MercerMarsh Benefits

The Five Pillars of People Risk

Managing risks for workforce and business resilience

benefits that truly benefit

Introduction

It's never been more urgent to tackle people-related risk.

COVID-19 put people-related risks firmly on the boardroom agenda. As the single-largest health crisis of our time, the pandemic has reinforced how employer-sponsored health, risk protection and well-being plans are central pillars of the employee value proposition. Chief Executive Officers (CEOs) quickly recognized the impact well-being could have on business continuity, safety, employee performance, the client experience, reputation and ultimately the bottom line. The past year has also shone a light on the role that looking after employees plays in meeting rising environmental, social and corporate governance expectations.

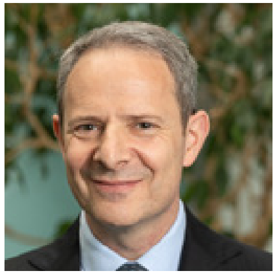
The 2021 Global Risks Report, published by the World Economic Forum in collaboration with Marsh McLennan, highlights the major threats that are likely to reshape our world over the next decade. Unsurprisingly, people risks – along with digital, political and societal risks – dominated the landscape, bringing new challenges that are both constantly evolving and critical to address.

The pandemic left many companies exposed and vulnerable with regard to their people. Now understanding and evaluating these exposures is a core priority for business leaders. To help meet this strategic imperative, Mercer Marsh Benefits (MMB) canvassed risk managers and human resources (HR) leaders on which people risks have the greatest likelihood and impact for their businesses.

In parallel, we also examined the most effective strategies firms can use to manage their current and emerging people-related risks. COVID-19 has created an important opportunity to turn these vulnerabilities into strengths. Employee health and benefits plans can be used strategically to manage a range of threats while helping to protect employees and improve business performance.

People are an organization's most important strength, but they can bring significant risk to a business if not properly managed. Never before has it been so crucial that HR and risk management break down silos and work together to protect, equip and motivate this critical asset. We hope you find this Point of View (POV) helpful as you navigate your people risk strategy.

Hervé Balzano
President, Health at Mercer
& MMB International Leader



The pandemic has reinforced how employer-sponsored health, risk protection and well-being plans are central pillars of the employee value proposition.

Understanding People Risks

While organizations have always faced people-related risks, they were particularly pronounced during the pandemic. Given the impact they can have on the workforce and the business, we have grouped 25 people risks into five main categories to allow organizations to identify, prioritize, and manage the threats that are most pertinent to them and take the appropriate action.

People risks are the business risks generated by your workforce and by how you manage, equip and motivate this critical asset.

To prioritize and mitigate these risks effectively, human resources and risk managers must work together — sharing their unique and complimentary perspectives.

Health and Safety

1. Workforce exhaustion
2. Deteriorating mental health
3. Communicable health conditions
4. Work-related illness or injury
5. Non-communicable health conditions

Environmental and Social

1. Environment
2. Diversity, equity and inclusion
3. Labor and employee relations
4. Catastrophic personal life events
5. Social unrest

Governance and Financial

1. Increasing health, risk protection and well-being benefit costs
2. Pension financial risks
3. Legal and compliance
4. Benefit decision making and accountability
5. Administration and fiduciary

Talent Practices

1. Talent attraction, retention and engagement
2. Succession and key person risk
3. Conduct and culture
4. Changing nature of work
5. Travel and mobility

Accelerated Digitization

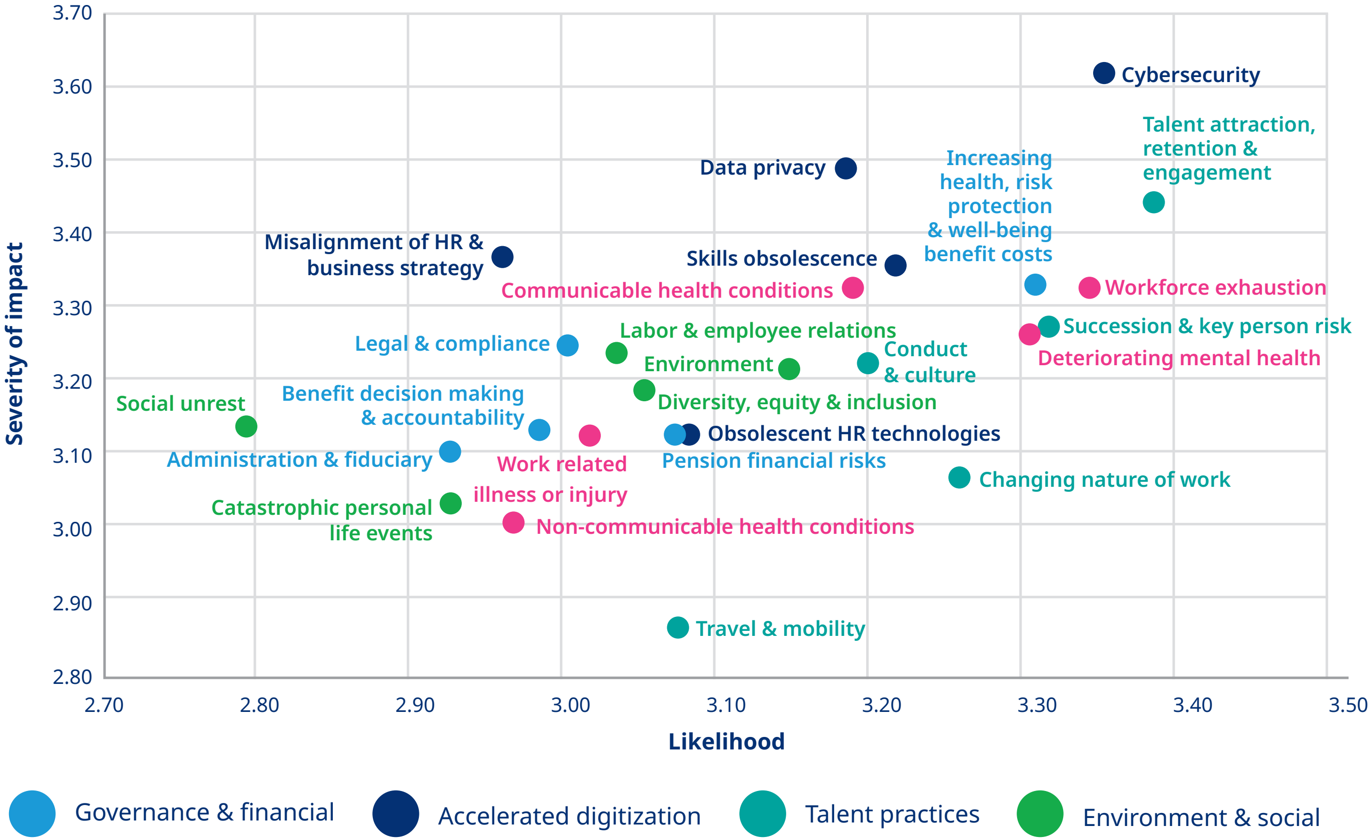
1. Cybersecurity
2. Data privacy
3. Skills obsolescence
4. Misalignment of HR and business strategy
5. Obsolescent HR technologies

Methodology

Mercer Marsh Benefits conducted the Managing the People Side of Risk Survey in early 2021. It has comprehensive geographic reach: more than 1,380 participants across Asia, Europe, Latin America and the Caribbean, the Middle East and Africa, North America, the Pacific, and the United Kingdom. HR professionals represented almost half (46%) of respondents, with risk managers representing more than half (54%). Please see the Appendix for further details on participants and methodology.

Figure 1: Likelihood and impact of people risks

How do survey respondents perceive the impact → and likelihood ↑ of global risks?



Methodology
Survey respondents were asked to assess the likelihood of the risk occurring in their organization in the next 3 years on a scale of 1 to 5, 1 representing a risk that is not very likely and 5 a risk that is very likely to occur. They also assessed severity of its impact on the business if it were to occur on a scale of 1 to 5, 1 representing no impact and 5 a catastrophic impact.

Highlights

The survey validated the relevance and significance of people-related risks. Respondents perceived the majority of the risks to have a high likelihood of occurring and are expected to have significant impact on the business.

Accelerated digitization was the top category of risk followed by talent practices and health and safety.

Unsurprisingly, the top risks identified included:

- Cybersecurity
- Talent attraction, retention and engagement
- Increasing health, risk protection and well-being benefit costs
- Deteriorating mental health
- Workforce exhaustion.

These have been exacerbated during the pandemic.

Still, the survey revealed blind spots around critical risks. Notably:

- **Non-communicable health conditions** – This refers to non-infectious conditions like diabetes and heart disease. Despite these having a lower score, the last year has shown the kind of impact pre-existing conditions have sadly had on those infected with COVID-19.[1] There is also a strong link between these conditions and mental health.[2]
- **Benefit decision making and accountability –** This blind spot was particularly surprising, as errors or poor decisions around design, financing, administration and vendor management can have substantial implications for businesses. Establishing good governance and ensuring subject matter experts are involved in benefit decisions is critical.
- **Administration and fiduciary** – Without the right administration processes and controls in place, costly mistakes happen that also bring reputation issues. Examples of this include benefits that can't be insured and unexpected post-employment liabilities. In addition, depending on plan governance, local legislation and financing arrangements, employers may also need to fulfill fiduciary responsibilities to plan members and take extra steps to be prudent, fair to deliver promises made.

The 25-risk framework helps:

- The C-suite consider the macro forces facing your business and explore the risks.
- HR and risk management teams articulate the consequences of failing to act in board-level conversations.
- Create context for cross-organizational discussions on top risks and the priorities and opportunities those risks bring.

