



Summary of the report on Economic incentives to improve occupational safety and health: a review from the European perspective

Introduction

Economic incentives in occupational safety and health (OSH) refer to processes that reward organisations which develop and maintain safe and healthy working environments. These processes may include, for example, linking the OSH performance of an organisation to fiscal incentives such as lower insurance premiums or tax rates. There is rising interest in such economic incentives as instruments to motivate organisations to invest in OSH, because regulatory enforcement alone is often not sufficient to persuade them of the importance of OSH. Economic incentives can complement regulatory dictates as they stimulate organisations at the financial level and thus add weight to the business case for good OSH in a way that is clear to company managers across all Member States.

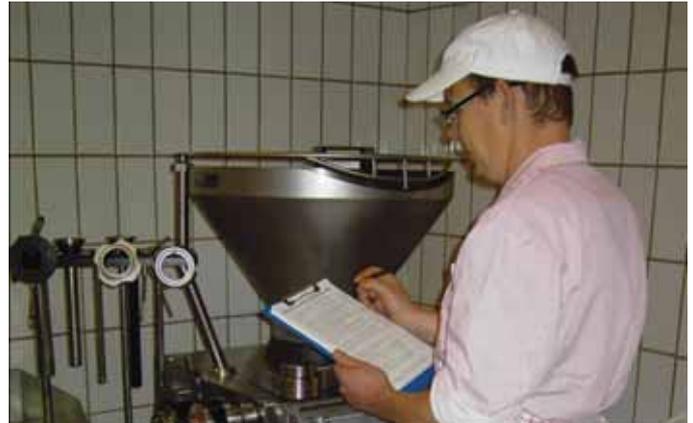
The community strategy on health and safety confirms the role of economic incentives as levers for raising awareness and complying with legislation. As the strategy states:

The development of awareness may also be reinforced, particularly in SMEs, by providing direct or indirect economic incentives for prevention measures. Such incentives could include a possible reduction in social contributions or insurance premiums depending on the investment made in improving the working environment and/or reducing accidents, economic aid for the introduction of health and safety management schemes, introduction of health and safety requirements into procedures for the award of public contracts. (*A new Community Strategy on Health and Safety at Work 2007-2012*, European Commission, Brussels, 21.01.2007, COM(2007) 62 final.)

This report includes a literature review on economic incentives, a policy overview about their application and a collection of case studies giving details of the successful implementation of such incentives in various European countries and across a wide range of sectors.

Literature review on economic incentives

Overall, there was a strong argument for the benefits of economic incentives arising from sources outside a company to improve occupational health and safety. This finding is tempered by methodological difficulties in evaluating the effectiveness of various incentive schemes, and it was suggested that further research is required to clarify ambiguous results in the research literature.



Economic incentives questionnaire completed by a butcher master (photo by courtesy of FBG, German Social Accident Insurance Institution for the meat-processing industry)

With regard to the enforcement of economic incentives, specific deterrents were found to have a significantly higher impact upon sick leave than more general deterrents. However, the effectiveness of specific government (external) incentives was not always clear. Findings included that: (1) Tax reductions can be effective in helping an organisation invest more in OSH. This type of incentive can, obviously, only be effective for organisations paying corporate tax. (2) Linking economic incentives to audits/intervention programmes was another promising way of improving OSH. (3) Matching funds – where governments provide a grant proportional to the amount of money spent by an organisation on workplace health – are a potential method to improve OSH. This type of economic incentive has high administrative costs for both the organisation involved and the government.

Insurance-related economic incentives were an effective way to motivate organisations to invest in OSH. Evidence suggests that economic incentives alter employees' behaviour or incident rates in organisations. There has been a reasonable amount of research regarding experience rating in worker's compensation, which usually consists of a bonus-malus system for insurance premiums based on the individual accident rates of a company. The literature review analysed several research papers about the effectiveness of experience rating and found at least moderate evidence that it reduces the number of insurance claims.

