Managing work-related road risks

A strategic must-have

Zurich Risk Engineering

"Whether your focus is to protect your people, your assets or your bottom line – managing fleet risk is a strategic imperative."

Mervyn Rea, National Relationship Manager, Risk Engineering, Zurich Australia

Contents

Moving fleet risk management from an operational activity to an integral part of enterprise-wide risk management.

Why manage work-related road risks?

Managing work-related road risks is generally not at the top of most risk managers' agendas – this booklet sets out to change the view that it's not a strategic issue, and highlights some of the business benefits that are realised when fleet risks are managed effectively. There are four fundamental reasons why organisations should manage work-related road risks.

1. Minimising the risk of harm

In 2013, 1193* people lost their lives in vehicle collisions in Australia. This is the equivalent of four Airbus A330-200 crashes per year. In general, road trauma in Australia accounts for 1.7% lost GDP annually, or $785 for every man, woman and child in Australia each year **.

For a driver covering 40,000 km per year, the chance of them dying at work every year is 1 in 8000. This is similar to someone working in mining or quarrying (1 in 7500) and significantly higher risk compared to someone working in construction (1 in 10,000) or agriculture (1 in 13,500).

There is a significant risk that they will be involved in a collision in which they injure themselves, passengers in their vehicle or other road users.

These figures suggest that driving is probably the highest risk activity that any of your employees undertakes on behalf of your organisation.

- Asia Pacific accounts for 16% of motor vehicles globally, and yet is responsible for 44% of the global road fatality toll.†
- The rate of road traffic deaths per 100,000 of population is 18.5 in the Western Pacific and South East Asian region, compared to 10.3 in the European region. In Australia, the rate is 6.1, compared to the UK, where it is 3.1.†

* *Source – Road Deaths Australia 2013 Statistical Summary; Department of Infrastructure and Regional Development.*

** *BITRE (Bureau of Infrastructure, Transport and Regional Economics).*

† *Source – World Health Organisation.*

2. Legislative compliance

The legal environment will vary depending on where you operate, but will include vehicle and state specific legislation, and may also involve complying with Health and Safety legislation where the vehicle is considered an extension of the workplace.

Complying with existing legislation can be challenging to manage for any organisation, especially when there are employees driving in different countries; perhaps when travelling on business in New Zealand, Asia, or Europe and the USA. You need to be aware of the local vehicle legislation as well as any country-specific driving and, where applicable, Health and Safety legislation.

3. Corporate Social Responsibility (CSR)

All large companies take their CSR very seriously. From a work-related driving perspective, this relates to the moral issue of not harming your employees, but also not harming 'those not in your employment' – members of the public (who might also be your customers) who may be affected by your operational activities. It will be clear from the statistics in the previous section that the most likely way that any of your operational activities will harm an employee or a member of the public is from driving.

There is another aspect to CSR that will become increasingly important – that of the safety-environmental synergies. Many of the things that you can do to effectively manage risk have a positive environmental impact. Eliminating journeys is an obvious example of something that is both safe and environmentally positive, but there are many other initiatives that will result in employees driving safer, and safer drivers use less fuel. We will all have to manage our carbon footprint more effectively in the future – effectively managing work-related road risks will make a significant contribution towards this initiative.

4. Minimising financial loss

The previous points are all important reasons why an organisation should want to manage work-related road risks effectively, but the most compelling argument for most companies will probably be the financial one.

The International Loss Control Institute (ILCI) say that for every A$1 paid out by an insurance company there are A$8 to A$53 in uninsured losses, depending on the severity of the collision. This means that whilst most people focus on the cost of the premium and any excess/deductibles, the far bigger financial implications are the hidden costs associated with every crash. But what are these uninsured losses/ hidden costs?

The biggest hidden cost is absenteeism, and the knock-on effects of this. If someone is absent from work, even for a short period of time, they are not doing what you pay them to do, and this will have a cost associated with it to the business as a whole. For longer periods of absenteeism, the situation will be much worse – take the example of someone working in sales:

If they are not at work, their existing customer base is not getting the level of service it expects, the implication being that they are more likely to switch to the competition. They are also not closing new business when they are absent, so sales targets are less likely to be met which has an implication on the budget. For longer periods of absence it is likely that their territory will be covered by a colleague. They will not know the customer base as well, so the level of service will not be as good, and their own customers will suffer from a reduced level of service. The colleague's stress levels are likely to increase (because they effectively doing two people's jobs) which increases the chance that they could suffer stress-related illnesses – this is a vicious circle and will lead to significant financial losses in any organisation.

