

EUROPEAN COMPARISON OF ECONOMIC INCENTIVES IN OCCUPATIONAL SAFETY AND HEALTH

Elsler, D.

European Agency for Safety and Health at Work, E 48009 Bilbao

E-mail: elsler@osha.europa.eu

Economic incentives aim to stimulate enterprises to invest in management of occupational safety and health by making it more financially attractive. The need for a greater understanding of the effectiveness of economic incentives in promoting OSH is also mirrored in the new (and old) European OSH strategy, especially with regard to SMEs. However the conditions of social insurance and tax systems are still very different across Europe and this expert survey is a first approach to figure out which kind of economic incentives are best applicable in which countries.

Economic incentives, occupational safety and health, European comparison

1 Introduction

In recent years European policy makers became more and more interested in economic instruments to improve the working environment for a number of reasons. First of all, strict regulation approaches have not been proved as effective as imagined. It was costly to bring companies to court and the probability of prosecution and the level of fine were not sufficient to encourage compliance. Instead of the so-called “command-and-control” approaches market-based instruments use the power of incentives to convince employers to improve their working conditions. These economic instruments often consist in linking fiscal incentives to good occupational safety and health (OSH) performance of a company, for example with lower accident insurance premiums or tax rates.

2 Research

A study carried out by the European Foundation (2000) highlighted the scope for increasing the use of economic instruments in almost all EU countries but the challenge remains to determine from existing applications where they work best. Insurance premiums related to historic claims experience is the most widely used and readily understood method of creating incentives for better safety and health practice. It is cheap to administer and it is transparent. Competition among insurance companies can help ensure equalization of actual risk and premium charged. However the report of the European Foundation (p. 24) discusses also some drawbacks connected with this classical economic incentive instrument.

2.1 Rewarding luck or effort?

The accident rate in individual enterprises can be significantly affected by statistical fluctuations, particularly in the case of SMEs. Statistical ‘good luck’ can also mask serious lapses in health and safety practice, or negligible health and safety prevention.

Economic incentives based on accident rates alone may penalize high claims arising from purely random events (in situations where either the occurrence of an event or its severity is related to random occurrence and not poor risk-minimization strategy at the enterprise) and reward the careless but lucky. In taking the past as a proxy for current and future risk, these incentives do not address the effectiveness of current preventive behaviour. Ideally, premium assessment and reward should be based on future risk.

2.2 Cost of claims are not a perfect guide to risk of injury/ill-health:

Better OSH management as well as reduced risks of accidents may reduce observed claims levels. That an accident or injury occurs will tend to reflect poor health and safety practice. The actual cost of claims may reflect the local compensation culture and award system, as well as the actual risk level in the enterprise. The severity and duration of injuries are liable to purely chance fluctuations (for example, whether an object falling from a height falls on a worker's finger or on his full body).

2.3 Delayed and uncertain link between safety investment and economic return:

Investment in a health and safety programme may appear to carry an uncertain return for the individual company, a return which will be delayed until measurable results are evident. Lower accident rates either the company or the sector may then result in lower premiums. However, a health and safety programme which may show little apparent economic return with regard to a single company may lead to measurable results in the overall sector and economy. Consequently it is legitimate to stimulate prevention with individual economic incentives on company level, because it leads to benefits for the whole society on the other hand.

2.4 Examples of innovative projects

In a forum publication of the European Agency for Safety and Health at Work about the "Effectiveness of economic incentives to improve occupational safety and health" (2004) several models are described, which are aimed to overcome the drawbacks of the classical insurance premium variations connected with the accident rate. Incentives based on historic performance alone will have only a limited impact on preventive work, the incentives should point forward instead, promoting more efforts, not only results.

The following examples of more innovative projects are described:

- France: Insurance premium variations in the health insurance
- UK: Linking insurances premiums with a SME-OSH-Index
- Germany: Accident insurance variations in butchery and healthcare sectors
- Denmark: Subsidy scheme to reduce RSI (repetitive strain injury)
- Netherlands: Tax incentives for OSH investments

The Agency publication is a summary of a congress session and aims to stimulate the debate about economic incentives, but it is not a systematic overview of the models which are in place in Europe. It is rather an eclectic selection of cases, which are mostly not evaluated according to scientific criteria. Most of them still have the status of pilot projects. However, some of these examples are now evaluated scientifically and the first results are very promising.

3 Objectives

The need for a greater understanding of the effectiveness of economic incentives in promoting OSH is also mirrored in the new (and old) European OSH strategy (2007), especially with regard to SMEs. There is a need for guidance of organisations, which are able to provide economic OSH incentives, e.g. many insurers would like to put in place better incentive schemes, but they do not know how to do it and which models have proven efficiency. However the conditions of social insurance and tax systems are still very different across Europe and this Expert Survey is a first approach to figure out which kind of economic incentives are best applicable in which countries.

