

Healthcare Insights Podcast

Episode 1

Risk Advisor of the Future

Gisele Norris:

Hi, welcome to our podcast, Financial Risk Advisor of the Future. I'm Gisele Norris, the healthcare industry practice leader for Marsh, U.S. and I'll be your host today. In today's episode we're going to talk about some new approaches to reducing uncertainty and to evaluating and prioritizing risk spent. For our discussion today, I'm joined by Reid Sawyer, who's head of our emerging risks division, and John Derse, who's the head of Mercer's healthcare industry vertical. Thank you very much, to both of you, for joining us today.

So, hospitals, as we all know, are under significant financial pressure. And certainly, at Marsh we see, you know, that bear out in the form of liability and social inflation, which certainly contribute to increased expense. But I think one of the things we also see is that workforce accounts for more than 50% of hospital budgets. So, John, I know Mercer spends a lot of time thinking about workforce. Can you provide some thoughts on this?

John Derse:

I can, and this topic today is, I think it's just great timing for, you know, this offering, this industry at this time. Cause the workforce challenge is extraordinary and growing. And our own research, it verifies that, that the shortages that we're experiencing today are going to continue. But the shortages themselves lead to different ways of staffing, leads to extensive overtime, open positions, chaotic work environment, burnout, all things we're hearing from the workforce.

So, what are organizations focused on, heavily focused on attraction, retention. But what, I think, we also need to be as focused (laughs) on, is, how does this change the risk profile? What's new? What's different? How do we think about this differently cause it's not the same? It's not people in jobs doing what they've always done. It's stretching. It's agility. It's kinds of movement that we haven't experienced before. So, when we think about workforce, we think about risk. A lot's changed, which is why I'm really excited about the conversation today.

Gisele Norris:

That's great. So that's really interesting, John, cause that really um, gives voice to a different way of thinking about workforce, and really thinking about the risk associated with workforce. Reid, how are healthcare executives rethinking risk and how they evaluate and examine expense around risk?

Reid Sawyer:

You know, Gigi, I think there's a real imperative that... that our best healthcare executives are undertaking um, to answer that question that... that you are posing. And I think that there's sort of multiple dimensions to this. The... The first is, as you talked about, the financial challenges that healthcare systems are facing. Right? Compress margins increased cost basis, the challenges, John, that you just identified with the staffing and the percentage of the cost that forms for these entities. But you take that and that's really compounded by the fact that health care's going through in some ways, what might be called um, a revolution. Right? Delivery models are changing. New technologies are being deployed.

AI is coming on at a rapid pace. All of these, right, are changing these factors, are changing the risk profile. Because I think it's fair, Gigi, to say that a healthcare entity of today is not... the risk profile is not that of a

healthcare entity yesterday. And then undergirding all of that is this idea that they're facing new or evolving risks. Right? We saw what happened with the latest cyber-attacks impacting our organizations, our clients. We're watching increased climate risk uh, impacting the physical assets, threatening supply chains. Right?

All the things that we thought we were passed with health care post-Covid with supply chain risk, coming back because of Geo-Political risk. And how do we understand the fragility of those systems? And so, when you ask that question about how executives are thinking about it, I do think, number one, it's a new imperative um, to be addressing this in a way. And it's really about, "How do I prioritize risk capital?" And I bring together the lenses that have previously been separated. John, your point, right? The CHRO (Chief Health Risk Officer) has to be at the table for the risk conversation with the risk team.

And we can't be separating clinical and non-clinical risk anymore, but rather taking a holistic approach to these issues.

Gisele Norris:

Reid, are you seeing healthcare executives approach risk evaluation in different ways than they did in the past? So, is there a new approach that differs from the traditional risk evaluation approach?

Reid Sawyer:

Yes, certainly. And I'm not sure that this new approach is fully embraced yet. I think it's one of those, Gigi, that organizations are starting to tell themselves they have to change. And this really starts with understanding and asking the question, "Were my models in my risk... my risk frameworks for yesterday, are they still applicable today?" And I would argue that they're not, for three reasons. One is they tend to be very static. We build up a risk register. We're asking questions about what the world looked like yesterday. And because they're static in nature, we're not asking ourselves the what if questions. "How will this change? How could it accelerate?" Right?

"How could it threaten the strategy to my organization", number one. Number two is, when you think about this requirement and this new approach is, we tend very much to stovepipe risks. And we think about them through a singular lens. Right? "What is my cyber risk?"