The concentration of the people risks along the impact and likelihood scale confirms the interconnected nature of these risks. It is like a bowl of spaghetti. You pick one strand and everything around it shifts."

Carolina Klint,
Marsh Risk Management Leader,
Continental Europe and key contributor to the 2021 Global Risks Report

[1] Centre for Global Chronic Conditions. "COVID-19 and People With Chronic Conditions," available at https://www.lshtm.ac.uk/research/centres/centre-global-chronic-conditions/covid-19-and-people-chronic-conditions.
[2] National Institute of Mental Health. "Chronic Illness and Mental Health: Recognizing and Treating Depression," available at https://www.nimh.nih.gov/health/publications/chronic-illness-mental-health/.

We applied a risk rating score, which is the product of the likelihood and impact ratings, to assess the overall threat posed to an organization. With this methodology, the following emerged as the top 10 risks identified by HR and risk managers who participated in the study.

Top 10 global risks, HR versus risk manager

Globally, cybersecurity and talent attraction, retention and engagement dominated the top people risks, with strong alignment between HR and risk managers on these being the top two risks.

Respondents did diverge significantly on some risks. For example, HR highly ranked succession and key person risk and data privacy whereas skills obsolescence and workforce exhaustion was top of mind for risk managers.

Overall, risk managers rated the likelihood and impact of the risks higher than HR. It is likely that these differences speak to the differing nature of the two job roles.

Figure 2: Top people risks by role based on risk rating score

Ranking	All respondents	HR	Risk
1	Cybersecurity	Cybersecurity	Cybersecurity
2	Talent attraction, retention and engagement	Talent attraction, retention and engagement	Talent attraction, retention and engagement
3	Data Privacy	Succession and key person risk	Skills obsolescence
4	Workforce exhaustion	Data Privacy	Workforce exhaustion
5	Skills obsolescence	Workforce exhaustion	Deteriorating mental health
6	Deteriorating mental health	Communicable health conditions	Data Privacy
7	Succession and key person risk	Deteriorating mental health	Increasing health, risk protection and well-being benefit costs
8	Communicable health conditions	Skills obsolescence	Environment
9	Increasing health, risk protection and well-being benefit costs	Increasing health, risk protection and well-being benefit costs	Conduct and culture
10	Conduct and culture	Changing nature of work	Pension financial risks

Risk categories

- Health & safety
- Governance & financial
- Accelerated digitization
- Talent practices
- Environment & social

Risks are ranked by risk rating score; the product of the likelihood and the impact ratings.

Top risks by region

Several regional differences were observed in terms of the top risks facing businesses. Latin America and the Caribbean identified increasing health, risk protection and well-being benefit costs as the greatest threat, while the United Kingdom and United States (US) noted deteriorating mental health as the top risk. In Europe, Middle East and Africa and the Pacific, cybersecurity had the greatest risk rating score. See figure 3 on the next page.

Even within regions there was some divergence on which threats have the greatest likelihood and potential impact. For instance, in North America, Canada identified (1) cybersecurity, (2) talent attraction, retention and engagement, and (3) succession and key person risk as the top three. Just over the border in the US, deteriorating mental health, skills obsolescence and conduct and culture took the top three spots.

Figure 3: Top 10 people risks by region ranked by risk rating score.

Ranking	Global	Asia	Canada	Europe	Latin America & Caribbean	Middle East & Africa	Pacific	United Kingdom	United States
1	Cybersecurity	Talent attraction, retention and engagement	Cybersecurity	Cybersecurity	Increasing health, risk protection and well-being benefit costs	Cybersecurity	Cybersecurity	Deteriorating mental health	Deteriorating mental health
2	Talent attraction, retention and engagement	Cybersecurity	Talent attraction, retention and engagement	Talent attraction, retention and engagement	Cybersecurity	Increasing health, risk protection and well-being benefit costs	Talent attraction, retention and engagement	Cybersecurity	Skills obsolescence
3	Data Privacy	Data Privacy	Succession and key person risk	Data Privacy	Communicable health conditions	Talent attraction, retention and engagement	Workforce exhaustion	Talent attraction, retention and engagement	Conduct and culture
4	Workforce exhaustion	Skills obsolescence	Data Privacy	Skills obsolescence	Workforce exhaustion	Pension financial risks	Deteriorating mental health	Diversity, equity and inclusion	Environment
5	Skills obsolescence	Succession and key person risk	Workforce exhaustion	Conduct and culture	Talent attraction, retention and engagement	Environment	Succession and key person risk	Skills obsolescence	Pension financial risks
6	Deteriorating mental health	Misalignment of HR and business strategy	Deteriorating mental health	Legal and compliance	Succession and key person risk	Skills obsolescence	Data Privacy	Workforce exhaustion	Workforce exhaustion
7	Succession and key person risk	Labor and employee relations	Communicable health conditions	Workforce exhaustion	Data Privacy	Misalignment of HR and business strategy	Communicable health conditions	Succession and key person risk	Diversity, equity and inclusion
8	Communicable health conditions	Communicable health conditions	Changing nature of work	Pension financial risks	Work-related illness or injury	Data Privacy	Skills obsolescence	Environment	Talent attraction, retention and engagement
9	Increasing health, risk protection and well-being benefit costs	Environment	Increasing health, risk protection and well-being benefit costs	Deteriorating mental health	Deteriorating mental health	Diversity, equity and inclusion	Conduct and culture	Misalignment of HR and business strategy	Increasing health, risk protection and well-being benefit costs
10	Conduct and culture	Changing nature of work	Labor and employee relations	Environment	Changing nature of work	Workforce exhaustion	Work-related illness or injury	Conduct and culture	Benefit decision making and accountability

Risk categories Health & safety | Governance & financial | Accelerated digitization | Talent practices | Environment & social

Risks are ranked by risk rating score; the product of the likelihood and the impact ratings.

Top risks by industry

There were also some interesting differences by industry, reflective of their respective business challenges. Although cybersecurity and talent attraction, retention and engagement dominated the top risks across industries, workforce exhaustion issues were top of mind for financial institutions. Skills obsolescence featured prominently in the retail and manufacturing industries, sectors that find themselves at the heart of the digital revolution. In addition, environment was identified as a key issue for retail, whereas increasing benefit spend was featured for construction.

For the industries with the largest representation in the survey, results were as shown in figure 4.

Figure 4: Top 10 people risks by industry ranked by risk rating score.

Global ranking	Financial institutions	Retail and wholesale	Manufacturing and automotive	Communications, media or technology	Construction
1	Talent attraction, retention and engagement	Cybersecurity	Cybersecurity	Talent attraction, retention and engagement	Cybersecurity
2	Workforce exhaustion	Talent attraction, retention and engagement	Skills obsolescence	Cybersecurity	Talent attraction, retention and engagement
3	Cybersecurity	Environment	Talent attraction, retention and engagement	Data Privacy	Increasing health, risk protection and well-being benefit costs
4	Deteriorating mental health	Skills obsolescence	Communicable health conditions	Increasing health, risk protection and well-being benefit costs	Succession and key person risk
5	Skills obsolescence	Deteriorating mental health	Workforce exhaustion	Deteriorating mental health	Data Privacy
6	Misalignment of HR and business strategy	Data Privacy	Work-related illness or injury	Misalignment of HR and business strategy	Workforce exhaustion
7	Data Privacy	Conduct and culture	Conduct and culture	Communicable health conditions	Work-related illness or injury
8	Increasing health, risk protection and well-being benefit costs	Workforce exhaustion	Data Privacy	Diversity, equity and inclusion	Legal and compliance
9	Conduct and culture	Communicable health conditions	Environment	Skills obsolescence	Communicable health conditions
10	Succession and key person risk	Succession and key person risk	Increasing health, risk protection and well-being benefit costs	Succession and key person risk	Benefit decision making and accountability

Risk categories

- Health & safety
- Governance & financial
- Accelerated digitization
- Talent practices
- Environment & social

