

The Management of Occupational Hazards by Workers' Compensation Mutual Insurers

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FREMAP

«The development of occupational accidents and sickness insurance is a consequence of the existence of a single premium rate for all companies, which has encouraged competition based on service instead of competition based on premiums».

Workers' compensation and occupational sickness mutual insurers working within the social security system are business partnerships set up to work together on work-related risk management. They are non-profit organisations in which the partners have shared liability. Operating within the regulatory framework of the Spanish social security system, they represent the key point of reference for the involvement of private initiatives in the management of the public social welfare system.

KEY FIGURES RELATED TO WORKERS' COMPENSATION MUTUAL INSURANCE

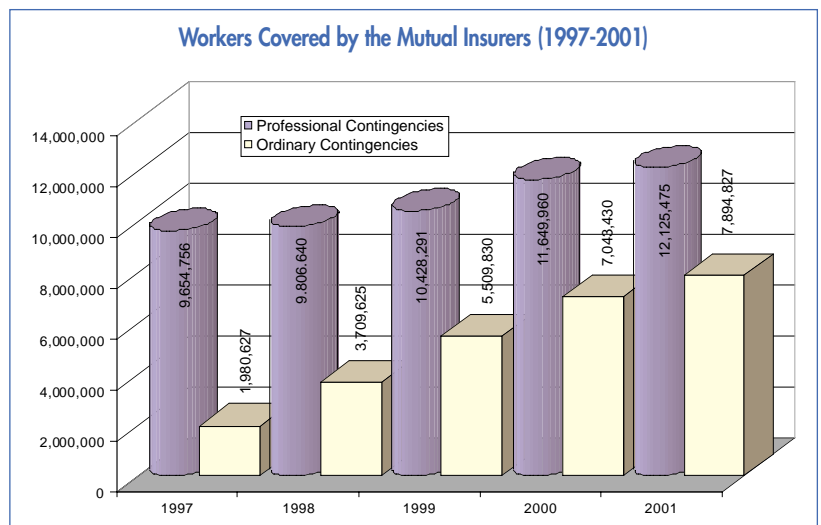
According to data released in 2001, the sector as a whole, which is made up of 29 mutual insurers,

provided cover for 12,125,475 workers, accounting for approximately 94% of those registered with the Social Security system who are susceptible to being insured, having recorded contributions to the value of EUR 4.664 billion. During this period, 2,267,959 accidents working the workplace were processed, of which 959,858 involved sick leave, with the remainder returning to work on the same day as the accident. The mutual insurers also dealt with 25,351 cases of occupational sickness (see Graphs 1 and 2).

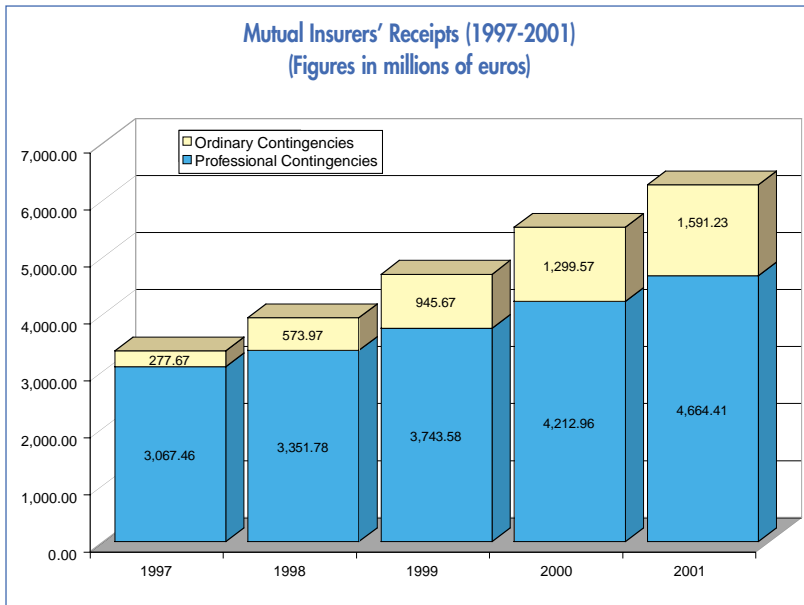
The number of workers employed by the mutual insurers was 21,778.

HISTORICAL BACKGROUND

The origin of mutual insurers dates back to 1900, no doubt spurred on by the enactment of



Graph 1



Graph 2

the Occupational Accidents Act on 30 January of that year, known ever since as the “Dato Act” (after the man who developed the legislation, Eduardo Dato, who was the chairman of the Spanish Cabinet of the day). Nowadays, however, as mentioned above, the legal framework of reference is the General Social Security Act, the revised text of which was approved by Royal Legislative Decree No. 1/1994 (20 June).