"What's my medical malpractice risk?" And how do I think about this, too, without asking the questions? What's the intersections between those two, whether or not the insurance solutions can address, though, that intersection. But we still own all of that risk, and we need to understand it much more from a portfolio perspective. And last, and I think, third, though, and importantly to this, is... is we have to have a language um, that's common across different risk owners. Right? And this new approach to CHRO has to be part of the equation. The legal team certainly needs to be there. The CFO and her team, has to be there, the risk manager, the Chief Medical Officer. And in this new language means we have to have a common denominator, that we have to translate risks and put them through a financial lens, for example, for a way that those different stakeholders can bring together and have a common operating picture um, of what that environment looks like, and how it's going to be challenging organizations.

Gisele Norris:

So, it's great, so it seems like you're bringing new people together to think about risks. You're thinking about the intersections of traditional risks. But what about evolving risks? And how does this approach that you're talking about align with some of the emerging risks that we're seeing today?

Reid Sawyer:

Yeah, it's exactly this point of asking questions and starting with the really important question on this, is, you know, "Does my loss experience tell me or how does that inform me? And how do I trust that with relating to my loss potential of what I'm going to see forward?" And when I think about... Cyber risk has been around for the last 20, 30 years. But the way that it's manifesting in organizations today and in health care, specifically, is very different. And so, I don't have a dataset as an entity. I may not have had a cyber breach at a hospital, but yet I've got to ask the question about, "How do I think about the robotics in my operating suite? And would a software patch or a failure to... or an infection, if you will, could do to that piece of equipment and then the results on liability?" Or if I think about my ability for my electronic medical records and the ability to access that. So, what it's requiring us to do is a couple of things.

One is, we need to rethink resiliency, and what that means in this world. Number two, we've got to build

better financial models to stress test the risk like I was alluding to a moment ago. And equally important, number three, is that we've got to then take that integrated view to risk, to be able to examine it at a portfolio level and understand what volatility means as we're moving forward.

Gisele Norris:

So, I think part of what you're alluding to is that the past as we know no longer predicts the future. So, tell us a little bit about how you're reimagining, this approach from an analytic and technological standpoint. How do you actually apply some creativity to think those things through?

Reid Sawyer:

Yeah, it's a really good question. and just because we don't have loss data from the past doesn't mean that we can't gain insight um, into this issue. So, the first way that we think about it from an analytics perspective, was, you know, what is happening in other adjacent sectors or even sectors that aren't related but are seeing the leading edge of risks that are manifesting in those organizations. And how do we map those against a healthcare entity?

Because what's going to happen, especially from a technology risk perspective that's going to happen in the FI sector, it'll manifest itself differently in health care. But it indeed will head in that direction. And we can look, right, just because it hasn't happened yet, doesn't mean it's not happening somewhere else. So, number one is, this idea about how do we look to the adjacent and related sectors to what trends we might be seeing and bringing those across and mapping those in our organizations.

That starts to allow us to do a couple of very important things, it allows us to create a digital twin of a healthcare entity to test these types of scenarios about what could happen where you've lacked um, loss experience before. Number two and equally important to that one, is that a hospital or healthcare system's risk isn't their risk alone. Right? These entities are so interconnected to whether it's workday, or sales force or a Cloud provider epic from those perspectives. And everybody understands that third party risk - But we can model that. And we should be modeling that, and asking, you know, "How fragile is my system in my reliance? And how robust are my partners?" And developing those measures of fragility is a great way to

be able to understand about how to prioritize risk capital in investments. And lastly, to this point about deploying the analytics differently, Gigi, is the ability to develop the scenarios that allow organizations to then get at that, what if question?

Let me give you an example of that we recently worked with a healthcare entity. And they have an inquisitive appetite for new facilities. So rather than just running analytics and saying, "What does the risk look like in 2024?" Right? The ability to say, "What if that acquisition goes through and accelerates? Or what if you double the size of your acquisition? How does your risk profile change from that? What if the acquisition doesn't go through? Or what if you assume a lot more hidden risk with that acquisition that you're buying, right, with that new entity that they're acquiring?"

Those types of different outcomes allow us to test what the future might look like. And that allows us to accelerate decisions today.

So, John, given what we've been discussing, I'm really curious, how should we be thinking about how human capital and the risks associated with it are changing? Because this kept coming up at our work together. Could you expound on that a little bit more?

