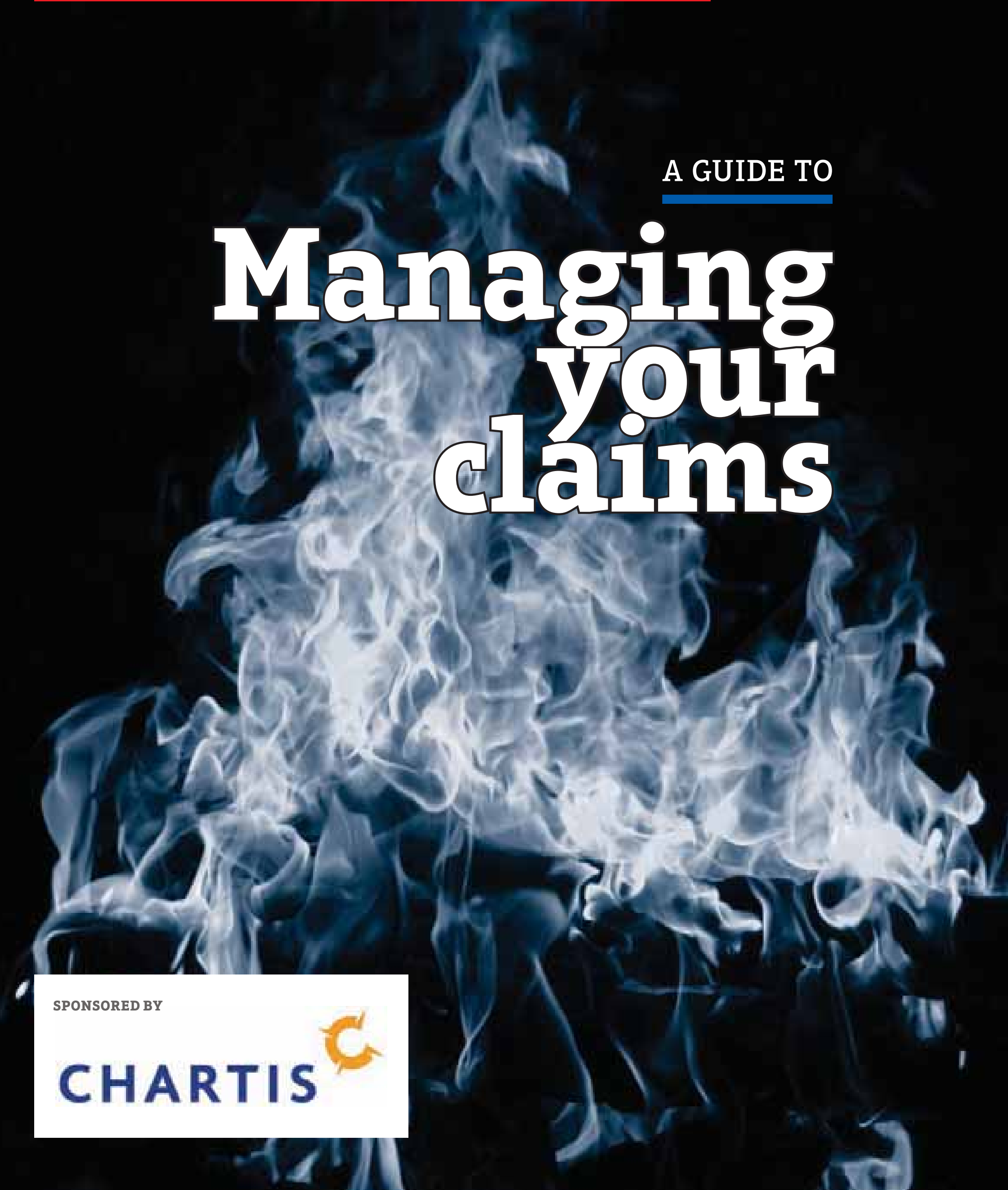
StrategicRISK

A GUIDE TO

Managing your claims



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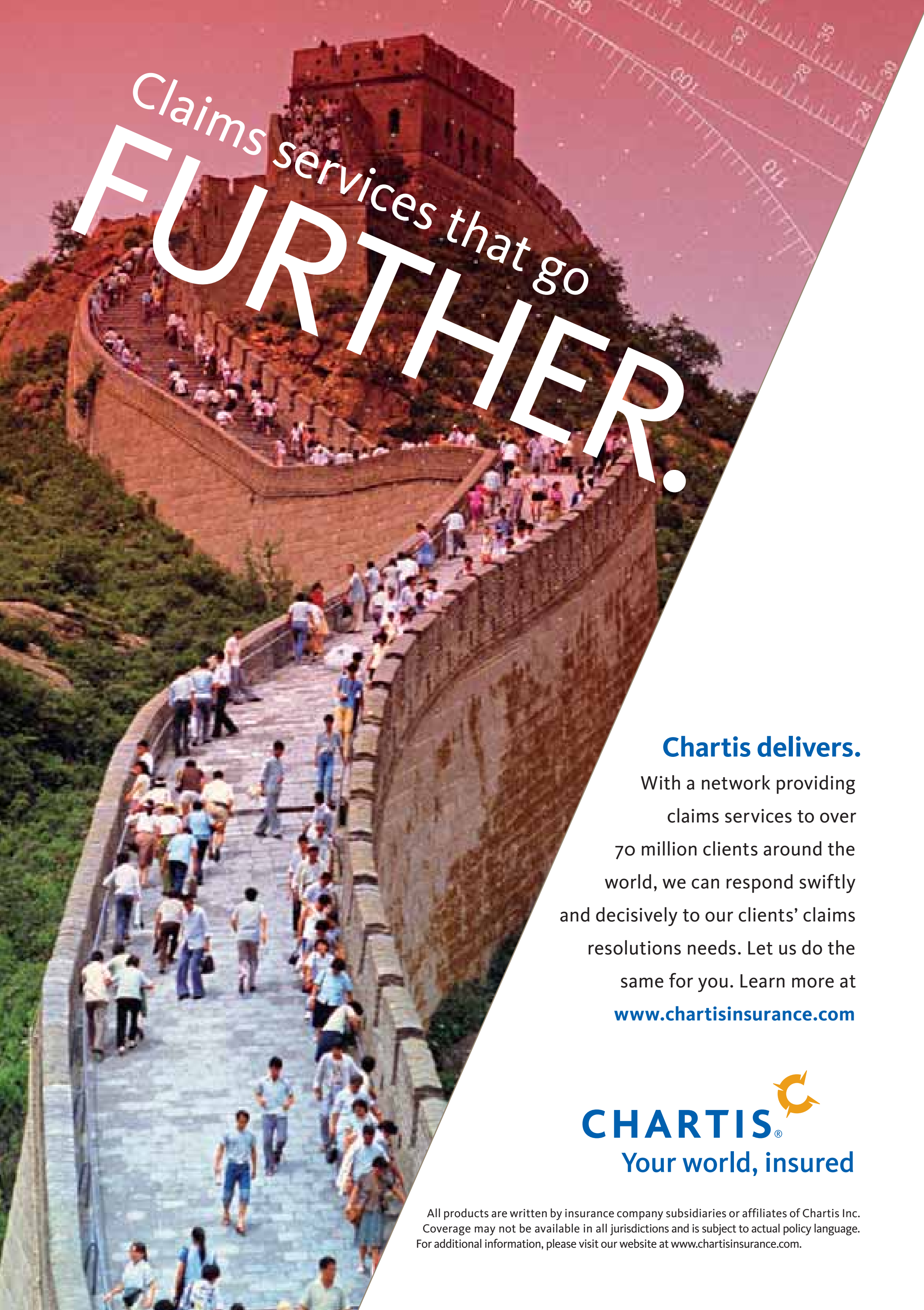
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INTRODUCTION