PHILOSOPHY OF THE MUTUAL INSURERS

The field of action of the mutual insurers has not been limited to merely complying with legal obligations, but rather has always been one step ahead, covering whatever was needed to provide the best possible service at any given time. It should be borne in mind that mutual insurers have always operated under a free-competition arrangement, first—before the 1966 Social Security Act—having to compete with stock insurance companies in what was then known as Accidents in the Workplace Insurance, and subse-

quently competing with each other as well as with the management agency of the public system, formerly known as “mutual employment insurance companies” and now the National Social Security Institute.

Stimulated by free competition, the mutual insurers have always had an “integrated approach to the handling of accidents at work”, which involves “*the coordinated application of all available preventive, healthcare, reparatory and recovery techniques to combat work-related risks and their physical, mental, social, human and economic effects.*” This definition thus implies an all-encompassing approach to treatment, which, if it is to be fully effective, must be dispensed by a single agency.

We will now look at some of the key aspects of the definition of the integrated concept of work-related risks:

Prevention

Taking as their starting point the firm conviction that all accidents at work can be avoided, mutual insurers have included preventive training, research in-

to the causes of accidents, technical advisory services and awareness-building on preventive measures as a services included in their members’ insurance premiums.

The main disciplines involved in the prevention of risks at work where the mutual insurers have acted include:

- *Safety*: Technical prevention of accidents at work.
- *Industrial hygiene*: Technical prevention of work-related illness.
- *Preventive medicine*: Adapting people’s physical capabilities to their jobs.
- *Ergonomics*: Adapting jobs to the people who will do them.


In order to carry out these tasks, at the end of the 2001 financial year the mutual insurers had 5,901 employees working full-time on health and safety at work.

Healthcare

Whenever an accident at work or work-related illness occurs, specialised healthcare must be provided close to the scene of the accident in order to minimise the physical consequences of the accident. The use of rehabilitation techniques is a determining factor in this. At the end of the 2001 financial year the mutual insurers managed a healthcare network of their own that consisted of 919 clinics and 23 hospitals.

Professional re-adaptation

Notwithstanding the above, with some serious accidents, once all the options for medical treatment have been exhausted, certain consequences remain in the form of different degrees of disability. As a result, regardless of the financial compensation to which accident victims may be entitled, they must voluntarily begin a process of professional



re-adaptation to enable them to start a new job. This calls for the involvement of a multi-disciplinary team of professionals (doctors, rehabilitation specialists, social workers, psychologists and vocational training monitors), who assess accident victims' capabilities and the circumstances of the jobs market in order to provide them with guidance and training for a new profession. If the company where the accident occurred participates in the whole process, the reinsertion of workers is sure to succeed.

PREMIUMS RATE

The premiums rate is fixed by the Ministry of Employment and Social Affairs (contributions are treated as public payments), and its application is compulsory for all mutual insurers and the management agency (the National Social Security Institute). It is applied according to the job being done by the worker and the salary earned. It should be noted that the applicable tariff does not depend on the company's general business, but rather on the specific duties of each worker. Thus, for example, the applicable rate for most hotel workers will be that of the catering category (a rate of 1.35% of the salary earned), but a hotel will probably also employ administrative staff (0.99%), gardeners (4.1%) and maintenance personnel for the building and facilities (7.6%). The average rate for all the mutual insurers as a whole is around 2.65%.

The General Social Security Act, the Collaboration Regulations for the mutual insurers and other supplementary rules provide for the possibility of applying discounts or surcharges according to the company's accident record and the risk prevention measures implemented, although in practice this has not yet been implemented.

However, in answer to considerable concern about accidents at work and pressure from involved social parties, the current Minister of Employment and Social Affairs has made a public reference to the restructuring of the current premium rate (which has been in force since 1979) and the immediate implementation of a "no-claims bonus" system, although its scope and the mechanisms of how it might work have yet to be announced.

It is generally felt that the launch of this system will be be-

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neficial, since it will contribute towards reducing the number of accidents at work and build awareness among employers and employees of the need to implement and apply effective preventive measures. However, finding the most appropriate model is clearly no easy task, as demonstrated by the major differences between the systems in different countries where it has already been applied.

Finally, it should be remembered that the development of occupational accidents and sick-

ness insurance is a consequence of the existence of a single premiums rate for all companies, which has encouraged competition based on service instead of competition based on premiums (which tends to limit insurance to simple compensation for injuries).

REINSURANCE

Compulsory reinsurance is in place, whereby the mutual insurer covers 28% of a portion of the premium (about 45%) and the reinsurer—the General Social Security Treasury—repays the mutual insurer 30% of the regular compensation payments arising from risks of disability, death and survival (i.e. disability, widows' and orphans' pensions).