There are, of course, lots of other uninsured losses and hidden costs, depending on the nature of your business. These could include lost productivity, late deliveries, brand damage and loss of reputation, legal costs, agency fees, administration time – the list goes on and on. When you think about the financial implications of a collision in these terms it becomes quite easy to understand the ILCI figures. Using a conservative estimate of these uninsured losses of 4x the cost of the claim, and the following assumptions:

Average claim cost – A$1500

Estimate of uninsured/hidden costs – A$6000

Collision rate – 25 %

Profitability (Return on Sales) – 15%

These figures show that for every vehicle on the fleet, not just those involved in a collision, the business has to generate A$10,000 of revenue to fund the uninsured losses associated with the collisions it is having. Of course, if the collision rate is higher or the profitability is lower, then this figure will be even higher.

Some organisations go one step further, and work out how many of their main product or service they have to sell in order to be able to fund these uninsured losses associated with the collisions they are having.

According to Nestlé, in order to fund the uninsured losses that are associated with their European fleet's annual* collisions, they have to sell 235,000,000 KitKat®s. This makes the issue very real for everybody in the business, and senior managers and directors can start to see that road collisions are, actually, a strategic risk.

*2006

These four fundamental reasons cause concern to senior managers and directors who will all, to some extent:

- worry about their employees being harmed at work
- worry about appearing in court
- want to take their moral obligations seriously
- be motivated by saving money.

How to manage fleet risks effectively – the sustainable way

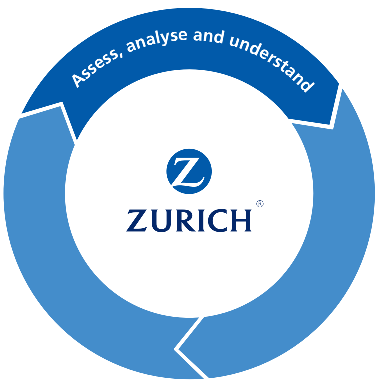
Zurich's recommended risk management process

It is important to manage work-related road risks in the same way as you would manage any other risks in your business, and the fundamental starting point is to use a proven risk management process.

This may seem obvious, but many organisations who have tried to reduce their collision rate have not followed any recognised risk management process and, as a result, have not seen any sustainable reduction in their collision rate.

The first and fundamental part of any risk management process is to assess, analyse and understand the risks faced.

Assess analyse and understand



There are three areas of risk to analyse:

1. Organisational risks

These are the risks that arise out of an organisation's everyday operating practices and procedures. This involves understanding the fleet and driving policies and procedures and how they align with the operating practices and procedures. Every business will have a different risk appetite and operating needs, and it is looking at whether the driving and operating practices and procedures create the safety-operational balance that is right for the business.

Getting the balance right, and having the correct management systems in place, is never easy and will involve compromises, and often requires changes to the operating practices and procedures to create an environment in which employees can drive safely, should they choose to do so.

This has to be the starting point for any work-related road risk management initiative, as until this is right, and a relatively safe working environment has been created, any efforts at improving the safety of an individual driver are unlikely to be successful, as they will still be operating in an unsafe working environment.

2. Proven risks

These are the risks that have already resulted in a collision occurring. You need to carry out an in-depth collision analysis on all your collisions, including any that have occurred when an employee was using a non-owned or leased vehicle at the time of the collision.

This will involve gathering additional data about each collision over and above what is collected by your insurer, as this will be required to determine the root cause or causes of each collision. This may involve interviewing drivers and, for serious collisions, a thorough investigation of the circumstances both at a driver and also a management level. Root cause analyses should also be carried out on all collisions that fall outside of your insurance scheme (eg. where third party only cover is in place, all 'accidental damage' collisions should also be investigated).

3. Theoretical risks

These are the risks that an employee will be involved in a collision sometime in the future. This requires an individual employee risk assessment to be carried out.

Any risk assessment should cover the three fundamental areas of work-related road safety:

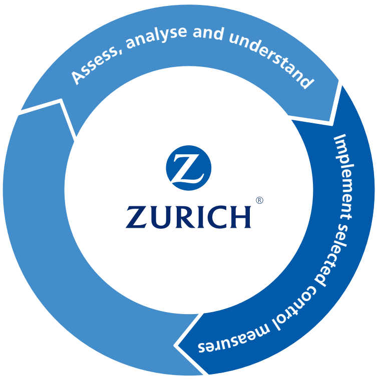
- the driver
- the journeys they make
- the vehicles they use.