This guide looks at the claims issues topping the agenda today, whether that's in connection with property, business interruption and liability claims, or guidance on three associated areas: fraud, absence management and reputational damage.

Fraudulent claims are on the rise, so detection is increasingly important. In addition, certain claims attract adverse publicity for the company concerned, so managing crises well minimises brand and reputation damage.

Meanwhile, rehabilitation remains a key issue because such strategies can help employees return to work more quickly, and may form part of an absence management programme that can help businesses reduce costs.

Another focus in this guide is risk assessment and planning. Thorough assessment identifies potential exposures and likely costs, which means that the correct cover – and limits – can be put in place.

Last but not least is the importance of early notification of any loss. Having the right claims protocols in place is central to this – making sure that you have clear lines of communication with the right claims people, and pre-agreeing with them a process to follow in the event of a claim, which will maximise the chance of a swift and straightforward resolution.

Sue Copeman, editor-in-chief, StrategicRISK
Andrew Walker, European claims manager – commercial division, Chartis

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Understanding the possible impacts makes your business less vulnerable

Adequate cover that takes the supply chain into account, use of insurers' pre-loss services and sound information management can help a complex claim to run smoothly

THE TRUE FINANCIAL COST OF major property claims are underestimated owing to a lack of understanding surrounding the range of uninsured costs and management time wasted, according to Robin Darby, claims management executive and head of Heath Lambert's retail office.

Darby told delegates at this year's Airmic conference: "In the immediate aftermath of a serious property loss, the focus is often on dealing with the tangible physical issues. While these are vital, understanding the financial impact that goes beyond repair or reinstatement costs is just as critical for the strong survival of any business, whatever the size. A well-managed process can mean a company comes out of a potentially catastrophic loss stronger than before."

Aon Risk Solutions head of claims and risk accounting Andy King warns: "There is a focus on claims and that's not just coming from risk managers. Insurers too are looking harder at the claims they are paying."

So how should risk managers ensure that their property and business interruption claims run smoothly? King admits that his first suggestion may seem obvious, but it is integral to a good claims experience. "Make sure you have the proper coverage that reflects the risks of the business in the first place," he says. "There is nothing more depressing than turning up at the scene of a loss and discovering that the sum insured is inadequate."

Chartis European commercial claims manager Andrew Walker says: "The key is for risk managers to establish a pre-agreed notification process and clear lines of communication with their insurer, to ensure they can give early notice of any loss. This will help their insurer come to an early, informed and

ASK THE RIGHT QUESTIONS

Jonathan Clark of Cunningham Lindsey suggests that risk managers ask the following questions:

- How much is the loss?
- Does our insurance policy cover this and how is it going to work?
- Will there be an effect on jobs?
- Are there any dangers to the public?
- What is our long-term contractual position and the impact on our suppliers and customers?
- How long will it take to get back to normal?
- Do we want to replicate what we had before or perhaps take this opportunity to change, for example relocating elsewhere?
- Is the management able or trained to make decisions within the time-frame?

accurate decision, and will help mitigate the cost of any claim."

King advocates a business interruption review that includes looking at the supply chain. "A number of underwriters will fund preparation of a business interruption review because it is in both parties' interests to get sums insured right. Insurers do not want to turn down claims."

King also advocates good organisation from the start of the loss. "You need to know who is going to do what and when. Insurers are entitled to a significant amount of information, so someone should be appointed to manage that. Communication with staff, customers, suppliers and stakeholders may also need managing early on."

How much and how long?

Adrian Maurice, chief executive of Pragmaticum, which specialises in large complex business interruption claims, says that the art of handling a BI claim effectively is understanding the full extent of the impact on the business and how long the effects are likely to be felt.

"In order to assess your company's vulnerability to complex losses, you need to consider a number of issues," he advises. "These include the extent to which the business operates to a 'just in time' (low stock holding) model, whether any unaffected businesses can fill production gaps, and how flexible staff are likely to be if asked to travel to an alternative site – or alternatively how easily they can be replaced."

