RESOURCE 4 / 07 • PRINTABLE MANAGEMENT TOOL

Safety Investment & Claims Cost Model

Build a conservative business case that separates operational savings, retained losses and possible future premium effects.

Start by defining who actually pays

Risk-financing arrangement	How to approach the model
Traditional insurance	Estimate direct employer costs separately. Model premium effects only with broker/insurer guidance.
Large deductible	Include retained losses within deductible terms; avoid treating full insured costs as direct savings.
Self-insured	Estimate changes in retained claim costs and development; include administration and reserves when appropriate.
Provincial compensation (Canada)	Use the board's experience-rating method and rate notification to inform any premium assumptions.

Build a transparent scenario

01 Enter annual claim count for a clearly defined loss mechanism and the period used.

02 Estimate average employer-retained loss per claim and uninsured operational costs.

03 Test low, base and high relative claim-reduction assumptions.

04 Add one-time implementation and recurring annual costs.

05 Treat premium changes as a separate sensitivity, not an automatic saving.

06 Show the range of net benefits and the assumptions requiring verification.

NO DOUBLE COUNTING Do not add the full value of an insurer-paid claim to a projected premium reduction as though both amounts were separately saved by the employer.

ILLUSTRATIVE SCENARIO / NOT A PREDICTION

Input	Illustrative amount	What it means
Annual claims in target category	20	Historical count, not total company injuries.
Retained cost per claim	$2,000	Employer-paid under its financing arrangement.
Uninsured disruption per claim	$1,000	Documented overtime or production disruption.
Expected reduction - base case	20%	Assumption to be tested, not established.
Annual program operating cost	$5,000	Repeat cost of intervention.
One-time implementation cost	$12,000	Initial expense in Year 1.

Estimated avoided claims: 20 × 20% = 4. Annual direct benefit: 4 × ($2,000 + $1,000) = $12,000. Year-1 net before any premium effect: $12,000 − $5,000 − $12,000 = −$5,000. Years after implementation: $12,000 − $5,000 = +$7,000, if the assumptions hold.

PREMIUM SENSITIVITY A hypothetical 5% reduction on $500,000 of annual premiums equals $25,000, but must not be represented as a forecast. It may take years, vary by jurisdiction and overlap with retained loss assumptions.

Questions your CFO should ask

- What portion of the historical claim cost did the employer actually retain?
- Does the premium assumption come from an insurer or merely from an illustration?
- What exposure or control change is expected to cause the reduction?
- What happens if claim frequency is unchanged or only partly improves?
- Are there non-financial reasons to fund the control regardless of estimated ROI?

INVESTMENT APPROVAL / ONE-PAGE SUMMARY

Exposure and intended risk reduction:

_____

_____

Preferred controls and training or competency intervention:

_____

_____

Scenario	Assumed claim reduction	Estimated annual direct benefit	Estimated first-year net
Low	_____ %	$ _____	$ _____
Base	_____ %	$ _____	$ _____
High	_____ %	$ _____	$ _____

Basis for assumptions / data limitations / insurer-confirmed premium effect:

_____

_____

_____

Decision owner / approval / review period:

_____

_____

DECISION PRINCIPLE Use financial modeling to compare options; do not require proof of positive short-term ROI before addressing serious hazards or mandatory precautions.