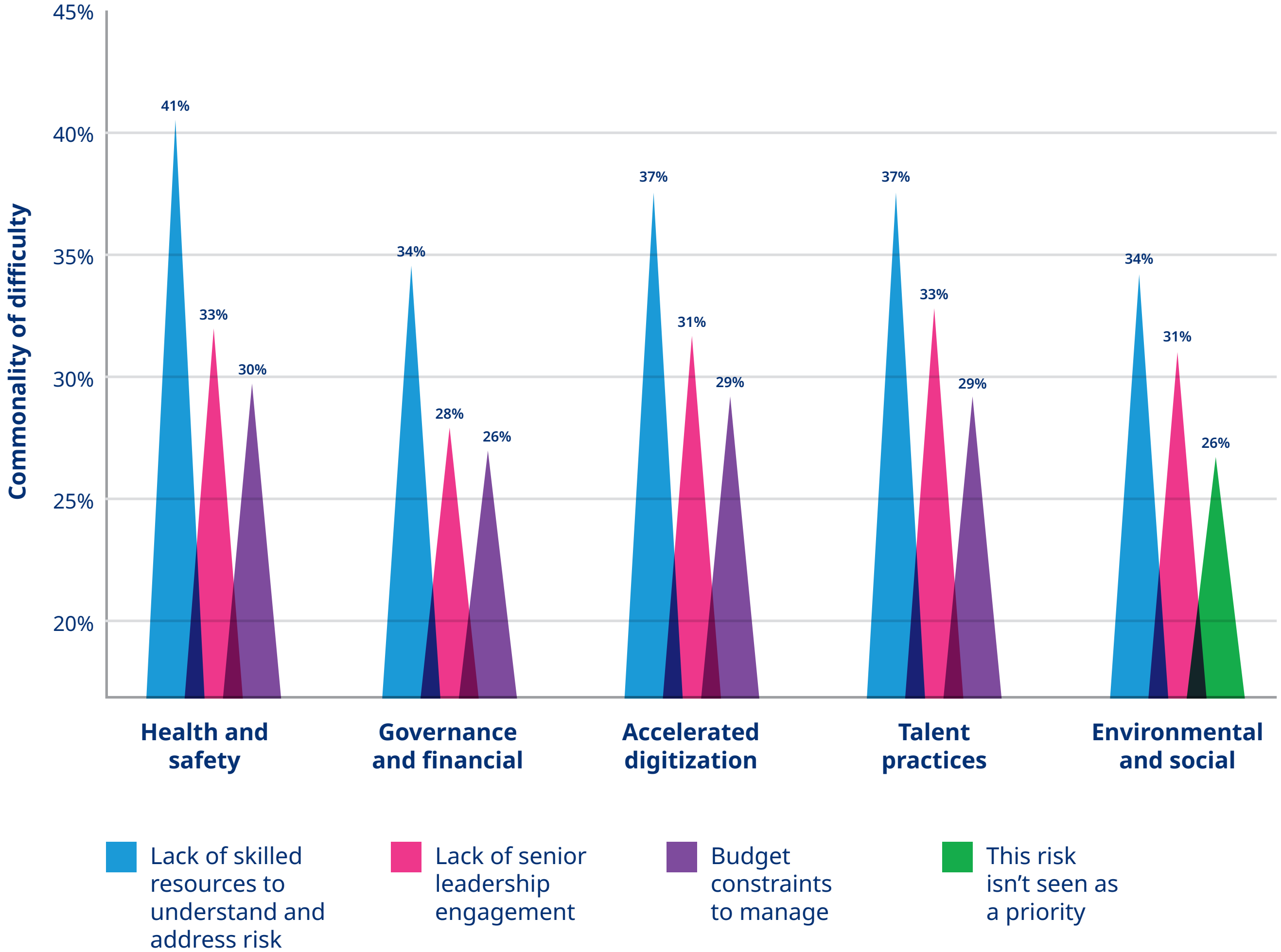
Risks are ranked by risk rating score; the product of the likelihood and the impact ratings.

Barriers to addressing people risks

Respondents frequently report that they lacked the skilled resources to understand and address their exposures and lacked senior leadership engagement for all five risk categories. Addressing people-related issues is a nuanced area that can benefit from expert advice in building the business case. HR and risk managers should align on top risks and engage the C-suite to adopt a risk mitigation strategy.

Interestingly, more than a quarter of respondents said that one of the top difficulties in the environment and social category was that the risk isn't seen as a priority. This finding seems contrary to the findings from the 2021 *Global Risks Report*[3], where environmental risks were featured among the highest-likelihood and highest-impact risks of the next decade by business leaders. This could suggest that these risks are still concerns at the board and executive leadership team level but the determination of environment, social, and governance (ESG) goals and associated action plans have yet to trickle through. This could also be the result of organizations only expecting such risks to manifest in the long term and not within the three-year horizon of this survey. Yet, recent examples of political uncertainty and civil disruption demonstrate that these risks sit close to the surface.

Figure 5: Top three difficulties faced by organizations to address people risks.



[3] World Economic Forum. Global Risks Report 2021.

We were surprised by how ultimate responsibility for each individual risk varies considerably from company to company. This suggests that collectively the business community has not standardized roles and responsibilities for managing many people risks. This is detailed further in Appendix C.

The complexity of today's risks means that an ecosystem approach is needed to solve risks. As risks and their consequences are multi-dimensional, no longer can one function or specialist solve the problem. A diversity of perspectives is critical.

David Stark,
Enterprise Risk Services Leader,
Marsh Advisory

Health and Safety

Top risks in the category ranked by risk rating score:

1. Workforce exhaustion
2. Deteriorating mental health
3. Communicable health conditions
4. Work-related illness or injury
5. Non-communicable health conditions

Health and Safety

Our view is that employers that proactively mitigate health issues such as emotional well-being and pandemic-related needs – through targeted interventions and a culture of safety and well-being – drive positive business outcomes. These outcomes include a more stable business, more energized and loyal employees and better management of medical, disability and workers' compensation claims.

Research highlights

79%

of respondents agreed or strongly agreed that their organizations recognized health and safety risks as a serious threat to the business.

The three risks most respondents deemed likely or very likely to impact businesses were:

Workforce exhaustion
52%

Deteriorating mental health
54%

Communicable health conditions
48%

Risk identified saying it could have a catastrophic or high impact:

Communicable health conditions
48%

Workforce exhaustion
47%

Deteriorating mental health
43%

The top three difficulties organizations encounter when addressing health and safety risks:

Lack of skilled resources to understand and address the risk
41%

Lack of senior leadership engagement
33%

Budget constraints to manage the exposure
30%

How poorly managed health and safety risks impact your business and bottom line

- Firms are seeing **workforce exhaustion**, caused by work-life balance issues, change fatigue and too many priorities and distractions. This often leads to errors, high employee turnover, reduced productivity and even damaged reputation.
- The pandemic has caused **deteriorating mental health** with more people than ever suffering from anxiety, stress, depression and addiction. The business impacts can be severe, including low productivity, escalating benefits spend and damage to employment value proposition and brand.
- COVID-19 clearly demonstrated the acute business impacts of **communicable health conditions** such as infectious diseases and pandemics. While the immediate risks are better known, consequences to be aware of include poor business continuity, operational cost escalation and lower overall individual and organizational performance.
- **Work-related illness or injury** including accidents, unsafe exposure, security incidents or aggravation of pre-existing conditions in a work environment (whether on-site or remote) all can carry severe legal, financial and reputational consequences.
- Unmanaged **non-communicable health conditions** including diabetes, lung disease and cancer impact business resilience, leading to higher costs and weaker organizational performance.

Supporting employees' emotional health

The extended duration of the COVID-19 pandemic has exacerbated mental health conditions, with feelings of anxiety and loneliness being recorded at an all-time high. Now more than ever, coping with work pressure and behavioral health concerns are at the very top of employers' agendas as evidenced by both exhaustion and deteriorating mental health making it into the top-10-risks list (based on risk rating score).

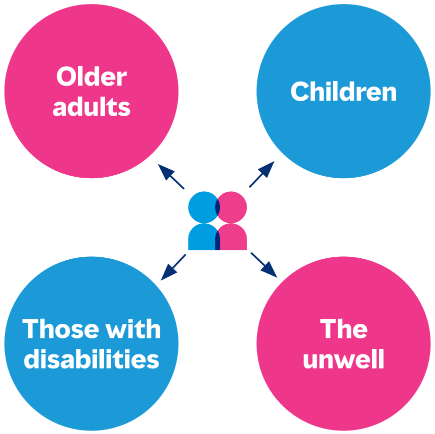
Workforce exhaustion, the fourth highest risk amongst all people risks identified in the research, is an escalating concern that requires immediate attention. When asked "To what extent is your organization currently addressing this risk?" it was rated in 13th place. If ignored, this risk will worsen the impacts already created by mental health and other emotional health conditions, including absenteeism, presenteeism, low productivity and higher medical claims. This bold placement signals that both HR and risk managers will be grappling to understand root issues and successful interventions over the coming weeks, months and years. It's likely that a combination of factors are at play, including physical health, mental health, grief, job design, supervisory and leadership skills, Zoom fatigue and caregiving stresses.

The pandemic has accelerated people risks to the top of the pedometer for risk managers. Poorly designed plans can undermine the health and engagement of employees and not to mention, the employer branding of a firm! It is critical that health is made a business imperative with strong support from risk managers, finance as well as the executive sponsors alongside with HR. Firms need to plan ahead for the design, delivery and financing of solutions that enhance access to quality healthcare.

Joan Collar,
Asia Leader,
Mercer Marsh Benefits

The pressure of being a caregiver can have a substantial negative impact on a person's mental and physical health. COVID-19 intensified this challenge, thrusting many people into the role of caregiver for the first time. If not managed proactively, overtiredness stemming from work-life balance issues, change fatigue and too many priorities and distractions can lead to safety and productivity concerns as well as exit from the labor force, particularly for women and low-income wage earners[4].

The term *caregiving* encompasses a variety of **different social network relationships** and employees are finding themselves acting as caregivers for various loved ones...



[4] Watts T and Sardone MA. "Creative Ideas to Support Working Parents During the Caregiver Crisis," July 30, 2020, available at https://www.mercer.us/our-thinking/healthcare/creative-ideas-to-support-working-parents-during-the-caregiver-crisis.html.

[5] UK Health & Safety Executive. Work-Related Stress, Anxiety or Depression Statistics in Great Britain, 2020, November 4, 2020, available at https://www.hse.gov.uk/statistics/causdis/stress.pdf.

[6] World Health Organization. Global Burden of Mental Disorders and the Need for a Comprehensive, Coordinated Response From Health and Social Sectors at the Country Level, December 1, 2011, available at https://apps.who.int/gb/ebwha/pdf_files/EB130/B130_9-en.pdf.

