In the UK, health and safety and commercial insurance are most closely linked through the provision of employer's liability insurance (EL). It should also be remembered that they are linked through health insurances, where employees are covered by a suitable scheme. Following a brief overview of the role of insurance in this area, this paper will present an insurance sector view on the auditing of health and safety management systems.

Employer's liability insurance became compulsory following an Act of Parliament in 1969. Its intention was to ensure that employees would always have access to financial compensation for losses arising from work-related ill-health or injury where caused by employer negligence. It is of particular note that the EL compulsory insurance Act prohibited certain conditions in insurance policies which were intended to exclude liability. This of course includes any requirement to manage health and safety to the standards required by statutory law. Such exclusions might threaten the access to compensation.

Health insurance is provided by both the state and voluntary private insurance systems. Other compensations such as long-term provisions for income support are most often paid from tax revenues including national insurance.

Typically, the annual premium for EL insurance is calculated as a fraction of a company's payroll with some allowance made for their claims experience and the recent general experience of claims made in that industry sector. The proportion of payroll varies quite significantly, ranging from a few tenths of one percent to around 10%.

Employers considering investment in health and safety will have at least two factors to consider. First, it is a legal requirement to protect people from foreseeable accidents and acquired ill health as far as is reasonably practicable. Second, it would be better that any case for investment could show some financial return. It is in the latter field that a demand for auditing health and safety management systems has arisen.

One common argument is that investment in health and safety could be recouped from reductions in insurance premiums. If the employer is prepared to wait a few years, any improvement in claims experience is straightforward to demonstrate provided there was a statistically significant number of claims before the investment was made and the claims had significantly reduced in frequency or cost after the investment was made. Improved claims experience should result in more favourable insurance terms.

At present, underwriters will also be swayed by the reports of insurance surveyors. In many ways their surveys include aspects of what might be referred to as an audit of health and safety management. However, insurance surveys are not common where the level of premium is less than several tens of thousands of pounds, unless the firm has a particularly bad record of claims. Brokers will also show most interest in the larger firms.

If the employer cannot wait several years to demonstrate an improved claims experience or is unlikely to benefit from an insurance survey, he might be interested in an auditing system that could prove to the insurer that the financial risk of negligence has been reduced. Allowance for outstanding health and safety management systems may be made if it can be shown that the system should result in fewer or smaller claims and if the broker or risk manager is able to convince the insurer that this reduced risk will most likely continue. The audit would therefore have to demonstrate real reductions in financial risk.

There are no accepted standards for these kinds of financial risk audit. Any system that claimed to make a prospective financial risk assessment of this sort would have to be validated by insurers if they were to have any confidence in it. At a time when insurers and brokers are increasingly promoting their own risk management services it is unlikely that competing packages would receive much attention.

In any case, whether the reduction in risk is demonstrated by actual experience or by some sophisticated survey, any corresponding reduction in premium or...
improvement in the range of cover must be balanced against the risk in the whole portfolio of insurance cover. An improved risk in one company could easily be offset by the poor record of another firm. In general, the best that might be hoped for is that the rate of increase in premium in the good firm may be lower than average. Of course there are exceptions.

The emergence of the British standard BS8800 in 1996 was perhaps a first step on the road to an acceptable audit system. This system was honed out of the consensus experience of health and safety practitioners and other interested parties. The effectiveness of the standard as a whole or any component part of it has not been validated by scientific study, but it is at least a start.

In order to convert BS8800 or any other well-defined management system into an auditable standard acceptable for insurance purposes, the civil claims cost-control effectiveness of each part of the system must be established and quantified in a range of circumstances such that it would be valid for each company it was subsequently applied to.

Once this has been done, the question then is one of establishing an appropriate baseline. In principle, the correct baseline information would be the civil claims financial risk in the absence of health and safety management. Reductions from this risk to allow for any health and safety management that was actually in place would then be made as part of the audit process. Situations where an audit shows that health and safety results in apparent profits are clearly not allowed.

One benefit from performing this analysis would be that the relative cost-effectiveness of management practices would be readily identified. Even if no-one applied the final audit, this information would be useful in targeting resources for civil claims cost management.

There are of course other benefits from establishing management systems, whether they be for health and safety or not. A good management system of almost any kind will improve communication in large firms. Effective reduction in accidents and work-related illness will result in savings that are currently not insured and may also have the effect of improving morale and commitment to work. However, auditing these benefits would appear at first sight to be even more difficult than auditing civil law costs.

Without meaning to sound too pessimistic about insurers' views of health and safety management audits, insurers' current system of relying on individual and collective claims experience with factors allowing for inflation and the judgement of trusted, well-informed surveyors would seem to be a more practicable option. The current system of employer's liability insurance may have its faults, but has proved successful in ensuring a right of access to compensation for injured workers and has proven its economic value to employers.