John Derse:

Yeah, and that's a great point, Reid and again, I think maybe two things I want to make clear as I do this is that, not just that the work is changing, but it has to change. We cannot continue doing the same things the way we always have with the same people, the same numbers of people working in the same ways. It's got to change. So, how is it evolving? Second part of that answer is rapidly, very rapidly. And I think it's up to the organizations that we work with, it's up to the provider organizations to stay in front of this, rather than reacting to it. So, what does that mean? What about the skills we're going to need? When are we going to need them? How do we develop them? How good are we at anticipating what that is?

That is a huge part of the risk we're talking about and what's needed. And then it's the actual development of these skills. How long does it take? How do we do it? Is it done virtually? Do we, do we do it the old-fashioned way? How is it done across a large, uh, body of- of workers, all of which are experiencing this change? And then, how do we incorporate that into how we deliver

care? And let's not forget about the back-office part of how systems run. How do we do rev cycle? How do we do all these critical elements that may not be patient-facing, but clearly are a part of how systems need to work and work differently? And I think, I guess, the last point I'd want to make clear is that, again, there's data to support how this is approached, not only where the talent is, how it's impacted.

But to your points earlier, Reid, how do we model how this work changes and what this means financially? How much lift can we get in terms of expanding the workforce capacity? I mean, you think about AI. The potential there is enormous. The risk is also enormous. To suggest that it's not going to dramatically impact how people work, where they work, when they work, who they work with, is to, is to greatly underestimate it. I'm not suggesting anybody in healthcare's underestimating AI right now, but how are organizations approaching where they are on this journey and how they move forward in a way that leverages as quickly and as effectively as possible? And at the same time, incorporates this critical element of risk and do we understand how this is all changing?

Reid Sawyer:

You know, John, what I heard in that and what I really liked about it was not just the anticipation of what changes are coming and when, but what you're really driving at is forecasting those impacts. And I think too oftentimes, we stick with the anticipation, and we feel it's that illusion of control, "I've anticipated my risk, but I haven't asked the question, how to forecast that and what that means for me going forward and the viability of my broader organization and where I can gain competitive advantage."

John Derse:

Absolutely. This is the future of HR. When you think about HR transformation, it's transforming to one, a function that is predictive, that is really good at anticipating. And how do they do that? They leverage the data, they leverage analytics, and they get really good (laughs) at all of that, because it's absolutely a critical part of human capital management as we look forward. Especially when you've got ... Again, as Gigi mentioned right at the onset of this call, when people in organization account for anywhere from 50 to 60% of OpEx every year, we've got to do better, and we can. But a lot of it starts with, again, analytics, modeling, and sitting at new tables then we've historically sat at.

Gisele Norris:

That's so great. So, I know that you have been working on some different, live examples of this kind of an approach. I wonder if you could maybe provide a little bit of a case study or a success story about where this approach has made a significant impact on a healthcare organization?

Reid Sawyer:

Yes, certainly. You know, it's interesting, John, I'm thinking back to this last piece of work that our teams combined on. And, Gigi, it really started with a central question from the CFO that on the surface, as they always do, look simply and became incredibly complex. And the CFO's challenge and question were, "I want to be able to control volatility at the top of the organization. Because ultimately, well I have to manage the balance sheets of the different entities in the healthcare system. I'm really worried about the financial performance and the health of the overall system."

So, number one, how do I think about insurance at a portfolio level? And then I could think about where my points of arbitrage are. Where I should be balancing? Where am I over or under insured? The second question was um, really related to the people dimension. That entity and that CFO recognized that while they spent a lot of time and focused on those questions, that they weren't connecting the dots between health and benefits, to drive upside in managing the downside from workers' comp. And therefore, didn't have a view to what the ROI was on the health and benefits plan. Right? They could feel it and they could test it, requiring us to bring new stakeholders in. And then the third question he posed to us really was this idea about, "don't just build me a plan or give me an answer for what to do with my insurance renewals in 2023. But build me a plan that says, 'How am I changing over the next five years, and therefore, how should my insurance programs, my risk capitals be changed over that time?'" But, John, could you talk a little bit about the people dimension, and how we brought that together?

John Derse:

Yeah. You brought up such a great example here. Because I want to tie this back to a comment you made a few minutes ago, around CHROs getting a seat at the table, and how great that I agree, that's phenomenal. But the CHRO has changed. And it's continuing to

change. So that CHRO, if they're going to show up at this table, they need to show up with more data and more analytical rigor than we've had. It's available, but that needs to be brought to bear. And that's what we're talking about, in this case, I think, which makes it so powerful, is that it's understanding, "What are the critical links between human capital practices and quality? What are the root causes for things like turnover? And workforce planning, a much more rigorous and analytically driven approach to, 'what are we going to need? When are we going to need them? And where are we going to find them?'"