SOME BUSINESS INTERRUPTION CLAIM TIPS

- Implement your business continuity management process across the business.
- Develop financial projections detailing the anticipated cost-benefit analysis of each option.
- Seek your insurer's approval for the loss mitigation measures selected.
- Set time-frames for your insurer's response according to your business needs.
- Fully communicate and document the decision-making process.
- Capture the data required to measure the financial impact of the loss.
- Establish separate project or nominal ledger codes as part of the data-capture process.
- Consider historic and future trends of the business in evaluating any loss of revenue sustained as a result of the insured event.

Source: Echelon Claims Consultants

'Keeping stakeholders informed in a transparent and professional way gives them confidence' **Adrian Maurice** Pragmaticum

Walker says: "To understand and manage business interruption, risk managers need to really understand their own businesses and supply chains. They need to get to grips with the matrix between their business, their suppliers and their customers – and how an event in any part of the chain will have an impact."

If the interruption means that the company cannot maintain supplies, it may lose business, depending on how easy it is for customers to find an alternative supplier – another consideration when measuring vulnerability, says Maurice.

He stresses too that it is important to consider a post-loss communication strategy internally to staff and externally to the public (media), customers, suppliers and financiers. "Keeping stakeholders informed in a »

QUANTIFYING SITE/ SUPPLIER DEPENDENCY

Take account of:

- the total value of products or services that are dependent on that location;
- the amount of time that products or services will be out of the marketplace as a result of losing that location for a given threat;
- how the interruption to supply could be mitigated by downstream safety stock or alternative sources; and
- what the ongoing impact in loss of market share will be after the supply interruption is rectified.

Source: *Supply Chain Failure: Do You Know the Impact?* Actuact Ltd

transparent and professional way gives them confidence in the management of the business and means that they are more likely to remain loyal," he comments.

Cunningham Lindsey technical director Jonathan Clark concurs. "If companies don't handle a business interruption crisis well, the market is quick to respond in the view that it takes of their business. However, planning is made difficult by the fact that continuity crises tend to result from totally unexpected situations."

Echelon Claims Consultants stresses that the quality of claim presentation and supporting documentation is critical to a successful settlement. "Providing inaccurate or incorrect supporting documents can damage your credibility, lead to uncomfortable questioning and potentially damage the value of the settlement."

Knowing all the angles

Business interruption can occur not just through an event affecting the company's own premises but also as a result of suppliers' disruption. Actuact Ltd published in May a white paper, *Supply Chain Failure: Do You Know the Impact?*, by Actuact director Katherine Reid and Catherine Geyman, a director of Intersys Ltd. It was directed at the life sciences industries, but has some valuable messages for risk managers in all sectors.

In connection with quantification of supply chain threats, Reid and Geyman say that an organisation's dependency on any one supplier or an internal manufacturing site will be well understood by the local supply chain or procurement manager.

However, they point out that a company's financial exposure to a site or supplier, and how to consistently quantify that exposure, is frequently less well understood.

While all the information necessary to get a true picture of the value at risk for each location will be available within the business, it needs to be tracked down and extracted. The end result, say Reid and Geyman, will be that an organisation will get a good picture of:

- its key vulnerabilities across its portfolio of products, presented in order of magnitude (a hit list for action prioritisation);
- the value at risk for each location, which can be used to justify taking steps to mitigate that risk; and
- how to respond in a crisis, particularly if the key location is also used by the competition. **SR**

Bespoke protocols shed light on confusing terrain

Work done in advance of claims on road-testing policies and agreeing transparent procedures and codes of conduct can save lengthy negotiations and potential disputes after the event

WHEN YOU BUY INSURANCE, you are buying a promise to pay should a certain eventuality happen in the future. While this has been the accepted state of affairs for many years, risk and insurance managers are increasingly seeking a little more certainty, at least in relation to how that promise will work.

Jardine Lloyd Thompson partner Peter Hacker, writing in Crawford's *Guide to Contingent Business Interruption*, said that corporate customers increasingly demand industry bespoke claims protocols that satisfy their need for certainty. This view is echoed by the joint Airmic and Chartered Institute of Purchasing & Supply guide on insurance procurement. This stresses that one of the main requirements related to successful handling of claims is establishing a claims service protocol, so that all parties know the procedure before a claim occurs.

Indeed, in August 2010, the UK risk management association published its *Claims Best Practice Guide*, setting out the hallmarks of an excellent insurance claims service. The document, which follows more than two years of market consultation including several workshops, has two main functions: a tool for insurance buyers and a reference point for insurers.

Echelon Claims Consultants is one of the keenest advocates of claims transparency and the illumination that pre-agreed protocols can provide.

In respect of business interruption policies – which are notorious for causing considerable confusion – managing director Candy Holland says: "The failure to understand the subtleties of a policy wording properly can be expensive. Issues as simple as the calculation of the policy deductible, through to an additional increased cost of working clause, can provide policyholders with a challenge if the operation of these elements of the policy is not clear. We are finding increasingly that businesses are seeking claims certainty."

She continues: "Our approach for claims certainty is through stress testing the policy wording against different loss scenarios and by developing bespoke claims protocols to be agreed with insurers in advance of a loss.

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Key points

01: A protocol means that all parties know the claims procedure in advance

02: Policy wording can be tested against claim scenarios to identify gaps

03: A code of conduct can be agreed between stakeholders

04: If multiple (re)insurers are involved, they can agree to work through a representative (see case study, page 6).

'The failure to understand the subtleties of a policy wording properly can be expensive' **Candy Holland** Echelon

Getty Images

BT developed an award-winning pre-loss claims protocol with Echelon Claims Consultants

"Outputs from this process would be to identify any gaps in policy coverage, clarify policy language, consider adequacy of policy limits, and to develop claim valuation methodologies with insurers. This enables businesses to simplify, accelerate and improve the claim settlement process."

Developing an agreed claims protocol with an insurer can also help to address the treatment of any potential contentious issues specific to your business by agreeing a code of conduct of the various stakeholders during the investigation of policy liability. It would provide clarity on interim payments, agreed document bundles and a valued basis of settlement.

