

# THE ESG RISK RATINGS

MATERIAL ESG ISSUE —  
OCCUPATIONAL HEALTH AND SAFETY



## SUSTAINALYTICS' MATERIAL ESG ISSUE: OCCUPATIONAL HEALTH AND SAFETY

Anyone who has glanced across more than a handful of company websites will have, at some point, come across the claim that “our employees are our most valuable asset,” and the fact of the matter is, for many firms, it’s at least close to the truth. This backgrounder examines the materiality of the ESG issue occupational health and safety, analyzes which industries are most exposed to risks in this area, and highlights examples of companies that manage these risks well.

### The Importance of Being Safe

Aside from the obvious impact that workplace health and safety failures can have on employees, numerous studies conducted in recent years have demonstrated the cost that these issues can have on businesses. According to insurance company Liberty Mutual’s 2021 Workplace Safety Index, disabling, non-fatal workplace injuries cost US businesses approximately USD 59 billion per year or more than USD 1 billion a week in direct compensation costs.<sup>i</sup> More broadly, the International Labour Organization estimated that 4% of global GDP is lost due to work accidents and diseases.<sup>ii</sup> Also, the European Agency for Safety and Health at Work has estimated that the total, global cost of work-related accidents and illnesses amounts to EUR 2.7 trillion, around 3.9% of global GDP.<sup>iii</sup>

Causes of injuries and illnesses at work can be immediate, such as in the case of falls, accidents involving machinery, and road incidents; or gradual, in the case of repetitive motion injuries, or respiratory and oncological diseases brought on by persistent exposure to harmful substances. One example of a longer-developing workplace health issue exerting a considerable cost on both employees and businesses alike is that concerning asbestos exposure: it has been estimated that annual litigation costs related to asbestos exceed USD 2 billion annually in the US alone<sup>iv</sup>.

### Assessing the Unmanaged ESG Risk of Occupational Health and Safety by Industry

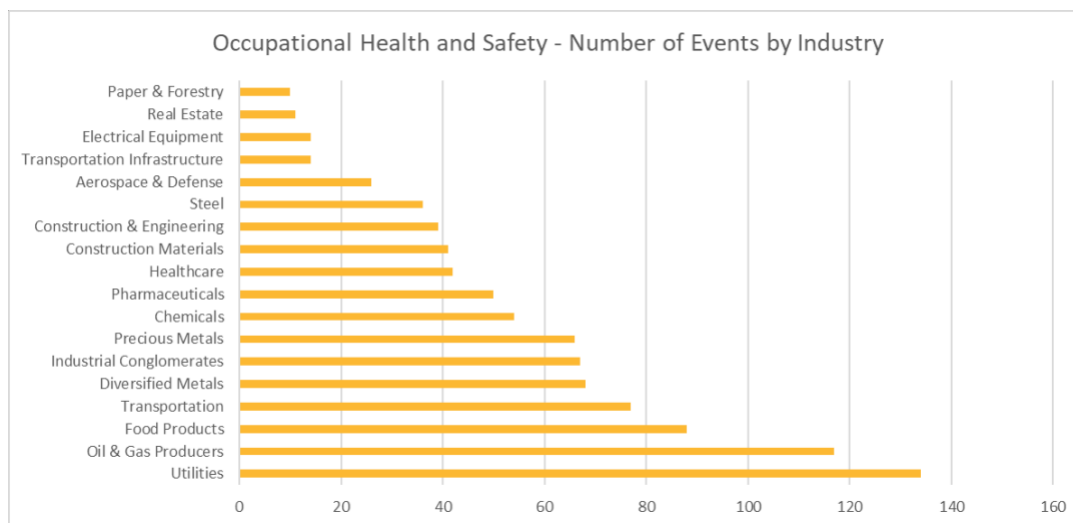
Numerous industries rely on work that has inherent health and safety risks for employees, whether it be the handling of dangerous substances in the chemicals industry, the risk of explosions in the oil industry, working at heights on construction sites, or the potential for rock falls and exposure to harmful particles in the mining sector.

Sustainalytics’ ESG Risk Rating for occupational health and safety combines the risk that *cannot* be managed due to the inherent characteristics of a company’s business model or products, with the risks that could be managed, but *are not currently being managed* through relevant systems, programmes and policies. Analysis of Sustainalytics’ ratings universe reveals that occupational health and safety is deemed a material risk for 63 subindustries within 28 distinct industry groups. Exhibit 1 below contains a selection of 18 of these, and their average unmanaged risk score for this issue. Of all these industries, the Precious Metals industry has the highest average risk at 4.58, while the Real Estate industry at 1.0 has the lowest.

**Exhibit 1:**

Source: Sustainalytics data, April 2022

As well as systems, programmes, and policies, Sustainalytics' ESG Risk Ratings also consider companies' involvement in controversial events as part of its assessment of risk. Indeed, such events are viewed as an important indication of management failure over an issue. For occupational health and safety, typical events include lawsuits or operational disruption related to injuries or illnesses sustained at work. Looking at Sustainalytics' events data for the same 18 industries in Exhibit 2, we can see Utilities has the most events for this issue with 134, and Paper & Forestry the fewest with 10.