It is also possible to take out optional excess of loss reinsurance for the same kind of compensation as that referred to in the previous paragraph, the value of which is fixed according to the retention threshold and the risk level of the mutual insurer's portfolio. This reinsurance, which covers the excess compensation over and above the retention threshold for each individual or group accident, is basically a pool composed of the 29 mutual insurers and administered by the General Social Security Treasury, with each financial year being paid with a five-year delay, the rebates or carry-overs applicable to each mutual insurer being based on the accident rate of the pool as a whole.

NEW PERSPECTIVES FOR MUTUAL OCCUPATIONAL ACCIDENT INSURANCE

The confidence placed in the mutual insurers by employers and employees, together with efficient management, has led them to expand their field



of action to cover two new areas:

- Management of financial benefits for temporary disability arising from common illness and non-work-related accidents.
- Acting as an external prevention service for their members.

Although the first of these activities falls somewhat beyond the scope of this article, it is worth mentioning here that since its launch in June 1996 the growth in the covered population has been quite spectacular, as employers have placed their confidence in the mutual insurers to reverse a trend for increasing levels of absenteeism (the reasons for which lie in causes other than that of work-related causes). This management, however, is not without its difficulties, because mutual insurers manage a service whose duration—the patient's hospital admission and discharge—depends on the public health services, although proposals have been put forward to change the rules to provide mutual insurers with greater powers to control and monitor illness and non-work-related accident cases, which will help towards achieving a kind of management with greater added value.

Of somewhat greater relevance is the mutual insurers' role as an external prevention service. Article 32 of the Prevention of Risks in the Workplace Act (No. 31/1995; 8 November) provides that mutual insurers may perform the duties corresponding to prevention services for their members.

Under this legislation an organisational model for the prevention of risks in the workplace is implemented, which the company—depending on its size—must undertake using its own resources or that it may contract with outside prevention services. The following disciplines are included in preventive action:

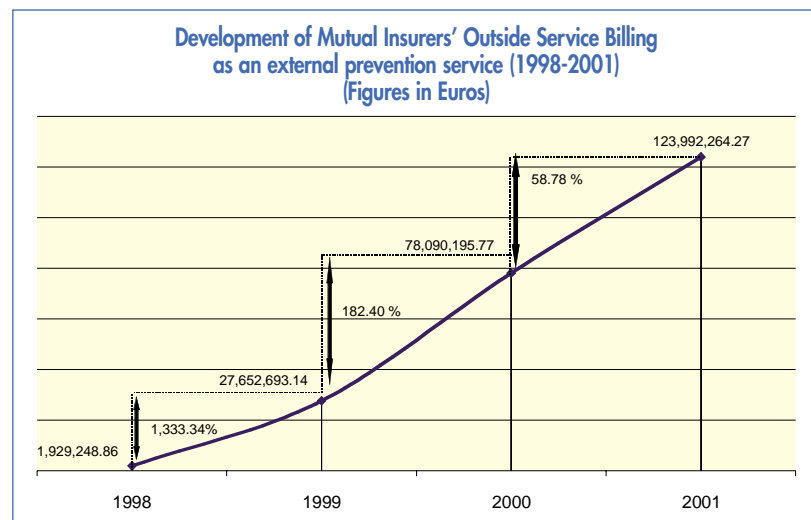
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- Occupational Medicine.
- Safety at work
- Industrial hygiene.
- Ergonomics and applied psycho-sociology.

The mutual insurers, bound by the same rules as specialised prevention services, have had to go through a process of approval by the relevant employment authority, whereby they were required to prove that they have sufficient human and material resources to assign to their prevention-service tasks. In practice this approvals process lasted until late 1997, so the effective launch of the new business occurred in early 1998.

The option that the mutual insurers now have under the Prevention of Risks in the Workplace Act to operate as outside prevention services is based on their own past experience in prevention work charged to work accident contributions, as a key part of the services rendered to those they insure. The extraordinary increase in revenues (see Graph 3) during the 1998–2001 period (which has continued in 2002) is the logical consequence of the confidence that employers place in their mutual insurance firms, who are aware of the risks to which their workers are exposed and propose suitable measures to avoid accidents working the workplace and work-related illness.

Finally, it should be pointed out here that (i) mutual insurers have the option of deciding whether to act as an outside prevention service or not; (ii) the resources generated are not treated as public income; (iii) it is a necessary supplement to their preventive business charged to contributions (all 29 mutual insurers have been granted approval to operate as prevention services); and (iv) its management calls for techniques other than those of insurance, being more akin to those used by consulting firms. ■



Graph 3