

# CURBING THE COST OF EMPLOYEES' COMPENSATION IN HONG KONG

DECEMBER 2012

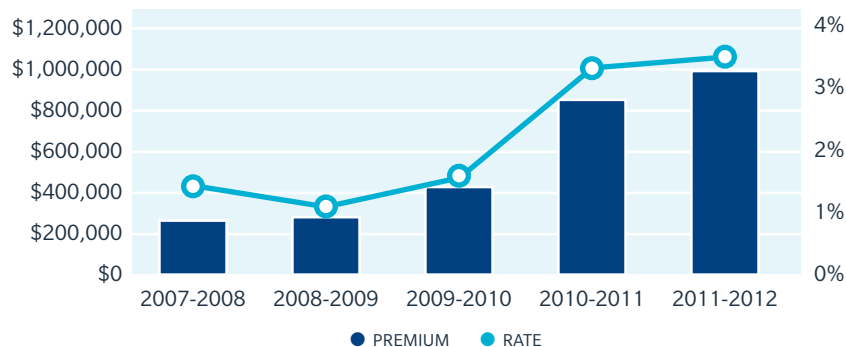
Employees' compensation insurance premiums paid by employers in Hong Kong have soared dramatically in recent years to become one of the highest insurance costs for most businesses. However, Marsh has found that by taking a multi-disciplinary approach, many employers have the ability to significantly reduce their employees' compensation risks and premiums.

## STEEPLY RISING PREMIUMS

Many businesses in Hong Kong have seen employees' compensation insurance premiums escalate by at least 20% to 30% over the past two to three years (see Figure 1).

**FIGURE 1: EMPLOYEES' COMPENSATION INSURANCE PREMIUMS (HK\$)**

STANDARD PREMIUM EXAMPLE—HONG KONG



Source: Marsh

This compulsory insurance is a requirement of Hong Kong's Employees' Compensation Ordinance (ECO), under which employers are liable to pay compensation to employees who suffer personal injury at work, or to eligible family members of those killed in a work accident. Failure to comply with the ECO can result in a fine of up to HK\$100,000 and imprisonment for two years.

For mid- to large-sized companies in certain industries, employees' compensation insurance costs are on par with costs for raw materials and power. For most businesses, premiums for employees' compensation represent the highest insurance cost.

Rates are expected to continue to rise, driven by increased frequency and severity of claims over the last five years and reductions in available capacity, as major insurers have withdrawn from the Hong Kong employees' compensation market.

## OVERVIEW

- Many Hong Kong businesses have seen employees' compensation insurance premiums rise 20% to 30% over the past several years.
- Rates are expected to continue to rise, driven by increased frequency and severity of claims and reductions in available capacity.
- A multi-disciplinary approach can significantly decrease the frequency and severity of employee injuries and reduce their employees' compensation risks and premium costs.

Increasing numbers of employers, particularly those in certain high-risk occupations, are also finding it necessary to seek insurance from the government's Employees' Compensation Insurance Residual Scheme (ECIRS). This is a market of last resort for employers who cannot obtain cover from the private insurance market. Premium rates for ECIRS policies can be up to 80% of a company's payroll expense, according to the 2011 Premium Benchmark Rates of the High Risk Groups published by the ECIRS.

In addition, in July 2012, the level of compensation to be paid under the ECO further increased across a number of areas, reflecting increases in the statutory minimum wage and funeral expenses. The resulting additional compulsory insurance coverage is calculated to produce a pro-rata premium rate increase of 2.138%, according to the Hong Kong Federation of Insurers.

## DIRECT AND INDIRECT COSTS

Hong Kong's working population grew to 3.65 million people in 2011, according to the Labour Department of Hong Kong. The number of occupational injuries recorded in 2011 stood at 40,578, just under the annual average of 41,589 over the past five years. But 191 occupational fatalities were recorded in the same year, approximately 7% higher than the annual average of 178 over the past five years.

This proportion of injuries and fatalities is higher when compared with other countries, including Australia and the US. In Australia, approximately 20% fewer claims were reported as a proportion of the working population, and around 17% fewer in the US. Both countries had roughly 65% fewer occupational fatalities.

Although these statistics are alarming for employees and their families, the direct and indirect costs for employers are also of great concern.

In addition to the direct cost of the benefit paid to injured employees and their medical care providers, many indirect costs are incurred by employers. They include lost productivity, absenteeism, overtime, staff time involved in accident investigation, management of the claims, recordkeeping, training and replacement of staff, administrative overhead, and any product or machinery damage. The total cost to employers of the underlying risk of employee injury may often be several times the cost of their employees' compensation premium.

Increasingly stringent occupational health and safety legislative environments have also meant additional uncertainty for Hong Kong businesses in managing employee injury risk.

## CURBING THE COST

Many businesses have the ability to readily and significantly decrease the frequency and severity of employee injuries and reduce their employees' compensation risks and premium costs. The key to achieving these improvements is through a combination of:

- A superior understanding of the risks.
- Quality management of injury rehabilitation.
- Current and compliant occupational health and safety systems to ensure a safe place of work for employees.
- Improved management of employees' compensation claims when they arise.