**Exhibit 2:**

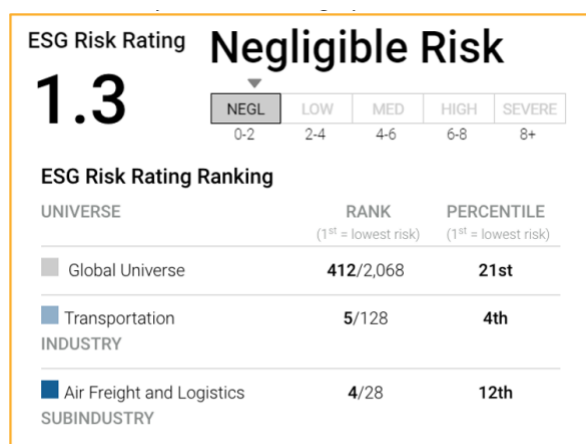
Source: Sustainalytics data, April 2022

### How Sustainalytics Evaluates Companies on Occupational Health and Safety

Within Sustainalytics' ESG Risk Rating, a company's exposure to, and management of, a material ESG issue is assessed by looking at a set of indicators. Although the set of indicators selected is subindustry dependent, for occupational health and safety, indicators that cover a firm's health and safety management system, and whether that system is certified to international standards, are commonly applied. Companies' lost-time injury and fatality rates are also typically examined, either for evidence of improvement or of a low absolute rate.

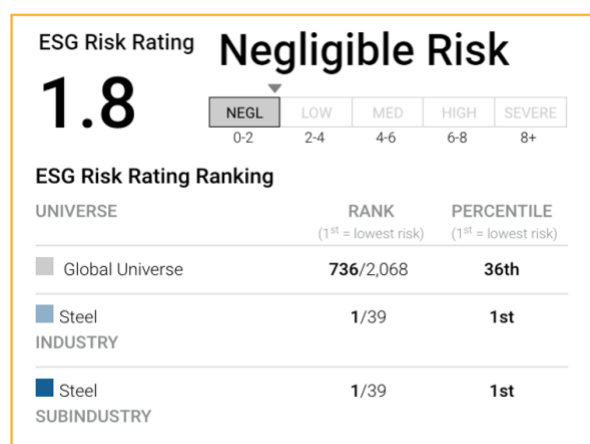
One example of a company that demonstrates strong management of this issue is Hyundai Glovis, a South Korean logistics and distribution services provider. As seen in Exhibit 3 below, the company faces only negligible risks from occupational health and safety and sits in the 21<sup>st</sup> percentile of companies within Sustainalytics' universe on this issue.

**Exhibit 3:**



Source: Sustainalytics ESG Risk Rating, April 2022  
For Informational purpose only

**Exhibit 4:**



Source: Sustainalytics ESG Risk Rating, April 2022  
For Informational purpose only

Hyundai Glovis has established a ship safety management committee to aid in vessel operational safety. The company conducts systematic H&S management under the Glovis Safety Management System, assessing the risk factors within each workplace as well as raising awareness about hazardous accidents. Furthermore, all key Hyundai Glovis business units have health and safety management systems certified to ISO 45001 standards. Additionally, Hyundai Glovis enables workers to enter field inspection results for equipment and facilities directly on-site using a mobile phone to improve on-site safety. Due to these measures the company's lost time injury frequency rate has shown a decreasing trend since 2016, reaching 0.33 in 2020

Ferrexpo, a Swiss-based commodity trading and mining company which is one of the largest exporters of iron ore pellets in the world, is another example of a company with strong management of this issue, placing it in the 36<sup>th</sup> percentile across Sustainalytics' ratings universe (Exhibit 4). Ferrexpo conducts audits among employees and subcontractors to measure compliance with safety policies, rules, and carries out hazard identification and risk assessment together with regular health and safety training programmes for employees and contractors. A majority of the company's sites have health and safety management



systems certified to OHSAS 18001 or ISO 45001 standards, while its 2020 LTIR was 19% lower than the average of the previous three years.

As the world continues to navigate its way through the vagaries of the Covid-19 pandemic, it has become clearer than ever that businesses need to ensure they manage those elements of health and safety in the workplace that they can control, in order to minimize operational disruption and other negative impacts. Sustainalytics ESG Risk Rating can help investors determine which companies appear best equipped to do just that.

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<sup>i</sup> [https://business.libertymutual.com/wp-content/uploads/2021/06/2021\\_WSI\\_1000\\_R2.pdf](https://business.libertymutual.com/wp-content/uploads/2021/06/2021_WSI_1000_R2.pdf)

<sup>ii</sup> <https://www.ilo.org/global/topics/labour-administration-inspection/resources-library/publications/guide-for-labour-inspectors/introduction/lang--en/index.htm>

<sup>iii</sup> <https://osha.europa.eu/en/publications/international-comparison-cost-work-related-accidents-and-illnesses>

<sup>iv</sup> [https://www.euro.who.int/\\_\\_data/assets/pdf\\_file/0009/341757/Asbestos\\_EN\\_WEB\\_reduced.pdf](https://www.euro.who.int/__data/assets/pdf_file/0009/341757/Asbestos_EN_WEB_reduced.pdf)

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