



How to benefit from a Safety Management System (SMS) or air safety versus cost

The benefits of operational integrity

As soon as we fly, we are venturing beyond our natural environment and compromising our safety, so it is a question of minimizing risks by maintaining a good sense of proportion. Operating a profitable and safe airline requires a permanent balancing act between the need to fulfil productivity targets versus safety objectives. The air transport industry is filled with potential risks and unsafe conditions which can not be all eliminated; despite that fact operations must continue.

The reality is that air transport operators and related service industries must generate a profit to be sustainable. Profit or loss is the immediate indicator of the company's success in meeting its production target. The prime objective of a company should not be to purely maximise the profit but also the avoidance of loss. Hence, safety is a prerequisite for a successful and profitable aviation business. Companies may realize they have a safety problem following a major accident or loss, in part because it will have an impact on the profit/ loss statement.

Without effective safety management to identify and correct unsafe conditions, the company may assume that it is meeting its safety objectives, as evidenced by the absence of losses. In reality the operator is merely lucky.

Safety and profit are not mutually exclusive. Indeed, quality organizations realize that expenditures on the correction of unsafe conditions are an investment towards long-term profitability. However, by spending more and more money on risk reduction, the gains made through reduced losses may not be in proportion to the expenditures. Companies must balance the cost of losses and expenditures on risk reduction measures. Some level of loss may be acceptable from a straight profit and loss point of view, however only few organizations can survive the economic consequences of a major accident.

Cost of accidents

Two types of cost can be associated with an accident or serious incident; direct and indirect costs.

Direct costs

They normally relate to actual or physical damage and include replacing or compensating for casualties, equipment and property damage. The high costs of accidents are reduced by insurance coverage. Most major airlines and other large aviation organisations self-insure by putting funds aside to cover their risks.

Indirect costs

Insurance covers certain accident costs however, there are many costs associated to an accident which are not covered by insurance. Some examples are:

- Loss of business and damage to the reputation of the organization
- Loss of use of equipment
- Loss of staff productivity
- Investigation and clean-up
- Insurance deductibles
- Legal action and damage claims
- Fines and citations

Source ICAO

Cost of Incidents

Serious incidents, which may cause minor damage or injuries, may also incur many of these indirect or uninsured costs. Typical factors incurring costs after incidents may include:

- Flight delays and cancellations
- Alternate passenger transportation, accommodation, complaints, etc.
- Crew change and position
- Loss of revenue and revenue and reputation
- Aircraft recovery, repair and test flight
- Incident investigation

Source ICAO

Costs of safety

It is difficult to assess the costs of safety, safety costs are actually more difficult to quantify than the real costs of an accident. This is because of the difficulties in determining the value of accidents that have been prevented. However, some airlines and operators conducted a “cost-benefit analysis” about introducing and maintaining a Safety Management System or “SMS”. The findings were that the cost savings were substantial.

The fact that it is complicated to assess the actual costs and benefits of an SMS should not diminish the effort to do so as senior managers are usually not inclined to spend money if there is no quantifiable benefit.

One of the most effective way to address this issue is to separate the costs of the SMS from the costs of correcting safety deficiencies. One way how this can be achieved is by charging the safety management costs to the safety department, and the safety deficiency costs to the manager responsible for operations.

In practice this means that costs for introducing and maintaining an SMS are charged directly to the safety department. On the other hand all costs arising through safety deficiencies (violations, incidents and accidents) are charged to the Accountable Manager, which is usually the Chief Operating Officer. The Accountable Manager/ COO is responsible for the post-holders of Flight Operations, Training, Maintenance and Ground Operations. Thus being charged the costs of safety deficiencies will directly affect the operational budget and therefore undoubtedly catch the attention of senior management.

Bottom line

A Safety Management System is as important to business survival as a financial management system. The implementation of a Safety Management System leads to achieving key business objectives such as improved safety performance and best practice and moving beyond mere compliance with regulatory requirements. Safety Management Systems provide a data-driven approach to safety that will positively affect your business efficiency and thus profits. Moreover by improving your safety performance, you will reduce insurance payments and ultimately lower premiums.

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