In addition to this you should assess the driver's core competencies – their attitudes, behaviours, knowledge and hazard recognition skills.

This will give you a comprehensive risk profile of all employees who make work-related journeys, and will allow you to select the appropriate management or individually-focused interventions.

Once all the risks have been identified, analysed and understood, the next stage of any risk management process is to decide on and implement selected control measures.

Implement selected control measures



Our philosophy towards intervention strategies is for an organisation to look at the risk profile of all its employees and decide which risk areas are of particular concern. All drivers who face these particular risks, regardless of their overall risk profile, can then be identified and the appropriate management or individually focused interventions can then be implemented.

The alternative approach, and one that is much less likely to produce a sustainable reduction in the collision rate, is to take a more prescriptive approach and differentiate drivers based on their overall risk profile. Whilst this effectively targets those employees most at risk of being involved in a collision, it does not target specific, identified risks and, as such, is less likely to be effective at reducing the risks faced. As such, we do not recommend this approach.

One of the first things that some managers think about when looking at work-related road risks is to implement some form of driver training, as it appears logical to assume that better trained drivers will have fewer collisions. This is not the case. Analysis of Zurich's portfolio of customers who have implemented driver training as the main control method shows that they often do have an initial reduction in the claim rate but, after a period of 12–18 months, it is usually back to exactly where it was before the training was implemented.

Driver training can be a very effective way of producing a sustainable reduction in the collision rate providing two criteria are met:

1. **The employee has to be driving in a safe working environment.**
   Management systems have to be in place, and operating policies and procedures aligned with the fleet/driving ones, to create the appropriate safety-operational balance (see 'organisational risks' section). If this doesn't exist then you'll have better trained drivers operating in an unsafe working environment, that are still likely to be involved in collisions.

2. **The employee has got to want to change their Driving.**
   Driving is a very emotive issue, and most drivers think that their driving is 'above average standard' which is statistically impossible! As such, for driver training to be effective there has to be a well-developed on-road safety culture in the business. This takes years to develop, even in organisations that have a well-developed safety culture in their factories and offices.

It is important that any interventions are selected using a technically honest approach based on proven Health & Safety principles:

- Can the risk be **eliminated?**
  (generally a management intervention) If this is not possible;
- Can the risk be **substituted?**
  (for a lower risk alternative – also usually a anagement initiative) If this is also not possible;
- Can the risk be **reduced?**
  (this could be a management initiative or one focused on an individual employee).

In all cases, management interventions should take preference over those focused at individual employees as these are likely to be more effective at producing a sustainable reduction in the risk profile.

As an example, if one of the risk areas identified from the assessment process is that an employee drives 60,000 km per year, the risk reduction strategy would be, in this order:

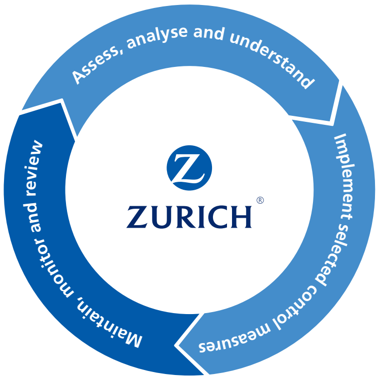
1. Eliminate some of the exposure, which is generally a management initiative. As an example, sales territories could be reorganised.
2. Substitute some of the journeys for ones on public transport, which is also generally a management initiative. Air and train travel are both significantly safer than travelling by road.
3. Ensure you have robust policies on fatigue management, also a management initiative. The biggest risk for high km drivers is falling asleep at the wheel, so policies should include limits on the maximum length of the working day (including driving), maximum continuous driving times and break durations (15–20 minute breaks after 2 hours driving or sooner if feeling tired), and when the driver can have an overnight stay.
4. Raise awareness about fatigue issues and provide practical suggestions on how to manage this, also a management intervention.
5. Provide guidance & training on effective route planning, to ensure journey times are minimised.
6. Provide guidance & training on effective schedule setting to ensure that journeys are planned efficiently.
7. Provide guidance & training on how to attain the correct seating position, as incorrect posture will lead to the early onset of fatigue.

