



# BUILDING AN EFFECTIVE STRATEGY FOR MANAGING CONSTRUCTION RISK

A COMPREHENSIVE RISK  
MANAGEMENT STRATEGY  
PROVIDES REAL RETURNS

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# BUILDING AN EFFECTIVE STRATEGY FOR MANAGING CONSTRUCTION RISK

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## Introduction

A commitment to safety is indispensable in effectively managing risk in the construction industry. While the goal is always to keep every worker safe, construction remains a high-hazard business. Even the most safety-conscious company may experience accidents, so it is crucial to have the resources to effectively handle claims, help workers recover, and avoid future accidents. A comprehensive risk management strategy starts with a dedication to continually improve safety but should extend through the entire claims process, and include loss trends and analysis to identify areas for improvement and drive cost savings.

As part of a proactive safety and health management system, companies should strive to build a strong safety culture throughout their own organizations and demand that subcontractors demonstrate the same commitment. Safety should be a part of every project, from planning through completion. An effective technique is to perform a job hazard analysis for every step of the project to enhance safety, efficiency and quality. Because accidents cannot always be prevented, companies need advanced claims reporting and handling capabilities, medical cost management strategies and return-to-work programs to effectively manage costs and improve outcomes. In addition, companies should embrace analytics to identify and mitigate loss trends.

Taken together, these steps help improve a company's overall loss experience, reduce accidents and make it more attractive to potential clients as well as to insurers. An investment in safety and a proactive risk management strategy can pay real dividends in terms of fewer accidents, lower costs, higher quality and a stronger reputation.

## A Reputation for Safety is a Valuable Asset

Construction involves a wide variety of risks. Among industry sectors, construction accounts for the second highest number of fatal accidents,<sup>1</sup> according to the Bureau of Labor Statistics. Construction represents about five percent of the private sector workforce but accounts for nearly 18 percent of the fatal injuries. There were 775 fatal work injuries in the private construction industry in 2012, down about 37 percent since 2006.<sup>2</sup> The decline in fatal injuries, however, comes as employment in

construction has fallen by approximately 25 percent from its pre-crisis high.<sup>3</sup> While risk is always present in construction, accidents should never be accepted as a routine part of business. The goal should be to make sure that every worker goes home safe at the end of every day. A strong safety culture also makes economic sense. The total cost of fatal and non-fatal injuries in the construction industry, including direct, non-direct and quality of life costs, were estimated at \$11.5 billion for 2002, according to a study published in 2007, with roughly \$4 billion for fatalities and \$7 billion for nonfatal injuries, which reflected the cost of days away from work.<sup>4</sup> The study estimated the average cost per injury in construction at \$27,000, and the average cost of a construction fatality at \$4 million.<sup>5</sup>

A proactive safety culture helps to save lives, prevent injuries, reduce claims and litigation costs, and improve productivity. Building that safety culture requires an organization-wide commitment.

## A Safety Culture Starts at the Top

Safety should form an integral part of a company's corporate culture, from the executive suite to individual workers. Senior executives should take an active leadership role in promoting the safety culture. The responsibility and accountability for safety should not be relegated to on-site safety managers or corporate safety directors, but should rest with every level of management. A safety committee comprising upper management, risk managers, safety directors, operational staff and workers should meet frequently to discuss and review safety performance and how it can be improved continually.

Project executives, managers, superintendents and foreman should be required to undergo appropriate training, such as OSHA certification courses. They should be well versed in safety planning, fall management and substance abuse protocols, accident investigation and loss analysis. On-site safety managers should be considered on smaller projects as well as larger ones. While they may add costs up front, even preventing one accident can result in significant savings on claims.

Accountability is key. Everyone from workers on the job site to top executives needs to be held accountable for safety. Aggressive, but attainable, safety goals should be established yearly.

Management performance reviews should include those results. While holding everyone involved in a project accountable for safety, companies should recognize success, whether by individuals, results or milestones. Recognition shows workers that management values safety and the contribution it makes to the success of a project and the company.

