rate requires investment which many companies can ill afford. Fleet managers, insurance managers and health & safety managers need to be able to demonstrate to the board a business case for investing in risk management, which demonstrates a quick return on investment that looks favourable when compared against all the other projects that the board are considering.

It helps senior managers or board members to look at a five year picture, as work-related road risk management should be seen as a long-term process not a short-term fix. It is easy to demonstrate the cost of doing nothing, as claims inflation alone, currently running between 4.5 to 6.5% per annum, will lead to an escalation in costs, assuming that the rate and severity of collisions remains unchanged.

It is usually possible to demonstrate considerable savings even with quite modest reductions in the collision rate. The financial arguments for managing work-related road risks and reducing the collision rate are very compelling – the trick is to ensure that the senior people in the organisation see the true costs of collisions and the fact that there are proven solutions that make financial sense to the business.

[To find out more about how we can help you manage work-related road risks and understand the difference it could make to your bottom line, please give us a call.](#)

With thanks to Andy Price, Motor Fleet Practice Leader, Zurich Risk Services.

Steel yourself

High steel prices impact on rebuilding costs of many buildings

Risk can arise from the most unexpected circumstances. What has the construction of the new Wembley Stadium and the 2012 Olympics got to do with your buildings insurance premiums? In a word: steel. A key reason why both are going over budget is the recent volatility of steel prices caused mainly by increasing demand from emerging economies. And, whatever your business, it could spell bad news for your organisation too.

Steel costs, which have traditionally lagged behind inflation, are now leaping ahead, having increased by at least 50% in the last three years and still growing. Everyone who is responsible for insuring a building should consider the implications of such a high increase.

The sum insured for buildings for insurance purposes are normally set at the original cost or at a subsequent valuation by a chartered surveyor. Your insurer then uses a broad index of rebuilding costs increasing this figure annually. This takes no account of the individual construction of premises.

If your building has an above average amount of steel in it, there is a chance, in the current climate, of your being underinsured. A similar position may apply if the building has a great deal of steelworks incorporated such as gantries, mezzanine floors etc. A little thought now could stop a financial disaster later. If you would like any advice or help on rebuilding valuations give us a call.



Maintaining competency – the role of training

Competency has been defined by the Health and Safety Executive as “the sum of sufficient experience, knowledge and other qualities to enable him to properly undertake the duties assigned to him so enabling the employee to work safely”.

Within most of the Health and Safety regulations introduced in the United Kingdom over the last thirty years, there are many references to competency, whether requirements are general goal setting requirements, or qualified with particularly strong specific guidance agreed with industry or sector groups, or specific requirements including statutory requirements to meet a set performance standard. The regulations require many tasks to be assigned to, or to be completed by, competent persons.

To try to clarify the situation the HSE has produced a Competence Training and Certification Map which can be found at www.HSE.gov.uk. The legislation usually requires the employer to make the decision whether the person selected to carry out a specific task or hold a specific duty is competent, then make the formal appointment of the chosen person. It is only when something goes wrong and an incident or injury occurs that the employer’s decisions regarding competence levels are challenged and tested in court.

This puts employers in the difficult position of not really being sure that their chosen employee is really competent to discharge the duty assigned to them. The employers main concern usually revolves around the issue of adequate training and whether they have given the employee sufficient knowledge to perform their duties safely.

The answer to the predicament faced by employers is to ensure that all employees receive sufficient training which, when combined with practical experience, can be readily seen as a measure of competence. In order that any training courses given to employees are seen as adequate courses, it is essential that some assessment of learning outcome is included at the end of the training course.

Through our association with Broker Network, we arrange training with an end of course assessment and certification from Zurich to allow you to confidently appoint the employee to carry out such tasks as risk assessment. They offer a portfolio of short courses on areas such as COSHH, DSE, Work Equipment and Fire Risk Assessment which are specifically designed to equip the employee with the necessary theoretical knowledge required.

To discuss your training needs please give us a call.