In 2019/2020, the UK Health & Safety Executive agency reported that stress, depression or anxiety accounted for 51% of all work-related ill health cases and 55% of all working days lost due to work-related ill health.[5] The World Health Organization expects that mental illness will be the leading cause of disability and absence in the workplace by 2030 if it is not proactively addressed.[6]

Legislative changes in the making

There is increasing pressure from governments worldwide to address mental health risks with the same robustness as physical risks within health and safety standards. Some examples of these include:

- The UK government's Thriving at Work mental health standards in the workplace, which are to be implemented in all workplaces in the next seven years.
- ISO 45003 is a new global standard that intends to give practical steps and methods of best practice for managing psychological health within the workplace. It will include rules around managing psychological risk and incorporating it into a health, safety and well-being program.
- New legislation is expected across Europe and European Economic Area (EEA) countries resulting from an EU directive setting out minimum standards, which must be put into national laws by August 2022. The objective is to provide better work-life balance through more equal sharing of parental leave, giving the right to request flexible working and providing a minimum amount of paid carer's leave.

While legislators are making some strides towards better protection of mental health (see box on prior page), employers must address this issue now, and take immediate steps to protect their workforces. HR and risk managers are uniquely positioned to reinvent health and well-being plans in ways that can lead to positive impacts for employers and employees alike. In addition to fostering an environment where people can thrive, there are four main categories of mental health benefits that employers can offer (see right).

Being prepared for the next pandemic

COVID-19 has highlighted the importance of having a communicable illness preparedness and response plan. Not surprisingly, infectious disease was identified as a top critical threat in the World Economic Forum 2021 Global Risks Report as well as in this survey, with the business continuity implications top of mind for correspondents. Since the onset of the pandemic, many governments in Latin America including Colombia, Peru, Argentina, Mexico and Brazil, added COVID-19 under their workers' compensation coverage requirements. This could indicate a trend whereby governments enforce further responsibilities for employers with respect to infectious diseases contracted in the workplace. Regardless of whether legislators worldwide do adopt this stance, employers' need to protect the business from another pandemic.

Prevention

- Digital solutions that build skills in areas such as resilience and mindfulness
- Educational campaigns on behavioral health topics
- "Virtual commute" solutions

Support at work

- Colleague manager training
- Peer-to-peer support
- Professional training and upskilling
- Return to work programs

Access, treatment and coverage

- Employee Assistance Programs (EAPs)
- Health plan networks
- Resources for specialty areas (e.g., addiction)
- Virtual care options or tools such as computerized CBT
- Navigation assistance
- Sleep programs

Support away from work

- Flexible working hours
- Sabbaticals
- Remote working
- Disability return to work coordination
- Financial well-being solutions

Blind spots?

We are concerned that that only 31% of respondents considered that non-communicable health conditions might have a high or catastrophic impact on the business. With the current attention turned to infectious diseases, it is important that non-infectious chronic conditions like diabetes, heart disease and cancer, are not neglected.

In 2019, seven out of 10 leading causes of death were non-communicable conditions, according to the World Health Organization.[7] In the majority of employer sponsored plans, these conditions drive claims costs and corresponding benefit spend.[8] Given that a number of these conditions are driven by lifestyle choices, investing in proactive health management will be a worthwhile risk mitigation approach for employers.

It is also important to remember that those with serious health conditions were some of the most heavily impacted by the pandemic. Furthermore, the disruption in healthcare services as a result of COVID-19 has also affected the routine care and monitoring of chronic conditions, which has resulted in further deterioration of health with increased claim spend expected in the future. There is a need to be able to identify the people who may have missed out on diagnostics and treatment during this period and ensure that they get timely and effective access to care.

Figure 6: Health risk continuum.
Managing health risk involves understanding workforce segments and addressing needs across the health spectrum

Health status varies across the workforce:	**The well**	**The at risk**	**The ill**	**The seriously ill**
Best practice involves supports to:	**Stay healthy and well**	**Understand, manage and mitigate risks**	**Restore health, treat and manage conditions**	**Receive best practice, clinically-proven treatment at reasonable price**
Programmatic elements include:	• Health and safety screening • Resilience and mindfulness • Vaccines • Health and safety education • Hygiene	• Health coaching • Lifestyle change program • Maternity care • Mental health peer and supervisor support • Employee assistance program	• Early intervention & rehabilitation • Condition management • Addiction support • Mental health treatment	• Second opinion • Care management • Disability management
	Culture of health and safety			

[7] World Health Organization. "The Top 10 Causes of Death," December 9, 2020, available at https://www.who.int/news-room/fact-sheets/detail/the-top-10-causes-of-death.
[8] Mercer Marsh Benefits. 2020 Global Medical Trends.

Case Study from MMB Australia: delivering on targeted chronic disease management programs to support positive health outcomes.

Challenge

One in five people in Australia experience chronic pain, affecting health and productivity[9]. It is a common claim condition in the workers' compensation insurance markets and most long-term claims are related to chronic conditions. This impacts the duration of claims and people's recovery to health and work.

Accessibility to chronic pain programs in hospitals and clinics can be poor, especially in regional areas due to distance and long waiting lists. COVID-19 made this problem worse. Individuals with illness and injuries related to work continued to suffer with no alternative solutions to access better care.

Actions

To help solve this problem, MMB partnered with a digital chronic pain coaching platform and co-designed the "Resolve" pain coaching solution. To make the solution both relevant and evidence-based, an initial pilot was also conducted on the long-term chronic pain claims.

Value delivered

The initial pilot was launched with MMB actively involved in program delivery through our claims rehabilitation capability. Initial results demonstrated significant reduction in client's opioid use and improved work readiness for new employment.

[9] Australian Institute of Health and Welfare. "Chronic Pain in Australia," available at https://www.aihw.gov.au/reports/chronic-disease/chronic-pain-in-australia/contents/summary.

Four health and safety ideas to enhance resilience of your workforce and your business

Some tips to get started...

1

Understand the health needs and profile of your workforce through employee listening and analysis of available health risk data.

2

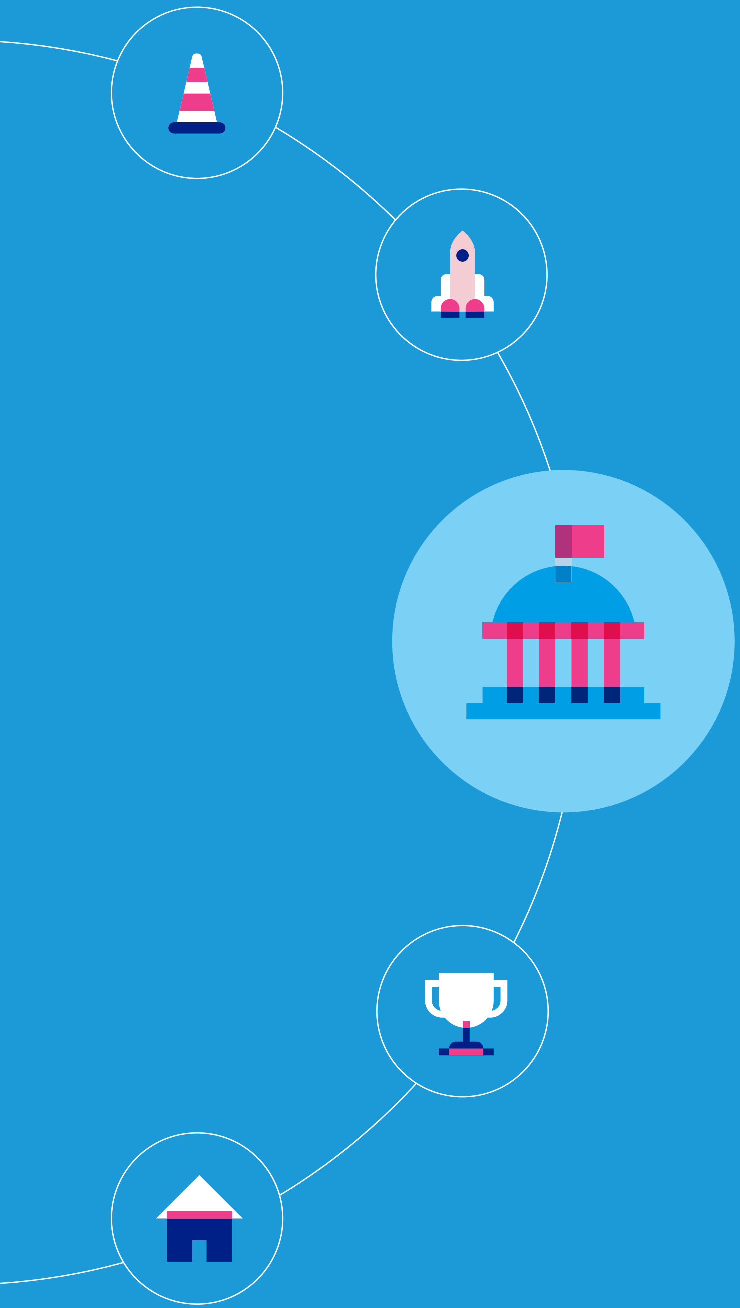
Review existing benefit arrangements by carrying out a needs gap analysis and benchmarking against current and emerging best practice, to discover where employee needs are not being met.

3

Compare your suite of employee support programs (including training) to the five key health and safety risks identified in this research.

4

Make sure your program addresses the physical, emotional, financial and social needs of your employees. Think about areas you might need to introduce, such as mental health supports beyond an employee assistance program, new offerings in light of remote working or access to support for people experiencing loneliness and isolation.



Governance and financial

Top risks in the category ranked by risk rating score:

1. Increasing health, risk protection and well-being benefit costs
2. Pension financial risks
3. Legal and compliance
4. Benefit decision making and accountability
5. Administration and fiduciary

Governance and Financial

Employer-sponsored benefit plans have evolved to become a critical component of business strategy with increased C-suite attention. As a result, many firms are going beyond insurance benefits to offer a broad range of well-being initiatives, perks, savings, paid time off and allowances. However, the costs of these benefits are climbing rapidly, leading to an increased focus on cost containment.