Holland concludes: "The key benefits derived from this process are faster settlement, clarity of process and reduced potential for dispute and litigation." **SR**

CASE STUDY: ECHELON AND BT

Echelon Claims Consultants worked with its client BT to develop a ground-breaking pre-loss claims protocol product that won the *StrategicRISK* best Risk Financing Product award in 2008.

BT needed confidence that its business interruption programme would deliver in a catastrophic loss (£250m-£500m). Such a loss was expected to have a trans-national impact on revenues and lay BT open to intense competition for its business. However, neither the insurance market nor BT's own resources appeared equal to dealing with the complexities of settling a massive claim involving BT's captive and multiple reinsurers and all their experts.

This was further complicated by the scale of BT's operation. Huge volumes of traffic, based almost entirely on electronic records, created a massive validation challenge, with as many as 40 to 50 different revenue streams per loss, and proxy data, assumptions and axioms to be used and agreed.

The likely outcome of a loss was years of negotiation and potential litigation, resulting in significant cost to all parties and reputational damage to the insurance market.

A model market solution

BT's brokers JLT and Echelon worked as a team with BT and its captive to bring together loss adjusters, forensic accountants and reinsurers' underwriting and claims teams to establish a new proactive approach.

Claim quantification methodologies (CQMs) were developed to define the data sources, assumptions, axioms and calculation methodologies that would be used in the claim settlement process and binding on all parties.

After further negotiations, two ground-breaking measures were introduced:

- the market agreed to deal through one adjusting and one forensic representative, with authority to act for the entire reinsurance panel; and
- the two experts were given delegated authority to work with BT and sign off the CQMs in advance of a loss arising.

The new framework enables all parties to understand the complexities of BT's BI exposure and retain and build knowledge once an analysis is complete. It is anticipated that, in the event of a claim, this could reduce the settlement process by much as two to three years.

Handle potential liability claims with care

Legislation covering companies' responsibilities is complex and claims are increasing. Even compulsory insurance to cover UK workers' compensation does not let firms off the hook

Key points

01: Gather all the facts before admitting liability, but keep reputation in mind

02: Insurers may be able to sue employers who have failed to meet health and safety requirements

03: A new tracing service makes searching for policies easier

04: New European product safety rules add to manufacturers' responsibilities

THE NUMBER OF LIABILITY CLAIMS against companies has drastically increased over the past few years, according to Aon: "A so-called claim culture is increasingly prevalent. Also, the amounts of the damage claims are mounting. This development is supported by legislation offering wider possibilities to individuals and companies to demand financial indemnification."

Companies need to handle incidents relating to possible liability claims with care. A general rule is: don't admit liability unless and until all the facts are known – but this must be balanced with reputational considerations, Aon warns.

Chartis European commercial claims manager Andrew Walker says: "Determining whether a company is legally liable for an incident, while at the same time trying to understand the full value of an injury or property damage, can introduce complexity to the claim enquiry process. Anticipating the steps to take in the event of a loss and agreeing those steps with an insurer ahead of time, will ease the flow of information should a claim arise."

Employers' liability

The UK requirement that employers buy liability insurance to cover injury or disease suffered by their workers in the »

INSURERS' OBLIGATION TO PAY CLAIMS

Insurers cannot refuse to pay your company compensation purely because:

- you have not provided reasonable protection for your employees against injury or disease;
- you do not keep specified records or cannot provide the insurer with information from those records;
- you have done something they told you not to do (for example, said it was your fault);
- you have not done something they told you to do (for example, report the incident); or
- you have not met any legal requirement connected with protection of your employees.

However, this does not mean that you can forget about your legal responsibilities to protect the health and safety of your employees.

For example, you must carry out a risk assessment that is suitable and sufficient, take all reasonably practicable measures to protect your employees, and report incidents.

If your insurer believes that you have failed to meet your legal responsibilities for the health and safety of your employees and that this has led to the claim, the policy may enable the insurer to sue you to reclaim the cost of the compensation.

Source: *Employers' Liability (Compulsory Insurance) Act 1969, a guide for employers*, UK Health and Safety Executive

SOME EMPLOYERS' LIABILITY CLAIM TIPS

- Report all claims/incidents likely to give rise to a claim immediately to your broker or insurer.
- Retain all evidence on any incidents, including: accident book entries, first aiders' and safety officers' reports, Health and Safety Executive documentation, photographs and/or sketch plans, security videos.
- Pass on all third-party correspondence to your broker or insurer.

Source: Noyce Insurance Solutions

course of employment is unusual in Europe. According to the *BCVA Guide to Insurance 2010/11*, the only other country with a similar system is Ireland, although cover is not compulsory there.

So-called 'long tail' employers' liability claims affecting a large number of workers, for example relating to asbestos or hearing loss, have presented problems for UK companies in the past. Factors such as mergers, acquisitions and lost paperwork made it difficult to trace the insurer providing cover at the time the initial cause of the injury occurred.

In 2011, the Employers' Liability Tracing Office replaced the voluntary Employers' Liability Code of Practice tracing service, to make it easier to find policies via a central database containing all new and renewed EL insurance policies from April 2011, policies from before April 2011 that have new claims against them, and policies identified through the previous tracing service.

Public and product liability

Product liability probably causes the most questions as regards claims actions, particularly in respect of the possible need for a product recall.

"Product liability risks are increasing for many firms, given the tendency to source components or food ingredients from parts of the world that may not have strong regulations to reduce defects," Marsh says. "An electronics manufacturer, for example, may not be entirely to blame for a defective component used in its products that was sourced from another country, but in the eyes of consumers it may be held responsible for a breach of safety."

New product safety regulation also increases liability. In the EU, recent legislation has placed new obligations on manufacturers to share information and report any product safety issues in order for recall decisions to be made. **SR**

CRITICAL QUESTIONS ON PRODUCT RECALL

- How many product recalls have you experienced in the past five years?
- Has a recall been caused by: a purposeful contamination, an accidental contamination, a tooling issue, a raw material issue, or some other problem?
- Did the recall occur in a business that was recently acquired?
- What process or mechanism do you have in place for identifying a reportable issue?
- Are all your potential risks covered by your product recall insurance? Does it cover catastrophic loss?
- What type of manufacturing processes and controls, such as six sigma and lean manufacturing, are in place in your manufacturing facilities?
- Are you on top of recent legislative changes in all the markets in which you operate/distribute?

