The Economics of Loss Control

To be Effective, Safety Programs in Companies Must Have Top Management Support

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There are far too many business enterprises where top management could more enthusiastically support and participate in loss control.

In these firms, support of loss control is usually lukewarm and the support that does exist is often a result of “outside” pressures such as OSHA or the insurance company. There is usually no compelling “inside” pressure to gain the involvement of top management. As a result, loss control programs lack effectiveness.

Why—even in isolated cases—does there exist this top management indifference? Is it because they are not convinced that safety programs can make any significant contribution? Many business executives—contractors included—tend to view safety programs as a “nice humanitarian” gesture or a response to outside pressures but not as an activity that is vital to the existence of the enterprise.

Such an attitude exists at least in part because of the surprising fact that the total costs of accidents are rarely known. Accident costs are hidden in a dozen different ways.

If the true costs of accidents were known, there would be much more interest in safety and loss control programs on the part of top management.

As a matter of fact, it is presumptuous for a safety manager to ask for the enthusiastic support of his top management in safety programs without giving the latter an idea of the magnitude of the problem with which they are dealing.

Types of Accident Costs

There are two major types of costs resulting from accidents: the insured cost and the uninsured cost. The insured cost, by definition, is covered by insurance, such as the medical and lost wage costs in employee injuries. (Workers’ Compensation). The uninsured costs are those that are not, or cannot be, covered by insurance and include the following:

1. Cost of wages paid for time lost by employees who were not injured.
2. The cost to repair or replace material or equipment damaged in an accident (which may or may not involve an injury).
3. The cost of wages paid for working time lost by injured workers, other than workers’ compensation payments.
4. The cost due to overtime work necessitated by an accident.
5. The cost of wages paid to supervisors and other personnel while their time is required for activities necessitated by the accident.
6. The wage cost due to decreased output of the injured worker after return to work.
7. The cost of the learning period for new workers who replace injured workers.
8. The uninsured medical cost borne by the company.

Although there may be additional expenses in some situations, these are the most common uninsured costs of accidents.

Determining Accident Costs

The next step of course, is to determine the insured costs and the uninsured costs of accidents. The insured costs can usually be obtained from the insurance carrier. In the workers’ compensation area, these costs are often provided on a periodic basis, so that a company is kept-up-to-date on their loss experience.

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The uninsured costs are more difficult to obtain.

The easier method is to use average costs which have already been determined through previous investigation of a large number of accidents. Although these costs may lack precision for a given industry, they save a great deal of time and probably serve the purpose. One source of such costs is the Simonds study, and your insurance carrier can provide you with information on this.

In this study, average uninsured costs have been established for the following classifications of accidents: lost time cases, doctors cases, first aid cases, and no-injury cases (property damage only).

According to this study, the average uninsured costs (adjusted to the wage level of May, 1977) are as follows:

Lost time cases—$290
Doctors cases—72
First aid cases—$15
No-injury cases—$25

These losses can be added to the direct cost of each accident to arrive at the total cost. Rather than using average figures, many organizations will wish to make either partial or full pilot studies of uninsured costs in their own operations.

A limited study can be made to check the validity of the average costs determined in the Simonds study.

A full study will be useful if it is found that the above figures do not fit a particular operation. Forms can be obtained from the National Safety Council to conduct such a study. There are compelling reasons to do accident costing in every business. We believe that top management of any business will be much more likely to support loss control when they see how much accidents really cost them and realize the potential for savings through an effective loss control program.