Errors or poor decisions around design, financing, administration and vendor management can have substantial implications for the business. Furthermore, in many cases, employers have fiduciary or compliance obligations to meet. Pension benefits in particular can be onerous to administer and manage – especially where dynamic investment strategies are in place – and many defined benefit plans are now legacy arrangements.

Companies, therefore, are increasingly looking to centralize decisions to improve visibility, reduce risk and ensure agility in local execution of global strategy that is aligned to their mission and values.

How poorly managed governance and financial risks impact your business and bottom line

- Reduced insurer appetite and medical inflation is pushing up the costs of some benefits. Simultaneously, increases in utilization, claims duration and severity can lead to **increasing health, risk protection and well-being benefit costs**. This in turn means squeezed budgets and lower profitability.
- Employers are grappling with several **pension financial risks** including investment, inflationary and longevity challenges. If a plan sponsor's financial commitment to a retirement plan is weak, this can lead to dissatisfied employees, legislative challenges and inadequate retirement savings.
- **Legal and compliance** is critical for both HR and risk managers: Misalignment of benefits and other HR practices/programs to regulatory requirements, tax, labor, human rights and employment law leads to penalties, litigation and associated reputational damage.
- Firms are increasingly seeing the need for strong **benefit decision making and accountability**. The alternative is inappropriate plan design, financing, vendor selection/ management, communication and administration decisions resulting in suboptimal costs, liabilities and commitments.
- The **administration and fiduciary burden** on businesses is growing. An inability to administer employee benefit programs or investment funds accurately, fairly, in accordance with promises made for the benefit of plan members will result in costly errors and unmet obligations.

Research highlights

70%

of respondents agreed or strongly agreed that their organizations recognized governance and financial risks as a serious threat to the business.

The three risks most respondents deemed likely or very likely to impact businesses were:

Increasing health, risk protection and well-being benefit costs
52%

Pension financial risks
42%

Legal and compliance
41%

Risk identified saying it could have a catastrophic or high impact:

Increasing health, risk protection and well-being benefit costs
45%

Legal and compliance
43%

Benefit decision making and accountability
38%

The top three difficulties organizations encounter when addressing governance and financial risks:

Lack of skilled resources to understand and address the risk
34%

Lack of senior leadership engagement
28%

Budget constraints to manage the exposure
26%

Insurance is an airbag, not a seat belt. Employers need to develop a cost containment plan that is right for them to make sure their benefit program is sustainable from a cost and risk perspective – typically encompassing plan design, health risk management and efficiency-related opportunities.”

Amy Laverock,
MMB Advice and Solutions Leader

Increasing health, risk protection and well-being benefit costs

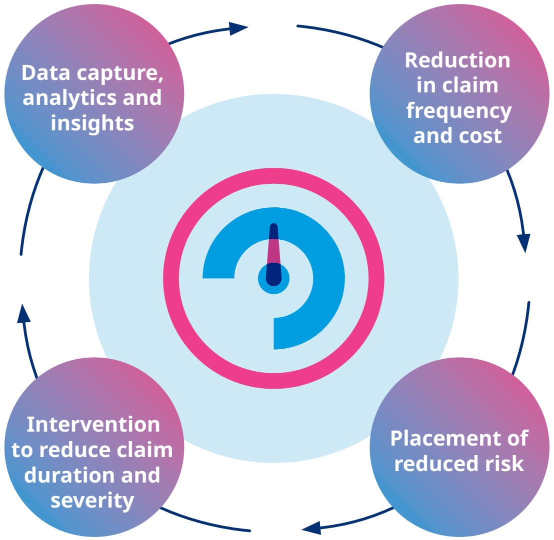
The rising cost of medical insurance is one of the most significant challenges facing employers across the globe. While there has been a dip in medical trend rates in 2020 and 2021 due to COVID, in general we have witnessed the medical trends continuing to exceed inflation rates by close to three times. Some of the factors contributing to these increases include:

1. Growing incidence of non-communicable diseases such as heart disease, diabetes and cancer.

2. Supplier-driven cost increases, such as high-cost pharmaceuticals and advancements in technology.

3. Aging population.

To bend the medical inflationary curve, companies need to take a strategic approach within their risk management framework to reduce the frequency, impact and duration of their medical and disability claims.



As organizations approach their cost containment strategy, we propose the following framework:

3 elements of a truly effective health and benefit cost containment strategy:

1 **Design for value** through coverage provisions, network configuration and engagement.

+

2 **Manage health risk** through a data-driven approach that promotes a healthy workforce.

+

3 **Drive efficiencies** through smart financing and placement.

Can the organization afford the risks of poorly managed benefit plans?

With changing legislation around the world impacting benefits, there is an increasing need to ensure that offerings remain compliant with government-prescribed minimums, human rights and employment law requirements.

As the complexity of programs grows, it is important that plan design, financing, vendor selection, communication and administration decisions are made by people with the right expertise and decision-making authority.

Do you have a thorough understanding and model of the risks that you may be exposed to? If not, there are a number of surprises that can creep up including, but not limited to:

- Unexpected accounting expenses and liabilities associated with retiree medical benefits.
- Benefit promises that are uninsurable, for example, disability benefits that can't be insured because they are missing sensible exclusions or don't contain a financial incentive to return to work.
- Benefits provided that are far richer than market practice, like car benefits or even open-ended coverage for multi-million-dollar prescription drugs that could be funded by government schemes.

Are you leaving money on the table by not leveraging economies of scale across your global benefit arrangements?

Several multinationals are applying financing mechanisms such as captives to their employee benefit programs. Used correctly, these can remove the margin and frictional costs that exist in insurance premiums such as administration, profit and risk charges and provide greater insights and control over benefit programs.

Captives have long been used to reduce the cost of providing employee benefits and to improve governance. But the true value is in the flexibility and control that captives offer for businesses to ensure that their benefit programs address the needs of their workforce and the people risks that impact their business.

Barry Perkins,
Financing Leader,
MMB Multinational

Case Study: Global governance and optimized financing through global benefits management

Challenge

One of the largest human resources providers was struggling to gain oversight and transparency across its multiple businesses in more than 60 countries. Simultaneously, it was also looking for ways to improve efficiency, with human capital being by far its largest and most important asset. With decentralized decision making, creative solutions were needed.

Actions

MMB was appointed to manage benefits globally, consolidating and replacing a multitude of uncoordinated local brokers and consultants. Utilizing MMB as an extended workbench served as a powerful means to implement a new governance framework to ensure risks were identified and managed. In order to reduce costs and provide more control, a captive insurance company was established to act as a funding vehicle for people risks.

Value delivered

In partnership among MMB, HR and risk management, not only was full transparency of local benefit plans from a design and cost perspective achieved, but also strategic value was unlocked. The captive continues to return profits which would otherwise be captured by insurers. In addition, it enables control over decision making when it comes to benefits design and coverage. Through this strategic approach to governance and risk financing, the client has gained control over a spend of more than US$100 million while ensuring that employees' needs are looked after in line with the overarching benefits strategy.

Four ways to improve benefits governance and business resilience

Some tips to get started...

1

Review all policies and guidelines and map responsibilities for benefits decision making to key roles.

2

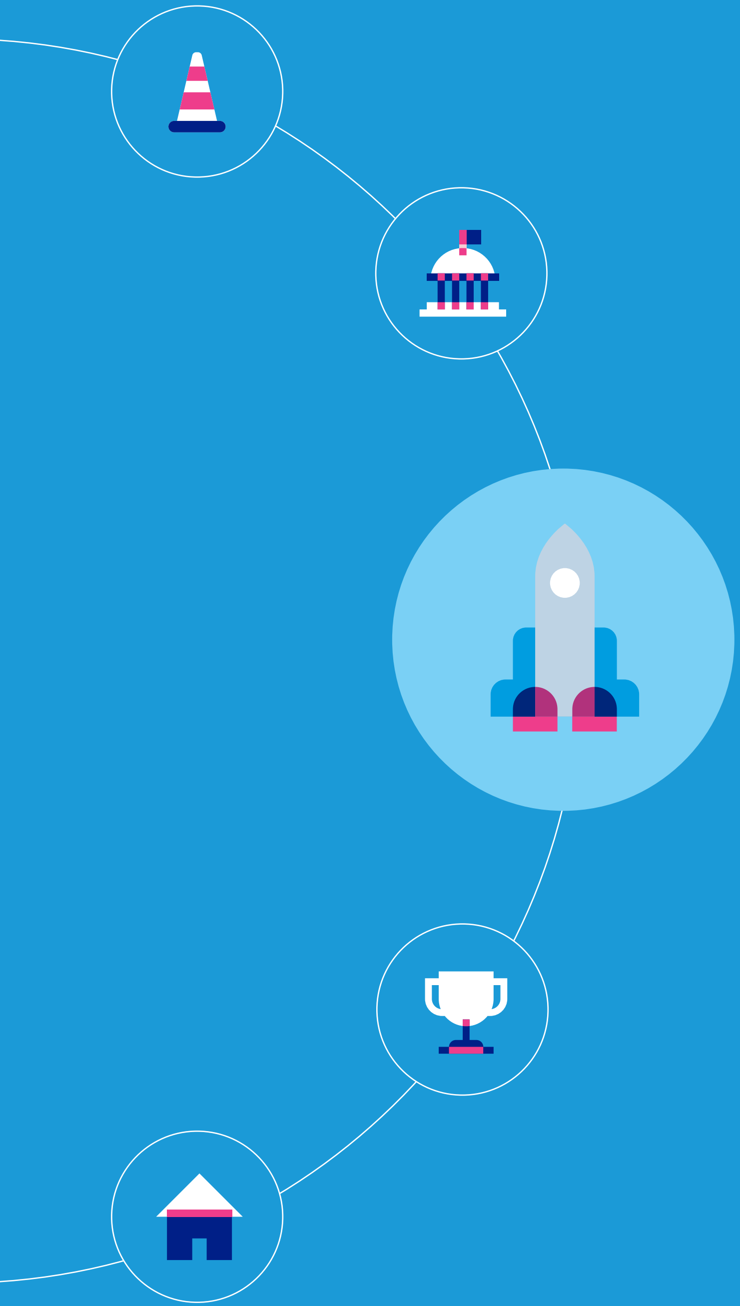
Analyze previous benefit usage and claims data to identify key cost drivers and use predictive analysis to see how costs may rise in the future.