Action is needed in four primary areas that drive employees' compensation costs—safety management, injury management, claim management, and insurance and insurer management.

## SAFETY MANAGEMENT

Employee safety needs to be viewed and managed in the same way as other vital business functions. Employers must understand injury risks and comprehensively analyse their drivers, identify gaps and opportunities, and develop an action plan, including immediate and long-term activities for sustainable improvement. Benchmarking performance against industry and best practice standards

is one of many tools used to identify opportunities for improvement and help set priorities.

Implementing effective management systems—including procedures, training, rewards and recognition, monitoring, and leadership from senior management—can reduce claims frequency and severity.

It is important that all employees understand and comply with the changing state of the occupational health and safety and employees' compensation legislative environments. Directors and managers should demonstrate due diligence by:

- Instituting a system for complying with the law.
- Reviewing health and safety issues at board meetings.

The total cost to employers of the underlying risk of employee injury may often be several times the cost of their employees' compensation premium.

- Acting promptly when made aware of a problem, providing written instructions and following up.
- Allocating time and resources to support, monitor, and audit the health and safety program.

Effective safety management will not only create a safer environment for employees, it will also help ensure legislative compliance and decrease common law exposure, protect the reputation and brand of the business, improve employee relations and culture, and enhance productivity.

## INJURY MANAGEMENT

Even in the safest work environments, employee injuries can happen and the associated costs incurred. Companies must therefore take a critical look at how they assist in managing their employees' injuries and safely reintegrate them back into the workforce.

Employers must understand the diagnosis and prognosis associated with an employee's injury. This understanding will provide guidance on the most appropriate injury management strategies to be applied to the claim. It will also assist in forecasting the amount of time the injured employee will need to be off work and the types of light duties he or she will be able to perform upon return.

Regular meetings with injured employees should be held to develop the most appropriate injury management and return-to-work plans, helping the injured employee to return to work efficiently and effectively.

Early intervention injury management is important. Research demonstrates that the earlier an injury is reported to an insurer, the lower the claim cost and shorter the claim duration. For example, a back injury reported two weeks after the injury was sustained has been found to be 35% more expensive than had it been reported in the first 48 hours following the injury, according to a study from Hartford University in 2000.

## CLAIM MANAGEMENT

In parallel with the proactive support of an injured employee, employers should have a deep understanding of their requirements for managing an employees' compensation claim.

For example, suitable short-term duties should be provided, as agreed between the employer and injured employee, to assist the rehabilitation, in compliance with a current medical certificate. Compliance with this

provision can significantly reduce future reserves on claims and, subsequently, premiums.

In addition, supporting an injured employee to return to work within two years of his or her injury will prevent a claim from breaching the time threshold after which an employee must be offered permanent disability compensation. While the prevalence of common law claims for permanent disability is increasing in Hong Kong, employers can seek to avoid this outcome by proactively managing an injured employee's claim.

## INSURANCE AND INSURER MANAGEMENT

Building a strong relationship with an insurer also works to reduce premiums and claim costs. Rather than treating employees' compensation insurance as a purely administrative process, an employer and their insurer should work closely together to manage claims with the common goal of enabling employees to return to work as quickly as possible. This involves regular, quarterly meetings to agree on claims strategy and action plans, collaboratively developing and benchmarking specific key performance indicators, identifying any potential common law claims, and managing exposures.

In addition, employers should open a dialogue with insurance brokers about the methodology used to determine their employees' compensation insurance premium to ensure it is the most appropriate for their needs and requirements. While the common methodology is to correlate an employer's premium with its payroll expense, other solutions may be available, such as the inclusion of deductibles. These other solutions may work to reduce premiums while providing optimum cover.

## BETTER OUTCOME FOR EMPLOYEES AND EMPLOYERS

By effectively addressing these four primary areas, employers will not only create a safer and more productive environment for employees, they can also reduce employees' compensation costs and premiums significantly.

The earlier an injury is reported to an insurer, the lower the claim cost and shorter the claim duration.

## ABOUT MARSH

Marsh, a global leader in insurance broking and risk management, teams with its clients to define, design, and deliver innovative industry-specific solutions that effectively manage risk and enable success. It has approximately 26,000 colleagues who collaborate to provide advice and transactional capabilities to clients in more than 100 countries. Marsh is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy, and human capital.

## ABOUT MARSH'S WORKFORCE STRATEGIES

Marsh Risk Consulting's Workforce Strategies Practice comprises experienced and credentialed consultants who assist organizations with their risk management, employees' compensation cost containment, and workplace safety challenges.

Our consultants help organizations to achieve optimal performance through reducing employees' compensation loss costs, improving productivity and profitability, reinforcing behaviours in support of key business objectives, and developing and implementing sustainable safety and health management systems.

In the experience of Marsh's Workforce Strategies experts, certain businesses may have the ability to decrease the frequency of employee injuries by 20% or more, and reduce their employees' compensation risks and premium costs by 30% or more.

### For more information, please contact:

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