### Safety and Health Begins in the Planning Stages

Safety, health and environmental concerns should be addressed in planning for the project from the very start. The planning should identify all exposures that may arise and also appropriate controls that can be put in place to mitigate these exposures. Those concerns might include engineering controls or alternative work methods to address fall exposures, or measures to minimize the spread of pollutants, including mold or legionella, in large construction and renovation projects. A project-specific safety plan should be developed before work begins to provide an overview of the scope of the work and the responsibilities of key personnel. Every subcontractor should receive a project specific safety manual that outlines safety expectations and criteria.

Just as companies routinely pre-qualify subcontractors for experience, qualification and financial strength, they should screen them for safety history and performance. The safety pre-qualification should take into account the sub-contractor's experience modification rates, Bureau of Labor Statistics recordable and lost time incident rates, OSHA citation records and overall safety culture and procedures.

### Training and Fall Management are Essential

Comprehensive planning should address issues such as training, fall management and substance abuse. Workers need to be trained to perform their jobs safely and to properly use a variety of safety equipment, such as fall arrest systems. The orientation for each project should include an overview of the work, an in-depth review of the safety requirements and expectations, evacuation plans and procedures, disciplinary actions, substance abuse testing policy and fall management procedures and requirements. Where there may be a multi-lingual workforce, training should be provided in the appropriate languages.

Falls remain the leading cause of fatal construction accidents, and even a fall from a relatively modest height can lead to serious injury. Over a third of the 775 fatal construction industry accidents in 2012 were due to slips and falls - more than twice that of the next highest category.<sup>6</sup> A successful fall management program provides a uniform set of procedures for all workers and is an essential part of project pre-planning.<sup>7</sup> While the regulations may vary, fall prevention measures should be in place to protect all individuals working at heights of six feet or higher.

In a business that often involves complex equipment and significant heights, companies need to actively combat substance abuse, which remains a widespread problem in construction. Among 19 major industries, construction had the second highest rate of illicit drug use at 13.7 percent, according to a 2007 report.<sup>8</sup>



### What are the strategies for managing construction risk?

1. A Reputation for Safety is a Valuable Asset
2. A Safety Culture Starts at the Top
3. Safety and Health Begins in the Planning Stages
4. Training and Fall Management are Essential
5. A Job Hazard Analysis Makes Safety Part of the Job
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7. Industry Expertise is Crucial for Effective Claims Handling
8. Manage Medical Care to Improve Outcomes and Reduce Costs
9. Setting Goals and Using Scorecards Helps Drive Cost Savings
10. Return-to-work Programs Work
11. A Comprehensive Risk Management Strategy Provides Returns

In light of this, companies should focus on preventing impaired personnel from working on a site. Testing may identify workers with substance abuse problems before they endanger others and enable the company to steer them into treatment programs.

### **A Job Hazard Analysis Makes Safety Part of the Job**

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Safety planning should be part of every task on a project. A job hazard analysis is a proactive way to incorporate safety and health into a given task by identifying potential hazards and determining preventive measures before the work starts. When done properly, this analysis helps to determine the single best way to perform a job not only for safety and health, but also for quality and efficiency. In addition to reducing the frequency and severity of accidents and injuries, job hazard analyses can help to reduce the hard and soft costs associated with accidents.

A job hazard analysis provides a detailed description of each step of the work, establishes physical requirements, identifies potential hazards and provides optimum preventive measures. In order of preference, preventive measures comprise: eliminating the hazard, substituting a less hazardous substance or equipment, implementing engineering or administrative controls, or when necessary, requiring appropriate protective equipment. For instance, addressing fall exposures might involve including anchor points in structural members during fabrication, mandating uniform fall prevention measures for individuals working at heights of six feet or higher, and detailing rescue and retrieval procedures in the event of a fall.

Making the job hazard analysis a consistent part of the project demonstrates to workers that the company is committed to their safety and raises safety awareness across all workers and managers on the site. It increases communication about safety, health and environmental issues between workers and all levels of management. A job hazard analysis serves as an ideal instructional outline and standardizes the job procedure to ensure employee training is consistent.