3

Examine provider, employee and leadership behaviors that may be driving benefit cost increases.

4

Introduce a multi-year and multipronged cost-containment strategy – this might include measures such as self-insurance, program harmonization or global benefits management.



Accelerated digitization

Top risks in the category ranked by risk rating score:

1. Cybersecurity
2. Data privacy
3. Skills obsolescence
4. Misalignment of HR and business strategy
5. Obsolescent HR technologies

Accelerated Digitization

People management practices have not kept pace with other technological developments.

Risks involving cybersecurity, loss of personal information and system obsolescence are heightened due to how HR data is maintained and how benefits and other HR programs are delivered. Employers are urged to seize opportunities to transform HR programs and employee benefits, such as the explosion of digital health and well-being programs during the pandemic.

Firms are also taking a number of other measures, such as appointing heads of cyber risk and moving from job-based architectures to skills-based talent models to speed up skill acquisition and development.[10]

Research highlights

75%

of respondents agreed or strongly agreed their organizations recognized accelerated digitization risks as a serious threat to the business.

The three risks most respondents deemed likely or very likely to impact businesses were:

Cybersecurity
52%

Skills obsolescence
48%

Data privacy
47%

Risk identified saying it could have a catastrophic or high impact:

Cybersecurity
59%

Data privacy
54%

Misalignment of HR and business strategy
49%

The top three difficulties organizations encounter when addressing accelerated digitization risks:

Lack of skilled resources to understand and address the risk
37%

Lack of senior leadership engagement
31%

Budget constraints to manage the exposure
29%

How poorly managed accelerated digitization risks impact your business and bottom line

- Increasingly sophisticated and frequent cybercrimes have pushed **cybersecurity** up the C-suite agenda. Breaches occurring due to poor vendor and people management processes can cause severe business interruption and brand damage.
- Consumers and governments alike are increasingly concerned with **data privacy**. Breaches resulting in loss or misuse of personal information can lead to loss of reputation and hefty fines.
- **Skills obsolescence** due to rapid digitization and automation may lead to businesses struggling to meet their strategic goals.
- Poor workforce planning or organizational change management will lead to a **misalignment of HR and business strategy**. This in turn may prevent a firm from achieving its business vision.
- **Obsolescent HR technologies** result in a failure to make activities, benefits and healthcare more personalized, convenient and secure. This can mean a suboptimal employee experience – ultimately resulting in higher turnover and loss of talent.

[10] Mercer. Gaining a skills edge through agile talent practices

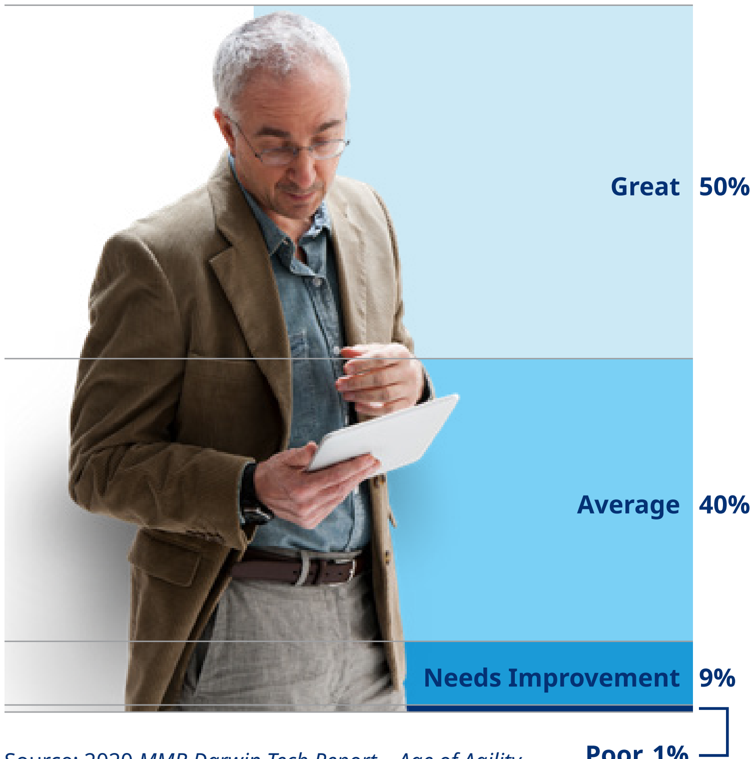
Keeping pace with the change

Rapid digital transformation is the constant of our times. As digitization continues at pace, there is an ever-growing risk that your people strategy will be out of step with the needs of the business for the future.

HR technologies also need to keep pace with employee expectations: only 50% of companies felt that their workers had a great user experience when it comes to HR technology, according to the 2020 MMB Darwin Tech Report – *Age of Agility*.[11] In many organizations, figuring out how to enroll and access benefits continues to be a paper-intensive and frustrating experience.

One way to ease frustration? Digital "front doors" or hubs to give employees easy access to well-being programs and an intuitive benefits experience. This means employers can engage better with their people and support them during moments that matter. It also provides better cost visibility and utilization insights.

Figure 7: HR technology user experience.
When it comes to HR technology, please rate the user experience you think you provide your employees with.



Source: 2020 *MMB Darwin Tech Report – Age of Agility*.

In this day and age, where we expect convenience at our fingertips, it's essential that the HR technology is leading and creating a positive benefits experience for employees.

Chris Bruce,
Co-Founder, Darwin,
Mercer Marsh Benefits

[11] MMB Darwin. The Age of Agility: Flexible, Adaptable and resilient benefits. 2020

Case Study: Improving the employee experience through a digital and personalized offering

Challenge

MMB has been collaborating with a large, fast-growing global technology company, which has many generations of employees, all with very different jobs. The client recognized that its benefit design had not kept up with workforce needs and intended to implement a flexible benefit plan.

Actions

MMB partnered with the client to choose vendors that could implement digital solutions. We prepared a summary of qualified vendors from which the client was able to select the best partner for its needs ranging from telehealth, virtual physical therapy, iCBT mental health therapy as well as back-up daycare, to make sure employees had support through COVID-19. The positive feedback from employees led to the client adding a digital well-being platform to its traditional core benefit plan, all delivered via Darwin, MMB's global employee benefit communication and administration software.

Value delivered

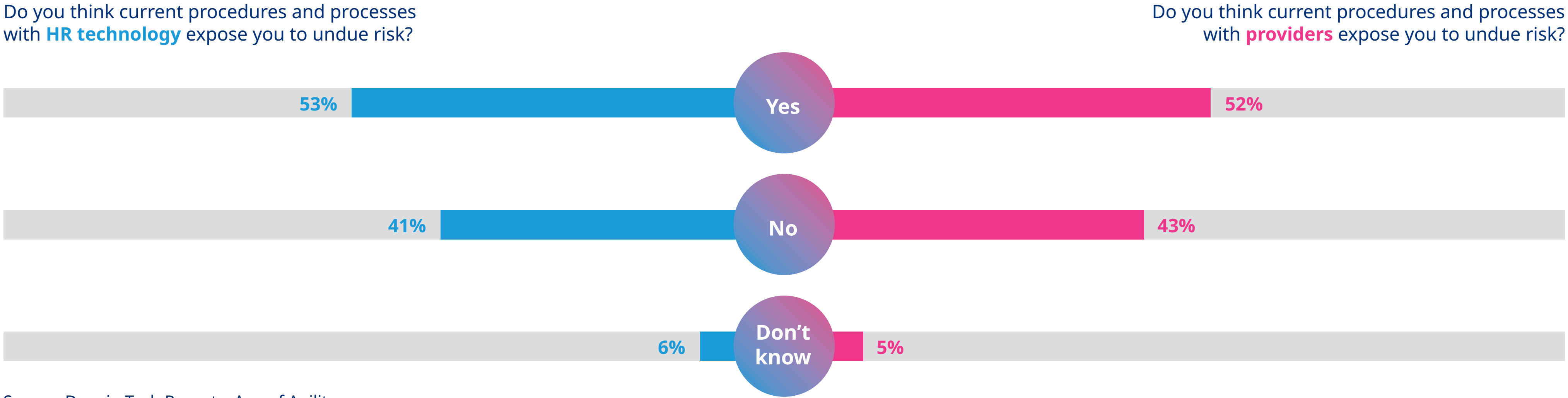
The employer was able to set the foundation for adding more benefits and virtual solutions that employees could select for their personal needs – from sleep and mental health coaching to estate planning and pet insurance.

Implementing digital solutions and delivering through the platform allowed the employer to provide a core foundation of employer-paid benefits, while adding solutions that employees can choose from based on what matters to them. More importantly, the company has been able to offer a differentiated solution to help attract and retain employees, and strategically elevate their experience. In addition, automation of eligibility transfers reduced cyber risk.