4 Method

Given the explorative nature of this purpose an international expert survey was considered to be the appropriate survey method. The questionnaires were developed within the Topic Centre Research of the European Agency for Safety and Health at Work, Bilbao. As one of the task leaders for Economic Incentives the questionnaire was developed by BAuA (Federal Institute for Occupational Safety and Health, Germany) and then cross-checked by the other participating institutes (Prevent, Belgium, HSL, UK, INSHT, Spain, FIOH, Finland) and the Agency. The questionnaires were distributed via the Agency's Focal Points and among the involved institutes of the Topic Centre in the year 2004.

5 Results

5.1 Sample

The questionnaires were completed by 51 high profile experts from 12 European countries, who represent the leading opinions in their countries. Their employing organisations were research institutions, consultancies, labour inspections, accident insurances, governments and social partners.

5.2 Sufficiency of economic incentives in different countries

The overwhelming majority of the experts in all participating countries is of the opinion, that the present system of occupational safety and health in their country does not include sufficient economic incentives neither to ensure companies' compliance with safety and health regulations (69 %) nor to encourage further efforts to improve working conditions and safety and health at work (71 %). Since the great majority of the experts do not see sufficient economic incentives in their country the same is valid in nearly all participating countries, the only exceptions are Finland and the Netherlands. Further, it is remarkable, that the strongest doubts regarding sufficient economic incentives come from experts of labour inspections, i.e. the people having to enforce safety regulations. 91% of the labour inspection experts see no economic incentives for companies to comply with OSH regulations, and 82% of them perceive no encouragement of further OSH efforts.

5.3 Kind of Economic Incentives

Figure 1 shows the percentage of experts, who consider certain kinds of economic incentives as most suitable concerning their country. Most experts regard insurance premium rebates and surcharges as most appropriate, followed by promotion through publicity events or materials, which demonstrate the benefits of good OSH

management. However, most experts consider bank loans and facilitation of audits as less suitable.

Since the great majority of the experts consider insurance premium variations as most suitable economic incentive in their country the same applies for nearly all participating countries. However, there are some exceptions, where only a minority of experts holds insurance premiums as suitable (Netherlands, Switzerland, Belgium).

Bank loans for OSH investments (e.g. with lower interest rates) are rejected by most experts, but in Latvia and in Switzerland a majority is in favour of them. Facilitation of audits is only regarded as a suitable economic incentive in Cyprus and Belgium.

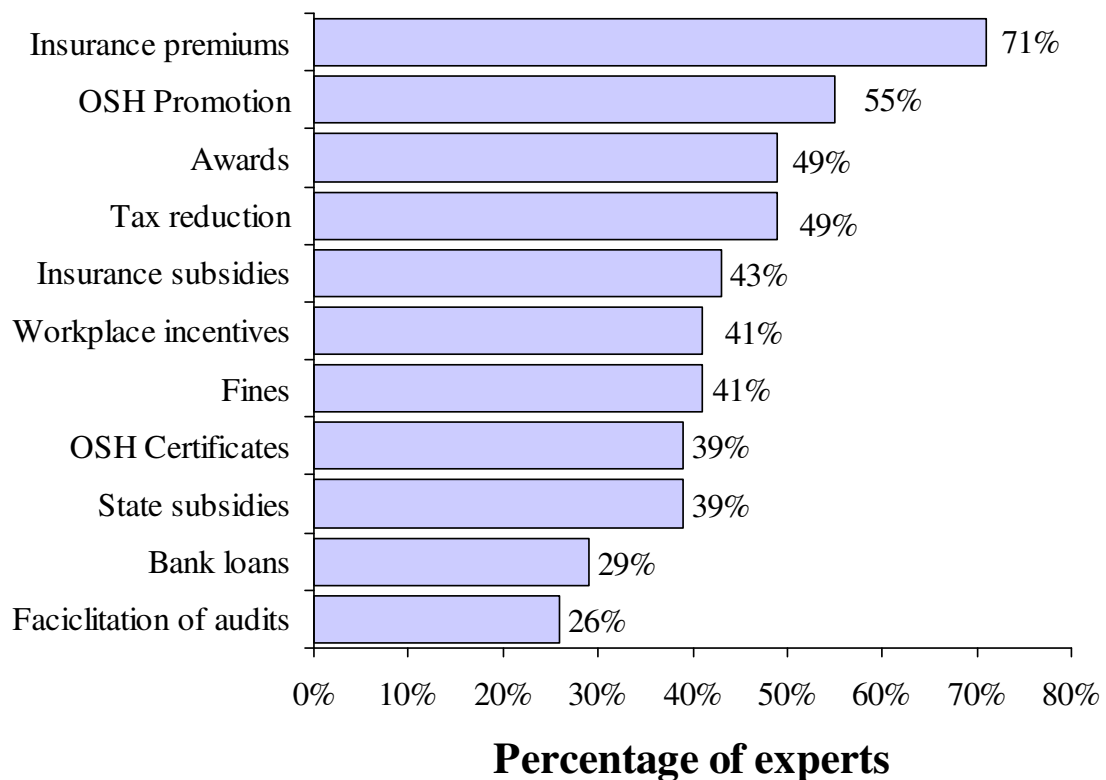


Figure 1: What kind of economic incentives would be most suitable for your country?

