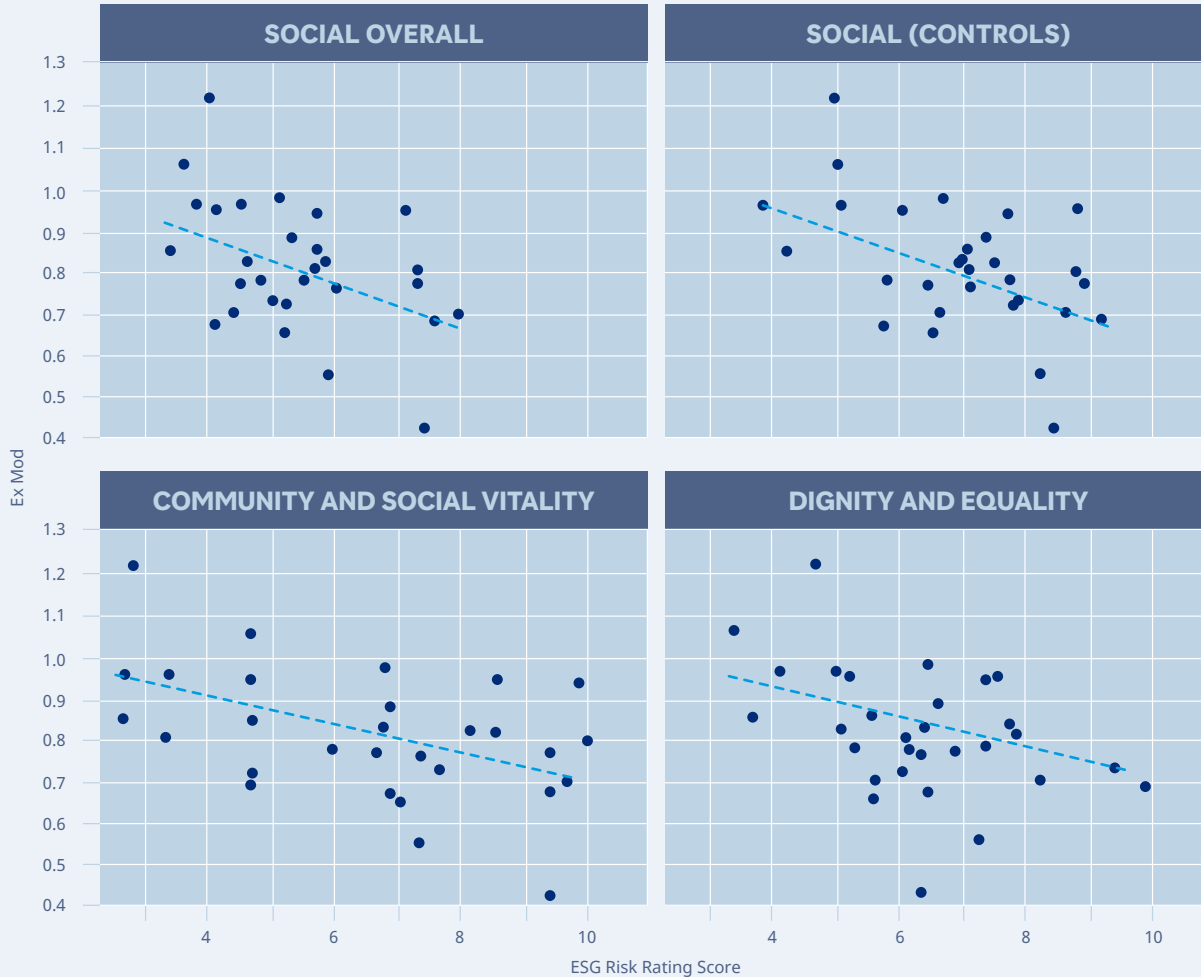


# ESG performance and US workers' compensation liability correlations



# Improved understanding of ESG risk profiles

Marsh has begun to investigate possible correlations between ESG performance and risk performance using the granular data captured through our **ESG Risk Rating tool**.





Uncovering these relationships is expected to grow our understanding of some of the additional levers that influence loss outcomes.

An early area of research has been analyzing the relationship between our US clients' ESG performance and their workers' compensation losses. To achieve this, we have been comparing their ESG Risk Rating scores to their workers' compensation experience modification factors (ex mods), which provide an industry-adjusted proxy for claims data.

Our analysis shows an inverse relationship between ex mods and social scores. Organizations with higher social scores tend to have lower ex mods (that is, actual workers' compensation claims performance is better than expected based on state/exposure mix), and companies with lower social scores tend to have higher ex mods.