Protecting your important and confidential information

Cybersecurity and data privacy were top of mind for HR and risk managers; hardly surprising given increasingly sophisticated and frequent cybercrimes. Of course, this has been exacerbated as more people work from homes with unprotected Wi-Fi networks. This was a concern that surfaced in *MMB's Darwin Tech Report – Age of Agility*, which revealed that 53% of employers believe their current HR technology processes and procedures expose them to undue risk.

Figure 8: HR technology and provider risk exposure



Source: Darwin Tech Report – Age of Agility

Seizing opportunities from accelerated digitization around benefits to drive business and workforce resilience

Some tips to get started…

1

Consider opportunities to use digital tools like Darwin to enhance the employee experience while reducing risk.

2

Create a dynamic learning curriculum for those involved in benefits management to ensure they participate in the “race to reskill” and proactively seize new opportunities brought by digital.

3

Collaborate across functions to assess whether the risk of a data breach associated with your HR data is sufficiently mitigated.

4

Take advantage of opportunities to enhance access to quality healthcare through more affordable digital solutions.

Talent practices

Top risks in the category ranked by risk rating score:

1. Talent attraction, retention and engagement
2. Succession and key person risk
3. Conduct and culture
4. Changing nature of work
5. Travel and mobility

Talent Practices

In light of new ways of working, an increasingly diverse workforce, new business models, digital transformation and evolving consumer demand, companies must inspire and invigorate people by redesigning their work experience while also protecting against heightened risks in areas such as misconduct and lack of succession. Employers are revisiting their talent management strategies, policies and procedures to reinvent the employee value proposition to ensure depth of needed talent and behavior aligned to company objectives and values.

Research highlights

74%

of respondents agreed or strongly agreed their organizations recognized talent practices risks as a serious threat to the business.

The three risks most respondents deemed likely or very likely to impact businesses were:

Talent attraction, retention and engagement
54%

Succession and key person risk
51%

Changing nature of work
49%

Risk identified saying it could have a catastrophic or high impact:

Talent attraction, retention and engagement
52%

Succession and key person risk
43%

Conduct and culture
41%

The top three difficulties organizations encounter when addressing accelerated digitization risks:

Lack of skilled resources to understand and address the risk
37%

Lack of senior leadership engagement
33%

Budget constraints to manage the exposure
29%

How poorly managed talent practice risks impact your business and bottom line

- Organizations are increasingly focused on **talent attraction, retention and engagement**. The inability to create a strong talent pipeline, compelling employee value proposition and growth opportunities will lead to an unmotivated workforce and the loss of key talent.
- Lack of depth in **succession and key person risk** management will result in businesses being heavily reliant on key individual(s) which could lead to severe interruption.
- A growing focus on stakeholder activism has made **company conduct and culture** more important than ever. Misconduct, including bullying, harassment, dangerous behavior and fraud, are not just unethical but often illegal. Failure to manage such behaviors can have legal implications for businesses, alienate customers and cause reputational issues. The move towards hybrid working is also demanding a new rulebook for how work gets done remotely and how to manage remote and/or blended teams.
- The pandemic has served to accelerate the **changing nature of work** creating a focus on flexible working, gig workers, technology adoption and a growth mindset. Failure to manage these shifts can lead to a disengaged workforce and a lack of innovation.
- Business **mobilit**y, travel and international assignments are creating issues like crisis/evacuation management, business/colleague dissatisfaction and duty of care – which firms must address.

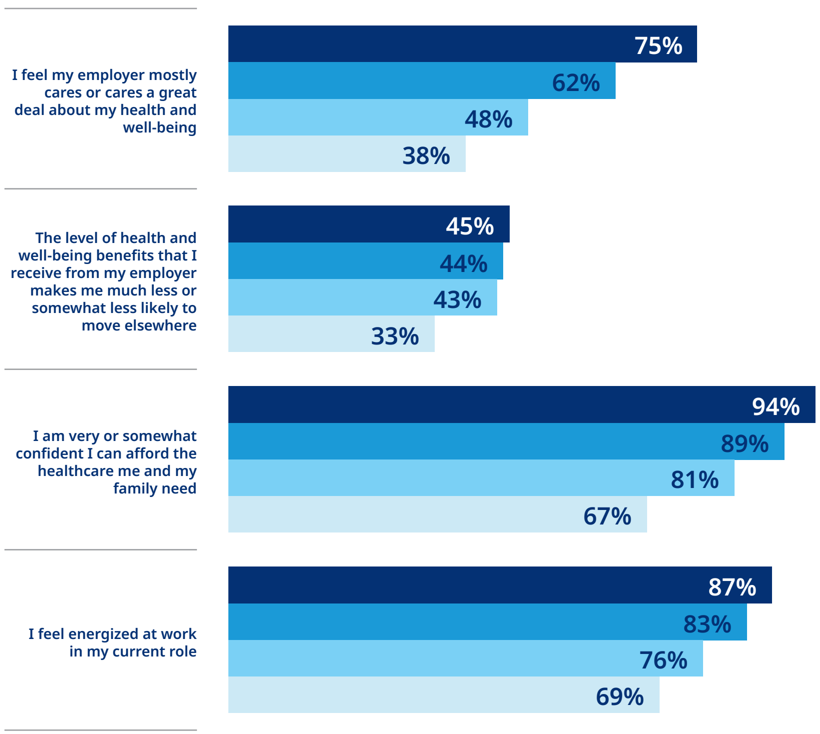
The war for talent

Having the right talent is crucial for firms that want to be agile and innovative to drive business change and results. Employers are recognizing that in order to attract and retain the best talent, they must enhance and deliver on the employee experience they promise. *Mercer's 2021 Global Talent Trends* shows that:

Figure 9: The war for talent.
Employees that are energized want four things from their workplace.

	Empathetic	**Enriching**	**Embracing**	**Efficient**
	"Support me with caring for myself and what mattes in my life"	"Help me have an impact and fulfil my personal or professional purpose"	"Help me feel like I belong and can bring my whole self to work"	"Make it simple and easy to find what I need, when I need it"
Energized employees are	**7x** more likely to work for an organization that they describe as **very empathetic to individuals' needs in decision making.**	**3.2x** more likely to say my company gives me the opportunity to **grow personally and professionally.**	**4x** more likely to say they have effective programs to develop **diverse leaders.**	**1.6x** more likely to say **HR processes work pretty well and there is a good balance between digital and human interactions.**
How employee benefit programs can support this.	**Benefit offering that extends caregiver support, e.g., referral or provision of day care facilities.**	**Provide a holistic offering that supports the emotional well-being needs of employees.**	**Avoid inherent biases in design and coverage to ensure inclusive benefits that meet needs of diverse populations.**	**Deliver an intuitive and personalized digital experience to access benefits.**

Figure 10: Impact of benefits.
The more varied health and well-being resources an employer offers, the more workers feel energized and supported, and the less likely they are to leave their employer.



Source: health on Demand 2020
Employer offers this kind of insurance by Source of cases;
Total sample; Weight: Global Weight; base n = 17864
Access to healthcare services and well-being included: Dental care, Vision care, Health education, Health evaluation, Allowances, Lifestyle support, Condition management, Mental health counselling services, Health clinics on-site where you work.

Number of offerings
10+ 6-9 1-5 0

Benefits are pointless if they don't actually meet individual needs and help engage the workforce. That is why solutions to add more choice are so important. Whether it is through flexible plans, voluntary benefits, spending accounts, engaging platforms or inclusive benefits that better address the needs of diverse employees, it is all about delivering value.

Firms are becoming more aware of the importance of workforce well-being and morale to the health of the business. This means that decisions about benefits are garnering more c-suite attention. HR teams must consider their strategies through the lens of risk management and wider board objectives.

John Deegan,
MMB Multinational Leader

The conversation with employers is shifting from “employee costs” to the level of “employee investment” needed to attract and retain workers and ensure they are healthy and productive. As a result of this necessary transition from transactional employment relationships to more trust-based ecosystems, both workers and employers are examining what they most value in the relationship.

It is not just about the benefits you offer, how you deliver them is also critically important. Pre-pandemic, just 4% of HR teams believed they delivered an exemplary employee experience, according to Mercer’s *2021 Global Talent Trends* survey.

Even the best benefit program is only as good as its level of employee engagement, which is often driven by communication.

Unfortunately, however, this an area where outdated practices from the last century prevail and digital delivery, as well as new techniques like nudging, social, sentiment analysis and gamification, are rarely used. Furthermore, as benefits can be complicated, misunderstandings can not only cause unpleasant surprises for employees, but also harm your brand.

Changing nature of work

Pre-pandemic, 77% of executives believed freelance and gig workers would substantially replace full-time employees within the next four years (Mercer 2020 *Global Talent Trends*). COVID-19 accelerated the change towards what was previously termed the “future of work”. Overnight, it has reshaped employer and employee expectations for flexibility, as remote working became the norm in the face of shutdowns affecting offices, schools and other social support systems. This new way of working brings several operational challenges as “command and control” becomes increasingly meaningless. Consequently, monitoring mechanisms to assess whether individuals are subscribing to desirable behaviors, for example adherence to conduct and safety controls, or even aligning to productivity, quality or customer experience objectives, must be overhauled and made suitable for modern practices.

For a strategic frame of reference for flexible working, organizations can consider the following five dimensions:

1. **When work is done –** the hours and timing and the discretion to change.
2. **Where work is done –** the location and ability to vary this; infrastructure needs.
3. **What work is done –** to vary the job content, the ability to share or exchange tasks.
4. **How work is done –** the need to vary the intensity of work, to scale up or down effort based on workload changes.
5. **Who does the work –** the ability to distribute beyond the traditional workforce – for example, to freelancers; potential for automation.

