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## A NEW FORWARD LOOKING ECONOMIC INCENTIVE MODEL TO IMPROVE HEALTH AND SAFETY

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### ABSTRACT

After three years of development, the European Foundation for the Improvement of Living and Working Conditions has proposed a radically different way of providing economic incentives to employers who invest in health and safety. This new model has recently been successfully tested in France.

The direct costs of occupational accidents and diseases in the EU were for the year 1992 estimated at ECU 27 billion. However, this figure represents only the tip of the iceberg. The indirect costs are much higher. Most of the costs are paid by the public sector and the employees rather than the companies. This fact is the reason why effective preventive measures are needed. For years the instruments have been legislation, control, information and training. These are all useful preventive tools and they can be further developed and improved in the future. However, if a real visible reduction in the injury rates is to be achieved, it is necessary to develop new instruments which affect the companies planning and design processes in a positive way. "Economic incentives" is such a tool.

### INTERNATIONAL WORKING GROUP

Against this background the European Foundation for the Improvement of Living and Working Conditions established a multi-disciplinary working group in 1993 with the aim of developing a new, innovative economic incentive model to operate within the Framework of compulsory industrial injury insurance. The work was guided by a steering committee of government, employer and trade union representatives and the European Commission.

### INTERNATIONAL COMPARISON

The first report was an extensive catalogue of the major economic incentive systems in operation internationally (see Reference 1). Advantages and disadvantages of these different systems were analyzed and discussed and the conclusions summarized in a booklet (Reference 2). Knowledge and experience was extended further through a seminar with Eastern Europe in October 1994 held in Warsaw. Interesting new models are being developed there (Reference 3).

Most of the existing economic incentive systems typically work within industrial injury insurance. If companies reduce their accident rates they are being rewarded through a reduction in the premiums. Most of the existing systems are based on history rather than the actual working conditions. Therefore the preventive achievements are often questionable.

There is also a major problem in the fact that companies are being encouraged not to report accidents and diseases. This can damage the national monitoring systems and the employees can experience pressure to keep the incidents secret. Because this type of premium graduation (called “experience rating”) has been chosen, the incentives most often only work in relation to accidents. Many categories of occupational diseases develop over many years and it is not possible to identify which workplace environment caused the disease. Small and medium sized enterprises are often disadvantaged by experience rating. Statistical fluctuations in the rates of accidents and the severity can be very costly for SMEs.

These are the reasons why a new, forward looking approach is needed. The Foundation has recently published a report which proposes an incentive model which has none of the disadvantages described above. The report is called “An Innovative Economic Incentive Model for Improvement of the Working Environment in Europe” written by Stephen Bailey, Kirsten Jorgensen, Christian Koch, Wolfgang Krüger and Henrik Litske (Reference 4).

## **PREMIUM GRADUATION**

In the Foundation model premium graduation is based on the calculation of both existing and future risks. In other words, it is proactive in nature. The basic idea would be to assign each enterprise a gross premium and then offer possibilities of a premium reduction or bonus. The premium could be composed of three elements to reflect base, sector and work function aspects of the working environment.

The highest level - the gross premium - would be assigned to enterprises operating close to the minimum requirements of health and safety legislation. Bonuses are then awarded to enterprises operating to higher standards.

The bonus system could comprise three sub-bonuses: general, specified and individual sub-bonuses. A general sub-bonus would be given to enterprises when they have improved health and safety, and would be awarded by the responsible organisation without a special application by the enterprise. Specified bonuses would be centrally designed to address recognised health and safety problems in a sector and would be awarded upon application. Individual bonuses would be given upon application to enterprises with individual problems, who co-operate to develop novel solutions.

A major consideration behind this proposal is the diversity of enterprises. It is necessary to consider differences between sectors and sizes of enterprises, differences in technology and in the corporate culture of the organisations. In part, the sub-bonus system addresses these different needs. Additionally, a special programme is proposed for small and medium-sized enterprises.

Documentation and evaluation routines necessary for the operation of the incentive model are detailed in the report. Information on causes of known and future risks must be collated from several sources. Information on the consequences of accidents or exposures, the workforce, the enterprises and the actual work are all necessary components.

Options for the organisation of the body responsible for the incentive model are described. A monopoly organisation is a pre-condition. It could be public, semi-public, private or a mixture of the three. Key criteria are the effectiveness of administration, including how visits are prioritized and the procedures for complaints and appeals.

Throughout the report, the necessary flexibility across national systems is emphasised. The incentives could be implemented in a number of different ways and embedded in different organisations.

In the final chapter, practical issues concerning the implementation of the proposals are discussed.

## TESTING

No model is successful until successfully tested. The Foundation therefore established a close co-operation with the French social security system, CNAMTS, in order to primarily compare the proposed model with the French system.

It is the intention that the feed-back from the French testing will lead to a further improvement and fine tuning of the proposed model.

The experiences from the testing could be useful to policy makers in Europe who are in the process of establishing or improving economic incentive schemes.

The results of the tests in France have just been published (Reference 5).

## IMPLEMENTATION

The Foundation model is a tool bag of techniques for governments and social partners wishing to improve the working environment. The model would need to be adapted to national traditions and structures before it could be implemented.

Part of the model is slightly technical. To facilitate the debate the Foundation is currently experimenting with a multi-media presentation on CD-ROM which should be ready in May 1997.

### References

- Reference 1 Catalogue of Economic Incentive Systems for the Improvement of the Working Environment, European Foundation for the Improvement of Living and Working Conditions, Dublin 1994. ISBN 92-826-2705-5 Available in English only.
- Reference 2 Economic Incentives to Improve the Working Environment - Summary and conclusions of an international study, European Foundation for the Improvement of Living and Working Conditions, Dublin 1994. ISBN 92-826-7685-4. Available in all official European languages of the European Union.
- Reference 3 Economic Incentives to Improve Health and Safety at Work - Proceedings of an International Colloquium between Eastern and Western Europe, 12-14 October 1994, Warsaw. Published by the European Foundation for the Improvement of Living and Working Conditions, Dublin 1995. ISBN 92-826-9615-4. Available in English only.
- Reference 4 An Innovative Economic Incentive Model for the Improvement of the Working Environment in Europe. European Foundation for the Improvement of Living and Working Conditions, Dublin 1995 ISBN 92-827-4912-6. Available in all official languages of the European Union.
- Reference 5 Testing of An Innovative Economic Incentive Model to Improve the Working Environment - France. European Foundation for the Improvement of Living and Working Conditions, Dublin 1996 ISBN 92-827-0372 (English) or ISBN 92-827-0378-8 (French).

All Foundation publications can be obtained through the national outlets of the Office of Official Publications of the European Union, 2 rue Mercier, L-2985 Luxembourg, tel: +352-29 29-1, fax: +352-48 85 73.

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