6. Discussion

Given the relatively small sample of 51 experts the interpretation of the survey has to be cautious, of course, especially concerning country- and expert-specific results.

However, most questionnaires were completed by high profile experts on national level, who represent the leading opinions in their countries. Furthermore in this discussion part also the qualitative results of the survey are taken into account, i.e. the individual comments of experts regarding the questions, which could not be included in the statistical analysis. In this regard this survey can be a starting point to stimulate discussion on economic incentives on European level. In a further step, the results of this explorative study may inspire more detailed research on economic incentives in different countries.

The overwhelming majority of the experts is of the opinion, that the present system of occupational safety and health in their country does not include sufficient economic incentives neither to ensure companies' compliance with safety and health regulations nor to encourage further efforts to improve working conditions and safety and health at work. According to the experts, there is a great need for more economic incentives in the OSH system of all countries, maybe except Finland and the Netherlands. Further it is amazing, that the strongest doubts about sufficient incentives come from the labour inspection experts, i.e. the people having to enforce the regulations. Generally economic incentives were criticised only by a few experts who were concerned about distortion of competition.

Concerning the kind of economic incentives insurance premium variations are preferred by most experts. They are already working in many countries and easy to implement, if they relate to past accidents, but more innovative measures are missing. However, there are many possibilities to design accident or health insurance bonus systems, which could not be analysed in detail in this study, e.g. some experts were in favour to reward results only, others stressed the necessity to encourage more the OSH efforts of enterprises, since the relation between effort and reward should be made clearer. Another point of discussion was, if insurance premiums can act as an incentive only for large enterprises, especially in countries where a private insurance system is in place. Further research on this topic would be interesting.

An astonishing aspect was relatively high support for tax incentives, which are not in place in most countries, they were regarded as especially interesting for SMEs. Facilitation of audits was rejected by most experts, but not from the employer side of the social partners. Further studies should take into account more the social partners. After all the enterprises are the "clients" who have to accept the incentive systems. Relating to all kind of economic incentives the importance of "speaking the language of management" was underlined. In order to achieve a sustainable improvement of working conditions management involvement was regarded as the key issue, economic incentives have to be related to management thinking and processes.

Regarding the amount of the incentives, the experts prefer the insurance premium as a key figure with rebates and surcharges from 30 to 100 %, which is considerably higher than most incentive schemes being in place today. However, in most cases the insurance premium is often only between 1 and 2 % of the monthly salary of a worker and therefore not a really high cost factor. The only research result concerning this topic comes from the UK (Wright & Marsden, 2002) and recommended "that insurance for work related injury and ill-health needs to be about 1.5% to 3% of payroll to act as an incentive." Beside payroll and depending insurance premiums the turnover of a company was often proposed as a calculation basis for economic incentives, because this figure is more output oriented. A payroll-depending figure discriminates work-intensive businesses and increases the burden on working costs, which can lead to higher unemployment in some countries.

7 Conclusions

You cannot have no economic incentives. This interesting aspect is often neglected in the discussion about economic incentives in OSH. Even if there are no (deliberately

designed) economic incentives in a social security system, may the absence of them can be regarded as a reward for those enterprises who have a poor OSH record, because all of their costs are covered by the general public. According to a study of CIOP, the Polish National Institute for Labour Protection, the cost of an accident is incurred by 76% of society, 13% of victim and family, only 11% of employer (2007).

Economic incentives aim to stimulate enterprises to invest in management of occupational safety and health by making it more financially attractive. They are potentially strong instruments in driving companies toward safety and health excellence because they reinforce the link with profitability. In order to be considered successful, however, the incentives must in general ensure that they stimulate action that is both beyond what is in any case required by law and not something that would have been carried out in any case.

A clear economic case exists to support that economic incentives are effective in drawing the attention of the companies' management to safety and health issues as economic incentives 'speak the language of business'. Furthermore, economic incentives allow the companies to find the most cost-efficient way of improving safety and health.

As a systematic evaluation of the effectiveness of different economic incentive systems in Europe is still missing and currently many promising models are developed in the member states, the Agency is planning to work on a more extensive report about the various models in 2008.

References

European Agency for Safety and Health at Work, 2004. Effectiveness of economic incentives to improve occupational safety and health. Bilbao.

European Foundation for the Improvement of Living and Working Conditions, 2000.

Economic Instruments for Sustainable Development, Dublin.

New EU Strategy on Safety and Health at Work, 2007.

http://osha.europa.eu/new_eustrategy

Central Institute for Labour Protection – National Research Institute (2007). Social cost of accidents at work in Poland.

Wright, M. and Marsden, S., 2002. Changing business behaviour — Would bearing the true cost of poor health and safety performance make a difference?, Contract Research Report 436/2002, HSE.