Even though this was identified as a risk from an individual assessment process, the prime risk reduction recommendations are those focused on management initiatives.

Using this approach an organisation will target all the key risk areas it is concerned about, and for each of these there will be a list of interventions (based on the eliminate, substitute, reduce hierarchy) that can be chosen based on the risk appetite and operational needs of the business. Management interventions should always, wherever possible, be given preference as these are much more likely to give a sustainable reduction in the risk profile and hence the collision rate. Using this approach also allows you to implement different interventions for different groups of employees, where appropriate, based on their role within the organisation (eg. the chosen intervention for a truck driver might be different from that for a sales person).

Once the intervention strategy has been decided and the appropriate management and individually-focused controls implemented, the final step of the risk management process is to maintain, monitor and review.

Maintain monitor and review



The maintenance part of the process refers to two areas:

1. Vehicle maintenance

It is of critical importance that well maintained vehicles are used by employees making work-related journeys. This not only means ensuring that the vehicle is serviced in line with the manufacturer's recommendations, but also that the employee undertakes the necessary routine maintenance on a regular basis.

2. Maintaining awareness

This is the biggest issue associated with the maintenance part of the work-related road risk management process. Organisations need to implement a communication strategy that will drip-feed safety information to all employees who make work-related road journeys, in order to develop the on-road safety culture in the business.

Monitoring

Monitoring the work-related road risk management process involves measuring the key performance indicators. These are typically the number, type and severity of collisions, but could also include other measure such as fuel consumption, maintenance costs or tyre wear. When measuring collisions it is important that all incidents are recorded, not just those resulting in an insurance claim. Hence all 'accidental damage' incidents, unreported damage from maintenance records and details of collision involving vehicles not covered by the organisation's insurance scheme should be recorded.

Review

The review process is the final step of the work-related road risk management process, but one of the most critical. Once the assess, analyse and understand process has been effectively completed, you will have identified the risk environment which will allow you to put the appropriate management systems in place to manage these risks.

Over time, however, things change, specifically:

- **Technology changes** – the introduction of Electronic Stability Control (ESC) is a good example. Does your company consider the ANCAP* ratings of vehicles when purchasing/leasing cars and light commercials?
- **Legislation changes** – many countries have recently adopted or amended existing legislation on the use of mobile phones whilst driving. Do you comply with new legislation relating to Fatigue, or Chain of Responsibility?
- **Your own operating practices and procedures change** – this has the biggest influence over your risk environment, and your Fleet Safety Culture.

As such, the review process must identify these changes and prompt a re-alignment of the management systems to take account of the changes and maintain the focus on the identified risks. If the work-related road risk management programme is not reviewed regularly then the collision rate is likely to increase over time.

The work-related road risk management process is not a one-off activity but an on-going process which should be embedded along with all your other business practices. Initially it makes sense to tackle the high risk areas, but over time lesser risks can be addressed and this is how you achieve continuous improvement in your collision rate.

In summary

There are sound business reasons why any organisation should treat work-related road risks strategically instead of simply an operational issue.

Driving is the highest risk activity that most organisations will ever ask their employees to undertake, and exposes them to much greater risks than anything that would be tolerated in a factory or office environment. This, along with the increasing amount of legislation focused on work-related driving, encourages an organisation to manage motor risk effectively.

The increasing focus on the environment will escalate this issue, as transportation is usually one of the major contributors to any organisation's carbon footprint.

The biggest motivator, however, will always be money. Organisations need to understand the uninsured losses associated with the collisions their employees are involved in, and the knock-on effect that this has to the overall business performance.

Looking at this in terms of the amount of sales of a key product or service that are required to fund these uninsured losses will put this into perspective, demonstrating that work-related road risk management is a strategic issue.

By managing this using a proven risk management process, with the emphasis on identifying, analysing and understanding all the risks faced, combined with an intervention strategy based on proven Health & Safety techniques, with priority given to management interventions, will lead to a sustainable reduction in the risks and collision rate.

Work-related road risk management is not easy – it takes effort but reaps substantial rewards. By using Zurich's approach and philosophy, and by embedding the process into your business and keeping focus on it, you will see a continuous improvement in collision performance which will lead to a reduction in uninsured losses, leading to an increase in your profitability.

We're here to help

If you want to know more about how Zurich can help you drive your fleet risk management forward:

You can contact your local Zurich contact or email the author of this booklet direct

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