While a strong focus on safety is indispensable, a robust risk management strategy also should encompass claims reporting and handling, medical treatment and costs, and sophisticated analysis to identify and mitigate loss trends.

### **A Centralized Claims Reporting System is Essential for Accurate Tracking**

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Construction claims often present layers of complexity. A contractor may be operating with multiple insurance policies at any given time, including its own practice policies as well as various wrap-up programs under which an owner or developer provides insurance for an entire project. To make sure that the claims are properly reported, tracked and managed, it is essential to have a centralized and streamlined claims reporting system. A centralized claims system not only serves to properly report, track and manage claims and costs, but also to avoid misidentified claims that might impact a contractor's loss experience modifier, which drives insurance premium cost. Misreported claims that

hurt a contractor's loss experience modifier also may diminish its appeal to potential clients, who base their decisions in part on the contractor's safety record.

As a first step, the contractor should designate a risk management professional to act as a gatekeeper, accepting all losses from the field. This helps to ensure that the claims are reported promptly and correctly identified from the beginning. It also makes it easier to track losses. The lack of a centralized claims reporting system raises the chances of confusion and significant delays in reporting claims from the field. For an accident that results in injury, this could lead to critical delays that affect claims management, medical treatment and costs as well as a workers recovery.

Because multiple insurance policies or wrap-up programs may be involved, it is critical to match the claim to the correct policy at the beginning. An effective way to begin is with a dedicated intake unit staffed with experienced claims personnel who can identify the appropriate policies for a claim and keep information such as location and account coding up to date.

### **Industry Expertise is Crucial for Effective Claims Handling**

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Claims handling also presents a variety of challenges for construction companies. Because of the contractual indemnifications typical in industry contracts, including wrap-up programs, it is vital to identify the potential exposures that may arise from an accident. An investigation into a workers compensation claim, for instance, might open an exposure for a contractor under its own general liability policy. The value of a claim may vary considerably depending on the locality of the loss. At a basic level, the value of the claim for an injured worker may be estimated based on wage loss, medical costs and pain and suffering. In states such as New York, however, the claim may include union benefits such as pensions and medical care that may increase that figure substantially.

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Third-party property damage claims may extend beyond the damage itself to include costs such as down time, loss of revenue and perhaps alternative space for tenants who had been scheduled to occupy the project. Handling third-party property claims effectively requires a thorough understanding of construction operations, not only for documenting the damage, but also to identify the correct policy, whether it is first party builder's risk or third party property damage.

Construction claims often involve detailed investigations to determine the cause of the accident as well as to prevent future ones. For instance, to investigate an accident involving a man-lift, an engineer will need to preserve the evidence and test the equipment to determine the exact cause. In the meantime, that portion of the site or the entire job may be shut down. A comprehensive investigation depends upon expert engineers and architects with significant experience in the specific area.

Where legal issues arise, companies need legal panels that are experienced handling similar claims and familiar with the particular jurisdiction, its statutes, precedents and plaintiffs' attorneys. Litigation management strategies should be considered as part of claims handling from the start.

### Manage Medical Care to Improve Outcomes and Reduce Costs

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Contractors want to ensure that injured workers receive the best, most appropriate medical care in a timely manner, but they also want it to be cost effective. Medical expenses for an accident can easily total tens of thousands of dollars. According to OSHA data from 36 states that comprise about one-third of total workers compensation benefits, the average cost of a roofer's fall from elevation was \$106,000 in three years 2005-2007, about two-thirds of that for medical care.<sup>9</sup> Yet, there is a great opportunity to improve care and reduce costs.

Costs can be managed by making sure that workers are treated at the right facilities for their injuries and that they receive the most appropriate treatment at the right time. For instance, a worker who goes to the emergency room first after injuring an ankle, and is then referred to an orthopedist, may undergo repetitive tests and treatments. Some diagnostic tests, such as x-rays, may have to be repeated along with medical treatment, leading to unnecessary duplication and costs. By sending the worker to a clinic with an orthopedist on staff, those duplicate costs could be eliminated.