Source: Marsh

Tackle fraud before it tackles your business

Employers' liability, public liability and third-party motor are all areas where it pays to identify and investigate dubious claims

FRAUDULENT CLAIMS RISE IN times of recession and high unemployment. While some European countries are now emerging from recession, the legacy of inflated or spurious claims is continuing.

Fraud is not just an issue for insurers. With major European companies taking high deductibles on certain classes of insurance, fraud has become a concern for risk managers as well.

As Gavin Robertson of Robertson & Co explained in an online conference call for Airmic members, risk managers need to pay attention to the likely rise in claims. "Identifying and ensuring investigation of possibly fraudulent claims at an early stage will pay," he said.

Chartis European commercial claims manager Andrew Walker says: "The key method is to put disciplined accident reporting protocols in place, and adhere to them. If an insured has such a process, then any dubious claim will have key fraud indicators that will make it stand out. For example, a liability claim would be flagged up if there are no witnesses, late reporting of the accident or medical records inconsistent with the reported circumstances of an accident."

Employers' liability

Paul Chadder of solicitors Henmans LLP confirms this view in respect of employers' liability claims. "The cause

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EU CLAIMS CHECKLIST

- Has there been a delay in bringing the claim? For example, does it refer to an alleged accident or unsafe system of work occurring months/years previously?
- Has the claimant recently been made redundant? Does this coincide with the letter of claim?
- Has the accident/injury been reported and an entry made within the accident report book?
- Was the accident reported to a supervisor? If so, can he/she be identified? In some instances, supervisors may have also been made redundant and they may be instrumental in instigating the claims?
- Are there any witnesses? If so are they still employed within the organisation?
- Are there any relevant entries in the first aid book?
- When did the claimant first report the symptoms to the GP? Copies of the GP notes are essential – they will assist in investigating causation and any possible link to the accident/system of work.
- Are there any risk assessments available to cover the activity carried out by the claimant?
- Are there any previous accidents/injuries arising from the unsafe system of work?
- Has the delay in reporting prejudiced the defendant's investigation?

Source: Henmans LLP

for concern is twofold," he says. "During a recession, redundancies can occur and this may increase the potential for disgruntled employees to submit dubious claims referring to an alleged accident or an alleged unsafe system or place of work. In addition, organisations under financial constraints may look to prioritise their workload with a subsequent reduction in their risk management activities.

Motor liability

Fraudulent vehicle-related claims alleging loss or damage can take a number of forms. Law firm Hill Dickinson says that these include:

- staged accidents;
- induced road traffic accidents;
- phantom passenger claims; and
- organised fraud rings.

Public liability

Any business that owns or occupies an area where the public has access and slips and trips can occur is particularly vulnerable to fraudulent public liability claims, say solicitors Clark Thomson. "It is important that businesses safeguard themselves as much as possible by having a well-documented system to record everything that happens.

"Every incident, however trivial, should be recorded in an accident record book and witnesses' names recorded. Take pictures of the site of any accident. The more detail taken at the time about the circumstances, the better.."

Fraudulent public liability claims can take a number of forms. Some claims may be totally fictitious, while others may relate to deliberately caused damage or injury. Perhaps more difficult to investigate and defend are misrepresentation or exaggeration of the consequences of genuine incidents. **SR**

REDUCING THE RISK OF EL CLAIMS FRAUD

- Ensure that a competent risk management system and reporting procedures are in place.
- Investigate the cause of any reported injury immediately.
- Maintain close liaison between the health and safety and first aid departments.
- Record and keep all e-mails and conversations relating to possible claims.

Source: Henmans LLP

PL DETECTION CHECKLIST

- Record any incidents that occur in an accident record book.
- Take the names and contact details of any witnesses.
- Where possible, take photographs of the location.
- Validate any information provided by the claimant.
- Train relevant staff in claim investigation techniques.
- Keep records as long as possible.

MOTOR FRAUD ALERT

Fraudulent motor claims can arise from:

- Staged accidents, which can range from straightforward opportunist rear shunts to multi-vehicle, multi-claimant paper-based incidents.
- Induced accidents, where fraudsters target innocent drivers, provoking collisions to facilitate compensation payments relating to injury damages, vehicle hire, recovery and storage.
- Phantom passenger claims arising from both genuine and staged accidents where fraudsters allege that the vehicle concerned contained a number of passengers, all of whom were injured. Frequently, the number of claimants, or their age, gender and description, does not accord with the evidence of the innocent driver.
- Fraudulent injury and special damage claims, where injuries are exaggerated and inflated with fictitious claims for loss of earnings, medical expenses, physiotherapy and the like, as well as bogus claims for credit hire, storage, recovery, repair, translation fees, and so on.

Source: Hill Dickinson

Absence of data muddies waters on workforce health

UK employees were absent from work for an average of 6.5 days last year at a cost of £553 per head. Most companies could do more to monitor and reduce these costs

ABSENCE MANAGEMENT AND proactive rehabilitation strategies for employees following injury or illness can reduce the cost of claims, as well as providing saving and efficiencies associated with faster return to work. However, European companies are still lagging behind their US counterparts in addressing absence rates.

Chartis European commercial claims manager Andrew Walker says: "A good absence management programme relies on opening lines of communication with employees who are off work, finding a balance between communicating regularly to provide support, without being overly intrusive. Staying in touch, monitoring progress, and engaging employees early about returning to work is key. Also, be prepared to be flexible. For example, an employer might offer an employee a different role that takes into account any ongoing symptoms they have."

Mercer's 2010 Pan-European survey on employer health benefits issues reveals that 65% of European companies are unable to state causes of employee absence. The reports suggests that lack of absence and health data prevents companies from mitigating risks and controlling increasing costs arising from European health reform.