The strongest correlations were found across:

- Social.
- Social (controls).
- Community and social vitality.
- Dignity and equality.

		P-VALUE	EX MOD CORRELATION
	<b>Social overall</b> The “S” of ESG. It captures labor standards, wages and benefits, diversity, human rights, community relations, privacy and data protection, health and safety, supply chain, and other social justice issues.	0.010	-0.46
	<b>Social (controls)</b> The policies, procedures, and practices an organization has in place to comply with social-related laws, regulations, and/or industry best standards.	0.004	-0.51
	<b>Community and social vitality</b> An organization’s management of its impacts on community and society and its tax governance.	0.010	-0.46
	<b>Dignity and equality</b> An organization’s management of diversity, equity, and inclusion (DEI), and human rights awareness in its workforce.	0.020	-0.42

## Amplifying the “S”

For many organizations, the focus on the “S” of ESG has felt less tangible than other areas of ESG. Yet our findings demonstrate the importance of social considerations being central to an organization’s ESG strategy.

To determine which areas of ESG performance had the strongest correlations, we mapped the relationship between ex mods and the following ESG Risk Rating subcategories:

- Component E, S, and G risk scores.
- Risk scores across 18 themes, such as “governance strategy” and “clients and customers”.
- ESG risk scores in the context of controls, reporting, and resilience.

We found the strongest correlations come from “social” subcategories.

### HOW TO DETERMINE STATISTICAL SIGNIFICANCE?

- A p-value is a measure used in hypothesis testing to determine statistical significance.
- It represents the probability that the correlation between ex mods and the ESG Risk Rating data occurred by chance, while assuming no correlation exists.
- The “social” subcategories presented here are those with a p-value of 0.05 or lower, indicating with 95% or more confidence that there exists a statistically significant correlation with ex mods.

# Consulting sustainability services

These services support improvements in the ESG Risk Rating subcategories identified as having a strong correlation with workers' compensation performance.



## MENTAL HEALTH AND WELLBEING STRATEGY

The health, safety, and welfare of employees should not put your organization or people at risk.

Across strategy, governance, interventions, and communications, Marsh Advisory consultants embed employee wellbeing within an organization's wider risk management program.



## SUPPLY CHAIN CONSULTING

Effective third-party due diligence is vital in protecting your organization from financial and reputational damage.

Marsh Advisory has experience building frameworks incorporating ESG into third-party checks. They consider an organization's motivation, risk appetite, likely exposures, flexibility, and ultimately how due diligence results will impact decision making.



## TAX RISK ASSESSMENTS

To proactively avoid reputational losses, organizations should ensure they take a responsible approach to paying tax, including tax structure, tax attributes, organizational structure, and transaction flows.

NERA Economic Consulting can provide insurance recommendations aimed at covering any unexpected tax-related costs and provide advice on ways to properly disclose taxes paid in ESG reports.



## DEI STRATEGY

Mercer Career consultants can provide a review of your DEI strategy, commitments, and potential workforce risks, as well as the identification of potential costs of filling DEI gaps (for example, pay equity). This includes a benchmarking assessment of employee sentiment and engagement, against market practice.

**Once organizations understand their current ESG performance, we can help with targeted services to improve outcomes.**

The ESG Risk Rating provides insight to risk managers by measuring organizational performance against international standards. It can be used to address areas of potential weakness, for example, in relation to workers' compensation costs, and provide direction for continuous improvement.

Once your organization has completed the ESG Risk Rating, review your scores and responses to "S" questions, in particular your scores relating to "controls", and in the "community and social vitality" and "dignity and equality" themes.

Where your component scores are in the Very Low (0-2), Low (2-4), or Fair (4-6) category, Marsh Advisory along with specialists from across Marsh McLennan businesses can offer support with a range of sustainability services.



Our team of dedicated risk consultants across both Marsh and Mercer can support your efforts to ensure that best practice levels of care and due diligence are applied to looking after your workforce.

Our specialists will help position your organization to rapidly intercept and handle potential risks before they escalate. We also can help provide assurance that your staff's exposure to risk is minimal, that they are working in a safe environment, and they are demonstrating compliance to enforcing authorities, insurers, and key stakeholders. Our actuaries at Oliver Wyman can further help quantify your retained workers' compensation exposures, including the impact of loss prevention initiatives.

For more information on any of the sustainability solutions outlined in this document, please contact a colleague below, speak to your usual Marsh representative, or visit [marsh.com](https://marsh.com).

#### **Mental health and wellbeing strategy**

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#### **Supply chain consulting**

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#### **Tax risk assessments**

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## About Marsh

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