

If Safety Pays, Where's the Money?

By Jay Johnston

Safety can be like an attention-starved child. Difficult to satisfy and yet impossible to ignore. What are we going to do about safety?

The whole premise is to spend money and resources to prevent accidents and if we are truly successful we get to keep what we have. Say what? How much is this going to cost?

It all comes down to one word: **INDEMNIFICATION.**

Webster's defines *Indemnity* as *security against hurt, loss or damage* and *to make compensation for hurt, loss or damage.*

Why do you need insurance? **To indemnify your company against compensable claims and to act as security against liability issues.**

The squeaky wheels in the process are currently related to legislated mandates like OSHA, Workers Compensation and DOT regulations. Compliance issues one and all.

Other squeaky wheels in the safety process are compensable liability claims.

Where's the money? It's in the indemnification.

In buying insurance you are transferring the risk. The cost of that transfer of risk is market driven and usually tied to your loss record. In other words: Has your premium to claims/expense ratio been profitable?

If you're a one of the few "big" companies, your insurance issues are different than those of smaller companies. You indemnify your own security and compensation liabilities through either partial or total self-insurance. You may buy aggregate limits, but you know the law of large numbers and they can mostly work in your favor. Your capital capacity for risk is a formula and most of your insurance issues are simply audited financial transactions. However, your common tie to safety is still profitability.

If you are a small to medium company, transferring the risk with the purchase of first dollar coverage can make good sense. As long as the rates are competitive and the costs don't drive you out of business. Those softer insurance dollars are cheaper than keeping a million dollars in the bank. (Five million if you exceed 3500 water gallons or are involved with Interstate Commerce under DOT regulations in most states.)

The indemnification liabilities associated with Workers Compensation are designed to protect both the worker and the employer. For the most part, employers and employees are protected under the law from indemnification exceeding mandated limits. If you are big enough and have solid control of your work environment, you can consider a self-funded program.

However, when it comes to general liability or business auto liability in a low frequency/high severity environment like the Propane Industry, there are few secure limitations.

How much coverage should you buy? How much is enough? In mixed company I have heard business owners stated categorically, “If we lost a big liability claim, we’d leave the keys on the table”. Meaning some injured party or estate or trust could receive a judgment against your company in excess of your insurance limits and /or the value of your company.

If you have trouble understanding what that looks like;

- **Visualize a farm foreclosure auction.**
- **See your competitors buying your hard earned business from some liquidator for pennies on the dollar.**
- **Imagine your stockholders stripped of their equity.**
- **Imagine working for your competitor.**

These visualizations are all attention getters. Are they getting your attention?

If safety pays, where is the money? Some of the money is the investment you make in your company everyday. **Your well-trained employees, your equipment, your customers all represent assets worthy of protection.**

Is your company *Protection Worthy?*

To adequately answer these questions and more; sometimes you need fresh eyes and ears to evaluate your options and your strategies. You might consider hiring an independent consultant who can coordinate such efforts to help you better understand where the money is and how to protect it.

More importantly, you will come to *visualize* the many ways that **safety pays.**

Jay Johnston (www.TheSafetyLeader.com) is an aggressive insurance consultant, leading safety coach, enthusiastic speaker and nationally recognized safety writer, who designs and implements cutting edge risk management programs for businesses that want to prevent costly “insurance” surprises. You can contact him at (952) 253-2710 or Jay@TheSafetyLeader.com.