According to the survey, while 82% of companies across 14 European countries measure the length of employee absence, only 35% record the causes of absence and only 27% measure the cost of absence. Twenty-nine per cent of

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KEY FINDINGS ON EUROPEAN ABSENCE MANAGEMENT

- Most employers are able to measure the duration of employee absences, although this ranges by country, from 92% of respondents from Poland to 69% of respondents from France. Other types of measurement are less widely used.
- Respondents from Italy (56%), Portugal (55%) and Ireland (52%) are the most likely to have access to information about the causes of absence, with Germany (15%) trailing.
- Measurement of the cost of absence – a more complicated and elusive value – is most common among respondents in Spain (50%), Ireland (48%) and the Netherlands (42%). Only 12% of respondents from companies in Italy and 8% in France are able to measure the cost of absence.
- In the UK, 73% of respondents monitor the length of employee absences, with 43% collecting information on the cause of absences and only 19% able to measure the cost of absence. However, it is unclear if the 19% of companies that are able to measure the cost of absence take into account the soft cost of absence as well as the direct cost. Twenty-five per cent collect none of this data.

Source: Mercer's 2010 Pan-European survey on employer health benefits issues respondents in France, 23% in Italy and 25% in the UK said that their companies don't keep any of this type of data.

"Employers need information on workforce health in order to implement effective wellness programmes that will help manage cost growth over time," says Mercer principal Paulo Fradinho.

Europe trails USA on monitoring

"In the USA, there is a clear move towards companies monitoring more closely the health of their employees with a direct impact on absence rates and healthcare costs," Fradinho adds.

"In Europe, state health systems have tended to blur that link but this is changing. The financial threat to companies prompted by European healthcare reform is very real, yet fewer than half of the survey respondents say that implementing policies to help them manage future absence levels is a priority. This should be a cause for concern for any cost-conscious business."

Fradinho points out that the cost savings from absence management programmes are not immediately obvious, so it can be difficult to gain internal support. While European companies overall have had limited success in addressing the issue, the research revealed significant differences from one country to the next in data collection and monitoring and addressing employee absence.

"HR departments in Germany and France are not permitted to see the medical causes of absence or illness, only the duration and absence pattern," Fradinho says. "It's not surprising that they rank low in terms of data on causes of absence. However, the overwhelming impression from our data analysis is that, across the region, companies fail to maintain good absence management policies."

SICKNESS MANAGEMENT CHECKLIST

- Work with your employees and their trade union representatives in developing policies and procedures.
- Train your line managers in managing sickness absence and return to work .
- Record, monitor and measure sickness absence and how you use that data at an organisational level.
- Keep in contact with absent employees and plan with them for their return to work.
- Access professional or other advice and treatment to help your employees.
- Control any risks to employees from work activities, especially those with continuing poor health.
- Put in place reasonable adjustments to enable disabled workers to continue to work.

Source: UK Health and Safety Executive

Absence rate persists

Respondents from Austria reported the highest absence rates in this year's survey, an average of nine days per employee per year. Respondents from Germany and France each reported an average absence rate of eight days. Companies in Poland and the Netherlands reported an average of seven, the Czech Republic and Italy (six days for each), UK (five days), and Ireland, Portugal and Spain (four days).

Most respondents (73%) stated that absences tended to be short, frequent absences, but 27% stated that these were absences of eight days or greater. While 20% of respondents did state that absence rates had increased over the past three years, this was balanced by 27% who stated that rates had decreased and 32% who stated that they had stayed the same.

Companies in the Netherlands (55%), Ireland (54%), Austria (50%) and the Czech Republic (42%) had the highest levels of decreased absence rates. An additional 21% didn't have the information available on which to base a response, consistent with inadequate data collection abilities.

"Many expected that the economic downturn would have decreased the number of absences as employees made every effort to prove their value to their employer," Fradinho comments. "However, respondents actually reported negligible changes to absence rates over the last three years."

The report states that 65% of companies did not know what the top three causes of absence were at their organisation. Polish companies (71%) and Italian and French companies (65% for each) showed the least amount of information about the causes of long-term absence.

Despite these figures, 66% of respondents stated that their companies have absence policies and procedures in place, yet only 45% of respondents' companies hold return-to-work interviews to assess employees' fitness for work, 54% have sick pay arrangements, 23% said their company offers attendance incentives, 55% provide case management/occupational health services, 38% offer employees access to treatment at the employers cost, 39% offer rehabilitation services and 33% include absence records in employee performance appraisals.

Early assessment crucial

"Sickness absence is not just a matter of ill-health. It is affected by a combination of the health condition, personal and work/organisational factors. The last two factors get more important the longer the absence," the UK Health and Safety Executive states. »

KEY FACTS

- Absence from work was worth 2.8% of working time in 2010 in the UK, equivalent to an average of 6.5 days per employee.
- The cost of absence amounted to £553 per employee, when averaged across the whole workforce.

Source: XpertHR UK research

TOP THREE CAUSES OF LONG-TERM ABSENCE

- Musculoskeletal (excluding back pain)
- Mental health
- Cancer

Source: Mercer's 2010 Pan-European survey on employer health benefits issues

It stresses that early intervention is key. The sooner action is taken, the better the chances are of an employee making a full and speedy return to work.

Overland Health director of rehabilitation and return to work Mark Howard says that it is important to understand the impact that an individual's absence may have on the performance and profitability of the business. "Clearly this will vary according to their position and role," he comments.

"At the earliest point, an appropriate assessment needs to be carried out on the individual to see if any interventions need to be delivered, after which the business can do a cost-benefit analysis."

This analysis should take account of the kind of claims that may be generated. "There may be an employers' liability claim, a private medical expenses claim or the incident may fall within group income protection cover, and in all these cases there can be a significant impact on the cost to the business," Howard says.

One of the problems that many businesses face is that these three types of cover are each handled by different parts of the organisation, so it is difficult to get a co-ordinated approach. Howard stresses that having a proactive absence-tracking process is critical to the success of building rehabilitation and return-to-work strategies.