Policy overview on economic incentives

Regarding the basic criteria of social insurance systems and worker's compensation approaches there are not very many differences in Europe. Most countries designed their social

security system in the Bismarckian tradition and the accident insurance institutions are based on a state-run monopoly. There is a significant group of countries with a competitive market in a Beveridgean system and two smaller groups of countries with mixed forms. So the variety of different accident insurance and social insurance systems is fairly limited regarding basic criteria, even though there are probably many more differences in detail.

These differences between countries and economic incentive schemes naturally have an influence on the potential transferability of incentive models in OSH. Subsidy systems, tax incentives and non-financial incentives should be theoretically possible in all EU countries. Experience-rating approaches can be found in both competitive and monopolistic markets. However, there are differences when it comes to the funding of future-oriented prevention efforts, such as training or OSH investments. This should be no problem for monopolistic approaches, because the insurance company can be sure it will benefit from the positive effect that investments will have on the claims rate. In a competitive market, however, the insurance company runs the risk that enterprises could change their insurance provider at short notice and therefore investments in prevention efforts could benefit its competitors rather than the original insurer. A possible solution for competitive markets could be the introduction of long-term contracts over several years or the creation of a common prevention fund which is financed equally by all insurers.

Nearly all larger EU Member States are rather active in offering economic incentives. Germany, France, Italy and Poland all offer various incentives through their public insurance system, often not only insurance premium variations, but subsidy programmes for specific investments in OSH as well. In Spain insurance incentives are planned in the national OSH strategy and a great variety of OSH subsidy programmes is offered on a national as well as regional level. Of the smaller Member States Belgium, Finland and The Netherlands are the most active, showing that economic incentives are also possible in private accident insurance systems.

All in all the overview shows that economic incentives can be offered in all Member States, regardless of their social security system traditions or whether the accident insurance system is private or public.

Case studies

The collection of case studies shows that economic incentives can be effective in a great variety of settings in order to promote OSH. All incentive schemes presented have been managed efficiently and undergone some kind of evaluation. In six case studies we even have quantitative indicators for positive effects on the working conditions for the participating companies:

- In the German butchery sector participating enterprises have seen an over 25% drop in notifiable accidents since the introduction of the incentive scheme in 2001.
- In the Finnish agricultural sector the accident rate dropped by more than 10%.
- Of the Polish enterprises that introduced a funded OSH management system, 70% had fewer accidents and lower insurance premiums, while 50% reported fewer workers working in hazardous conditions.
- The Italian Workers' Compensation authority subsidises bank credits to stimulate OSH investments in SMEs; participating companies had 13-25% fewer accidents than comparable enterprises.
- In a German health insurance incentive scheme sick pay and absenteeism decreased significantly when enterprises introduced a modern health management system.
- The Dutch subsidy programme for investments in new OSH-friendly machinery and equipment led to better working conditions in 76% of enterprises (40% of employers said that the new equipment was highly beneficial, 36% that it was reasonably beneficial).

Success factors for economic incentives

Summarising the three parts of the report the following success factors could be identified:

1. The incentive scheme should not only reward past results of good OSH management, i.e. past accident rates, but should also reward specific prevention efforts which aim to reduce future accidents and ill-health.
2. The incentive scheme should be open to all sizes of enterprises and pay particular attention to the special needs of SMEs.
3. The incentive should be high enough to motivate employers to participate.
4. There should be a clear and prompt relation between the desired prevention activity of the enterprise and the reward.
5. The incentive system should have clear awarding criteria and should be designed to be as easy to use as possible, in order to keep the administrative burden low for both participating enterprises and incentive-offering organisations.
6. If the incentive needs to target a large number of enterprises, insurance or tax-based incentives with precisely defined criteria are most effective (closed system).
7. If the desire is to promote innovative solutions for specific areas, subsidy schemes are most effective (open system).

For more information

More information on OSH and economic incentives is available at: <http://osha.europa.eu/topics/business>

More information on OSH and economic incentives in Ireland, Malta and the UK is available at: <http://www.hsa.ie>, <http://www.ohsa.org.mt/>, <http://www.hse.gov.uk/>

European Agency for Safety and Health at Work

Gran Vía, 33, 48009 Bilbao, SPAIN
Tel. +34 944794360, Fax +34 944794383
E-mail: information@osha.europa.eu

