

REDUNDANCIES—THE HIDDEN COSTS

These days redundancy programmes are, unfortunately, relatively commonplace. The cost of a redundancy programme should be reasonably easy to calculate, but there are hidden costs which are often forgotten by companies, and which are associated with employers' liability claims. In times of recession, employers' liability claims tend to rise.

If you are a disgruntled redundant employee you are far more likely to claim for that accident or for, say, industrial deafness, than you are if you see your future employment prospects as secure. The cold call telephone call from a no win/no fee lawyer offering the prospect of a few thousand pounds to a redundant former employee filling in a job application (rather than in the evening after a hard day at work) is more likely to be pursued.



You may think that these problems are waiting to be picked up by your employers' liability insurer. It is true that they will pay the claim, assuming it is of merit. There are hidden costs however for you in terms of increased premiums and management time. Shut down a factory, or have sizeable redundancies, and the problems are magnified because if one employee is contacted then he may tell his mates. Moreover if a factory is shut, you may find that inadvertently you destroy the very evidence which would have allowed you to defend these claims.

We are increasingly being asked to meet the potential for increased claims head on. To carry out audits of closed factories to ensure presentation of useful evidence (both documentary and physical – signs and notices, particularly in relation to noise induced deafness claims).

To identify key personnel and to obtain statements before redundancy programmes kick in, obtaining evidence on training, risk assessment, maintenance issues etc before such key personnel may be made redundant and would not be cooperative. We are asked to consider accident book entries going back three years (in general terms, an employee has three years from the date of the accident to make a claim) to pull together information on accidents where it looks likely a claim could be made.

Some insurers would welcome this early intervention and some not. We would say that the potential cost savings to you and the peace of mind in knowing that an audit of potential liability has been undertaken is prudent governance in what all acknowledge will be troubled times ahead.

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It is said we all learn from history. The early 1990s saw the last significant downturn in the economy. The 1990 General Insurance Convention of the Institute of Actuaries stated

“ The reporting pattern can be disturbed by a change in the relationship between employer and employee. Even in this day and age is it not unknown for employees to take action against an employer whom they perceive to be paternalistic and sympathetic. However, a change in that relationship, maybe as a result of a change of ownership, redundancy, or increased union involvement, can precipitate an increase in the incidence of claims and the reporting of claims relating to earlier years of exposure.”



“.....the influence of economic cycles. They are believed to affect both the level and number of claims emerging on EL. In a downturn of the economic cycle, where firms are failing, EL claims may be pseudo-redundancy payments as the motivations of employees cease to be linked to those of their employer.”



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