"The aim should be to develop a proportionate approach for each case. Businesses do not want to incur heavy front-end costs if these are not really necessary, but they will want to take appropriate measures and provide interventions proportionate to the cost of the absence," Howard says.

> *'Good absence management benefits the company's bottom line and helps control costs'*
>
> **Mark Howard** Overland Health

Benefits of forward thinking

Not all companies take a purely commercial approach. Many will go to considerable lengths to help employees, for example providing an adapted work environment where necessary. In some cases, says Howard, where employees are unable to return to their former or a suitable replacement job within the organisation, forward-thinking companies may even pay for assistance to help that person find another job.

"Good absence management benefits the company's bottom line and helps control costs while the provision of private medical cover helps with employee satisfaction and engagement. While the cost benefits can be difficult to calculate, it is a worthy exercise, as the whole company benefits," Fradinho concludes.

"Despite the obvious flaws in company absence management methodologies, the future looks unlikely to see any major change," he says. "The irony here is that while companies acknowledge that these areas can deliver a benefit to their bottom line, few of them have the systems in place to be able to effect real change." **SR**

What price reputation the morning after?

Brand name, public standing and profitability are vulnerable after a crisis involving losses and claims. Recovery requires much more than a PR exercise

Losses and claims have the potential to damage corporate reputation, even more so if they are badly managed. Problems are most likely to arise where the incident causes actual or potential injury or financial loss to members of the public – and that can arise from a number of different causes.

Aon says that companies need to handle incidents relating to possible liability claims with care. The general rule of not admitting liability unless and until all the facts are known has to be balanced with reputational considerations.

"In the case of major incidents that receive widespread publicity, it may be better to admit potential liability with the proviso that all facts are not yet at hand than to categorically deny responsibility – and then have to backtrack at a later date," says the broker.

Marsh points out that a product recall can devastate a company's brand name and profitability. "No matter what its size, industry, location, or reputation, a company can be left in ruins if it does not manage a product recall well."

No place to hide

Recent history shows that even the largest companies are not immune from reputational damage.

Reputation and crisis management consultancy Reputability chairman Anthony Fitzsimmons comments: "Classic risk management and

»

RECENT REPUTATIONAL CRISES

- **Sony Corporation (hacking and theft of customers' information, May 2011).**
  Information security expert John D'Arcy, assistant professor of information technology management at the University of Notre Dame, Indiana, says: "Sony has become the laughing stock of the hacking community. Sony's damages total more than $172m (£108m), which really speaks to the fact that security is no longer simply a technical issue that should be delegated to IT personnel. It has become a general business and risk management matter, which should concern management at top levels of the organisation. Right now, Sony is suffering from major financial and reputational damage."
- **BP (Deepwater Horizon oil spill, April 2010).**
  BP's reputation might not have been hammered so hard following the Gulf of Mexico oil spill if the fire and explosion that occurred at its Texas City refinery in 2005 was not still fairly fresh in US minds. As it is, BP's recently announced annual results show a loss of $4.9bn (£3bn), and the Gulf crisis has cost it $41bn (£26bn). The reputational impact has been huge.
- **Toyota (recalls and product defects 2009-11).**
  Faulty accelerator pedals led to a massive recall in 2010 by the world's biggest car maker. Reports said that it was "fighting for its reputation".

CREATING A PRACTICAL CRISIS MANAGEMENT FRAMEWORK

- Integrate your company's existing contingency plans and lines of communication.
- Identify the members of a crisis management team and their duties and responsibilities.
- Provide the required focus for an effective, co-ordinated response.
- Devise exercises to validate plans and improve staff training and awareness.

Source: Insight Consulting

'Even state-of-the-art risk management and enterprise risk management miss large and important areas of risks to reputation'

Anthony Fitzsimmons Reputability

RISK PROFESSIONALS MUST EXTEND ROLE

- The scope, purpose and techniques of risk analysis and management will need to be re-thought in order to capture risks … that are not routinely covered by current approaches.
- Risk professionals may need to extend their skills so that they become competent to identify, analyse and discuss risks emerging from the ethos, culture and strategy of their company and the activities and behaviour of their leaders.
- The role and status of risk professionals will have to change so that they can safely evaluate, report and discuss all they find on these underlying risks at all levels, including at board level.
- Boards, and particularly the chairman and non-executive directors, need to recognise the importance of risks that are not captured by current approaches – they also need to focus on how to ensure missing risks are captured.

Source: *Roads to Ruin, a study of major risk events: their origins, impact and implications*, by Cass Business School on behalf of Airmic, sponsored by Crawford and Lockton

enterprise risk management were not designed to find reputational risks. Even state-of-the-art risk management and enterprise risk management miss large and important areas of risks to reputation. The lacuna is made worse because these traditional approaches do pick up some risks to reputation, lulling many practitioners into a false sense of security."

"Some companies are beginning to see their reputation as the valuable strategic asset it is," Fitzsimmons adds. "However, few have developed a systemic approach to identifying risks to reputation, let alone an approach to management of reputational risks that goes much beyond crisis and PR planning."

Sustainable foundations

With many reputational risks in exceptionally sensitive areas and potentially involving senior management, reporting on them could be career-threatening in some companies.

Fitzsimmons comments: "Finding these risks needs a degree of independence and confidentiality similar to that needed for an effective review of a board's inner workings. Reporting them safely needs delicacy if leaders are to absorb and act on what may not be welcome news.

"The challenge for companies is to build strong reputational foundations that will make their reputation sustainable through bad times as well as good. If possible, this should be done before a crisis strikes.

"The biggest mistake is to think 'this is a PR problem'. It isn't. You have to fix the fundamentals."

People are more inclined to forgive a company that hits the headlines with a potentially damaging event if it has already established a good reputation. But it will need to manage its way out of the crisis – being seen to manage a crisis well is essential.