Now that's how the CHRO of tomorrow actually, I should tell you, today, needs to show up at this table armed with data, and doing everything they can with it so that it's current but it's also predictive. To the point around the benefit plans and compensation, again, leveraging technology to get just in time, right now, information about how are these programs valued? Leveraging things like digital focus groups that get at, "How do you feel today about these programs?" Because these are the things that being able to quantify that really is so important when you're trying to determine, "Why are people staying with us? Why do people leave?"

What do we need to do to get more people?" And you know as well as I do, Reid, this particular case takes place in a part of the country where the workforce is particularly challenged due to its aging uh, as well as short supply. So uh, never more important that we follow this, and that we leverage what you bring. But again, it's armed with data and doing all the things that we need to with it.

Reid Sawyer:

Well, that's right, John. Because when we took them that data that we were able to pull from... with the CHRO and the participation of that team, we were able to do some really interesting things around the workers' comp evaluation. Right? Not just looking at where the losses were happening in what facilities, but thinking about that aged workforce, which then allowed the COO to ask questions, "Where should I put my no-lift system into my next hospital? And how do I better make that decision to avoid these longer-tailed claims, right, that... that we see and the injuries that happen?" Right? Similarly, with agency, nursing, right? And the temp nursing is coming in and asking questions. "Was... Did you see spikes in medical malpractice issues? How do

we think about patient quality and care?" All that data has been sitting there being collected on quality and care. But we typically don't leverage that from an insurance perspective, and we should be.

And what ultimately that the outcome of this case, and I think this one was, Gigi, was so powerful by bringing these different lenses together, the different stakeholders, to round the table, is it created a point of conversation that all of those different stakeholders now could view the risk in a new way. And now are making decisions, not just about what to do with their insurance program and their captive today, but how do they make better decisions about that spend as they're moving forward? Prioritizing broader Cap-ex spending. And then setting an agenda that that executive team has now been working off of and is setting the go-forward strategy for that entity as they're moving forward. And I think that's really what the power of this new approach we've been talking about today can deliver.

John Derse:

One other thought I'm at is that this, from my perspective again, what was surprising was just, you know, one of the enemies here, it... hit with this system was clearly the silos. The programs were there, but there wasn't the connection. There wasn't the joint problem solving. You know, the healthcare work environment is not as safe as it needs to be, or certainly as it could be. And a lot of times this is due to just not connecting the dots. And again, I put that back on leadership of the health system to, "You've got to think differently, different data, different approaches." It's all happening. Uh, and I think that those are you know, ingredients to workforce decisions to stay or leave a particular uh, organization.

Gisele Norris:

So, I feel like what you're both really articulating here is a very holistic enterprise risk kind of conversation that can support strategic decision making and long-term planning. Is that what you're after?

Reid Sawyer:

That's exactly right, Gigi. Right? The holistic approach, remove the silos. You've got to build it from the ground up. You have to understand what's happening in each individual insurance line, or each department. You've got to bring it up to the enterprise level to be able to understand what are my risks today, number one?

Where are they changing tomorrow? How fast are they changing? And... Cause if we can identify those inflection points, we can identify what those human capital challenges are, maybe that's a way where they would bet heavily, buy more workers' comp, or think differently about their medical malpractice on that side, right, from those issues, knowing those challenges are, right?

Those are the conversations that we want to have. Cause it's really about reducing uncertainty as they're looking forward in this turbulent environment.

Gisele Norris:

Yeah. And I think one of the things I- I've liked about what I've heard you talk about in the past is, it's about not only, you know, the insurance response, but also where you make your risk prevention and mitigation investments. And I think that's a... a really nice kind of soup to nuts way-

John Derse:

Yeah.

Gisele Norris:

... of thinking about... thinking about this.

John Derse

And I like where you've gone with this, Gigi, also, this notion of enterprise risk. Look, I, knowing healthcare as we all do, I consider it the poster child of how one could look at enterprise risk, the reason for it, the complexity of everything from care models to... to workforce. Uh, it's a great way to think about how we can be doing better.

Gisele Norris:

Well, that's great. Thank you both so much for joining us today. And to our audience, thank you as well for joining us. If you would like any more information on this topic or others, please feel free to reach out to your Marsh or Mercer representative. Thanks again.