Managing medical costs upfront, however, depends on building relationships with medical providers knowledgeable about the particular trade and the typical injuries associated with it. Established relationships with medical providers can be cost-effective, both in terms of treatment and return-to-work issues. Doctors familiar with the industry and common restrictions for injured workers are better able to clear workers for alternative assignments to allow them to return to work.

For work in remote locations, or projects such as pipelines that move geographically, medical treatment and costs can be managed by setting up relationships with preferred providers

ahead of time. This way, project supervisors can access an updated list of medical providers and facilities or call centers with on-duty medical personnel. In case of an accident or injury, supervisors know who to call or where to send workers for timely and appropriate medical treatment.

### Setting Goals and Using Scorecards Helps Drive Cost Savings

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An important part of medical cost containment is to identify loss trends in order to make adjustments that can mitigate future risks and losses. Scorecards and goals can be important tools to drive savings in medical cost containment programs. Scorecards should be used for medical providers and pharmacy usage, and include telephonic case management and nurses and the impact that they have on claims as well as field case management for personal visits to injured workers utilization of hospitals and clinics. For instance, this could include analyzing costs from locations and facilities to see if particular ones account for a higher level of costs and whether the preferred provider organizations are being fully utilized. This type of analysis works not only to detail the costs, but also to identify ways to improve outcomes and increase savings.

When accidents occur, it is critical to have claims handling personnel who understand construction operations and exposures.

### Return-to-work Programs Work

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Getting workers back on the job as soon as possible carries significant benefits for both the worker and the employer. First, it improves morale for injured workers when they can return to work and be productive. It also reinforces the employer's commitment to workers' health and well-being. Return-to-work programs have been shown to have a significant financial impact for employers, reducing costs for workers compensation, medical and indemnity, wage replacement and worker replacement, among other benefits.<sup>10</sup> For workers, such programs help them recover better, leading to less time off work and also helping to avoid the medical, psychological and economic impacts associated with long stretches of disability.<sup>11</sup> Every dollar invested in a proactive return-to-work program, can realize an \$8 to \$10 savings, one study estimated.<sup>12</sup>



An effective return-to-work program depends largely on working with medical providers that understand the construction business and the trades involved on a project. Providers with a good understanding of the work and its associated injuries can more readily determine the appropriate restrictions that will enable a worker to get back on the job sooner, for instance with weight lifting restrictions.

### **A Comprehensive Risk Management Strategy Provides Returns**

In a high-hazard industry, improving safety and managing claims costs are an integral part of the success of any project. An effective risk management strategy in the construction industry requires expertise in safety, health and environmental issues, claims handling, medical and pharmacy cost containment, accident investigation, loss trend analysis, and data analytics and predictive modeling. To enhance safety and address health and environmental concerns, from the planning stage through the completion of a project, contractors should seek risk management experts that have a deep understanding of the industry and expertise in mitigating the risks that accompany all aspects of construction work.

When accidents occur, it is critical to have claims handling personnel who understand construction operations and

exposures. Claims personnel should be experienced in handling all types of claims, from workers compensation to general liability, and be knowledgeable about construction defect issues, local statutes, such as New York Labor Law, and the indemnification statutes under the applicable state laws. To effectively investigate claims and prevent future accidents, companies need access to engineers and other professionals with expertise in the industry, as well as the particular operations or equipment in question. Effective claims handling and management should include attorneys who are well-versed in the industry and knowledgeable about the particular jurisdiction.

Demonstrated expertise in managing medical and pharmacy costs and relationships with provider organizations is essential to containing medical costs and improving outcomes. Because successful companies seek to continually improve, loss trending, data analytics and predictive modeling capabilities are needed to identify areas of concern and to enhance savings and outcomes.

In the construction industry, safety is an investment that provides real returns. A commitment to safety helps workers and strengthens the company's financial performance by reducing the frequency and severity of accidents. While safety is the indispensable goal, a proactive risk management strategy needs to include robust claims reporting and handling capabilities, medical and pharmacy cost management, return-to-work strategies and analytic capabilities that pave the way for continual improvements. In a competitive industry, a comprehensive risk management strategy is an essential tool for long-term success.

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