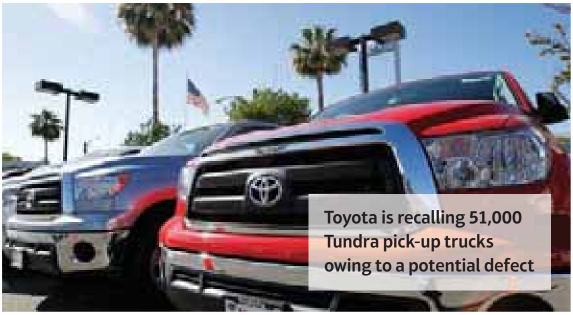
"The way a crisis is managed determines the future of a brand, a whole organisation even," crisis management consultancy Insignia states. "Make a mistake at that time, and a reputation built up over decades, can be destroyed in seconds. Get it right and that reputation can be protected, enhanced even."

Be prepared

Insignia cites research conducted by the University of Sheffield, which shows that effective preparation not only provides the necessary crisis handling tools to successfully manage an incident, but also reduces the likelihood of a crisis happening in the first place.

"That's because the preparation process identifies and addresses existing flaws, encourages early warning of crisis potential and provides tools to halt the crisis incubation process."

Insignia communication consultancy director Jonathan Hemus says that BP and Toyota are living proof that a mishandled crisis causes long-term damage to a business's reputation.



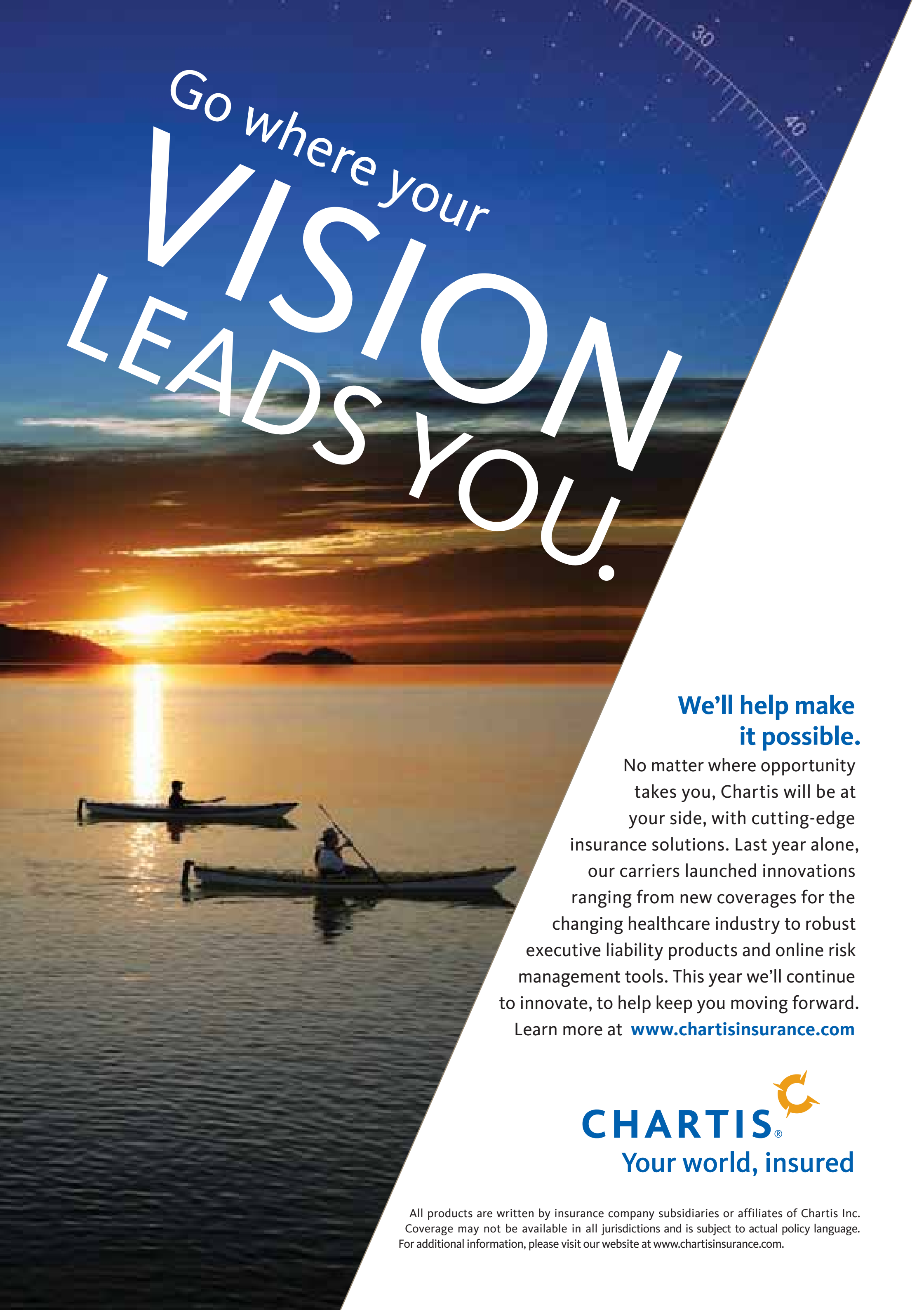
Toyota is recalling 51,000 Tundra pick-up trucks owing to a potential defect

'No matter what its size, industry, location, or reputation, a company can be left in ruins if it does not manage a product recall well' Marsh

"It's not just the enormous drain on management time and the cost of putting an incident right in the short term," he says. "It's the after effects that linger and taint a business for months, sometimes years."

"Taking steps beforehand to minimise the potential for crisis is essential," Hemus adds. "Thorough reputational risk assessments, proper crisis management and crisis communication plans, media training, tests and rehearsals and, crucially, a culture that encourages the identification and resolution of potential problems must all be embraced if businesses are to properly protect their reputation."

Safeguarding reputation makes sound financial sense. According to Reputability, the reputation of a well-regarded company can easily account for as much as 40% of its market capital, much more if it is asset-light or heavily leveraged. To say the least, that's a lot to lose. **SR**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