Case Study: Supporting company culture and employee experience after a merger

Challenge

MMB delivers benefit management services to an organization that is a leader in the cosmetics industry in Latin America. It was increasing its presence in the international market (20 countries worldwide). In 2019, the firm acquired a large competitor – making the harmonization of benefit policies a critical strategic aim. The company employed many types of employees across the socio-economic spectrum with a diverse set of needs.

Recognizing that cultural integration was a key success factor to reaping good return on investment from the merger, the company was keen to maintain solid employee relations and acknowledgement of respective best practices between the two merging companies while improving the employee experience. The design and delivery of benefits needed to align with the desired company culture and purpose.

Actions

MMB started by facilitating a process with the key decision makers to ensure that guiding principles for harmonized plans were clear, supported and aligned to evolving company values. This led to the definition of minimum standards for specific benefits like food, risk protection and paid time off to ensure basic needs were met, particularly important for certain segments of employees. This also resulted in a holistic view of well-being to encompass physical health but also social, financial and emotional health.

MMB completed a rigorous mapping of dozens of benefits (including financial aid, education aid, health-related programs, insurance, work flexibility and product discounts), some of which were informal and not documented, and conducted benefit benchmarking across all the countries. This provided a solid foundation to the benefit design parameters and allowed the company to identify opportunities for adjustments – ensuring market competitiveness and allowing it to better meet employee needs.

Value delivered

Despite the fact that a material portion of the workforce was unionized, MMB was able to deliver benefit designs tailored by employee segments that met the objectives. We were also able to recommend vendor efficiencies in areas such as life insurance, parental leave, medical plans. The formalization of some previous "informal" benefits meant that employees better understood and appreciated their benefits. Furthermore, the client had a clear action plan and roadmap to implement changes over a defined time horizon.

4 benefit ideas to enhance talent practices leading to workforce and business resilience

Some tips to get started...

1

Benchmark against competitors and current industry practice, but also consider innovations in order to actually meet employee needs.

2

Adopt employee listening to ensure that a workforce-centric view is taken when designing the benefits experience – for instance by carrying out digital focus groups.

3

Don't design just for the average employee. While a minority of employees may have needs in areas such as infertility or caregiving, such supports are extremely valuable for those that need them.

4

Consider whether your benefits program meets the needs of a workforce looking for "anywhere, anytime" convenience. For instance you may wish to consider offering virtual medical benefits (telemedicine, virtual physical therapy and digital mental health).

Environmental and social

Top risks in the category ranked by risk rating score:

1. Environment
2. Diversity, equity and inclusion
3. Labor and employee relations
4. Catastrophic personal life events
5. Social unrest

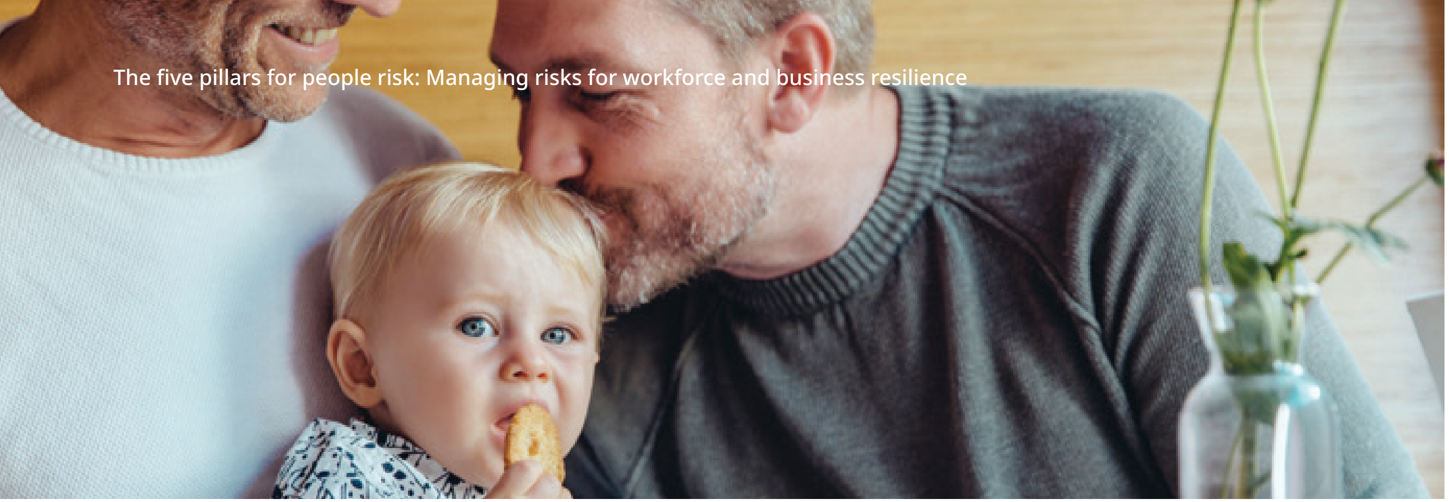
Environmental and Social

The pandemic has highlighted the importance of traditional employee benefits like medical, life, disability and accident insurance as well as the inadequacies in areas like prevention, mental health, access to retirement provision, debt management and savings. These shortcomings strain the current workforce and ultimately hinder business performance.

Disparities and inequities for disadvantaged groups, including lack of access to healthcare, education, employment opportunities, digital technology and savings plans has widened the protection gap and pose reputation risks for businesses. Employers manage the needs of a multitude of stakeholders, including those focused on environmental issues, and also create strong working relationships with unions and work councils. As such, many organizations are increasingly reviewing their benefit plans through Environment, Social and Governance (ESG), Diversity, Equity & Inclusion (DEI) and employee relations lenses.

How poorly managed environmental and social risks impact your business and bottom line

- Governments and consumers are increasingly focused on protecting the **environment** and expect organizations to do the same. Firms that do not address climate change and environmental degradation may suffer from a weakened employment brand, workplace impact (e.g., flood, fire) and workforce health issues (e.g., hunger/famine due to drought, allergies/asthma due to pollution, increase in water borne illnesses).
- Lack of **diversity, equity and inclusion** can result in reputation risk among employees, customers and other stakeholders. Businesses will also lose out on critical skills needed to support business objectives.
- Poor **labor and employee relations** – may lead to a high volume of labor grievances, a perception of uncaring culture or a lack of desirable company purpose. This can lead to higher operational costs, suboptimal customer experience and social responsibility issues.
- **Catastrophic personal life events** like death, critical illness or disability highlight gaps in employer-sponsored benefits protection measures and hence lead to reputational issues.
- The past twelve months have been characterized by growing **social unrest**. Political instability, youth disillusionment and increasing disparities can lead to productivity losses and brand damage for firms that fail to address issues head on.



Research highlights

71%

of respondents agreed or strongly agreed their organizations recognized environment and social risks as a serious threat to the business.

The three risks most respondents deemed likely or very likely to impact businesses were:

Environment
47%

Diversity, equity and inclusion
45%

Labor and employee relations
42%

Risk identified saying it could have a catastrophic or high impact:

Labor and employee relations
43%

Environment
42%

Diversity, equity and inclusion
41%

The top three difficulties organizations encounter when addressing accelerated digitization risks:

Lack of skilled resources to understand and address the risk
34%

Lack of senior leadership engagement
31%

The risk isn't seen as a priority
26%

There has been a marked shift in the role that society requires businesses to play. Firms that fail to support diversity, equity and inclusion or that neglect to tackle climate change face reputational ruin, legislative challenges and even share price falls.

Kate Bravery Advisory Solutions & Insight Leader, Career and Global Business Solutions

The rise of stakeholder capitalism

After a tumultuous period characterized by pandemics, climate change, political upheaval and social unrest, businesses are facing more risks than ever before. A growing awareness of ESG trends has given rise to the concept of “stakeholder capitalism”, where the focus is on long-term value creation for customers, employees, society and the environment rather than just short-term value for shareholders.

Mercer’s 2020 *Global Talent Trends* study found 68% of companies say they need to do more to make progress on ESG and/or sustainability goals.

The Marsh McLennan report on ‘ESG as a Workforce Strategy’ found that CEOs with ESG metrics on their dashboards tend to be from higher-revenue-growth companies. 75% of these companies reported revenue growth rates of more than 6%. Furthermore, 72% of CEOs with ESG responsibility believe their organizations are change-agile.

HR departments have a significant role to play. Business responsibility starts at home and it is critical that firms make sure that their employee practices reflect their external statements on issues. Those that fail to do so risk a backlash from stakeholders including investors, consumers and the media.

Across the world, benefits are used to build a competitive employee value proposition, meet commitments to unions and deliver tax effective compensation, but at the end of the day, they ultimately mitigate risk for the employer and its workforce.
By using the people risk framework, HR teams can examine policies, benefits and insurances through the ESG lens and ensure that they ultimately support business success and are an expression of the organization’s commitments.

Environment

Climate change is increasing health risks and costs for people and businesses worldwide — and its effects will intensify over time. Disease burden and disparities are likely to worsen, and 2 out of 3 major cities expect climate change to seriously compromise their public health assets and services.

Health impacts are varied and complex:

- Health impacts range from mild to severe, acute to chronic. They vary by race, age, gender, geography, and socioeconomic status.
- Health harms happen directly as well as indirectly through complex, interdependent pathways.
- Health and socioeconomic disparities widen as people and countries least able to cope are hardest hit.

Explore Marsh McLennan’s
Climate Health Threat Illustrator to see:

How does climate change **impact** people’s health?

What are the **implications** for healthcare, life sciences, and employers?

How can the health sector **respond** to risks and opportunities?

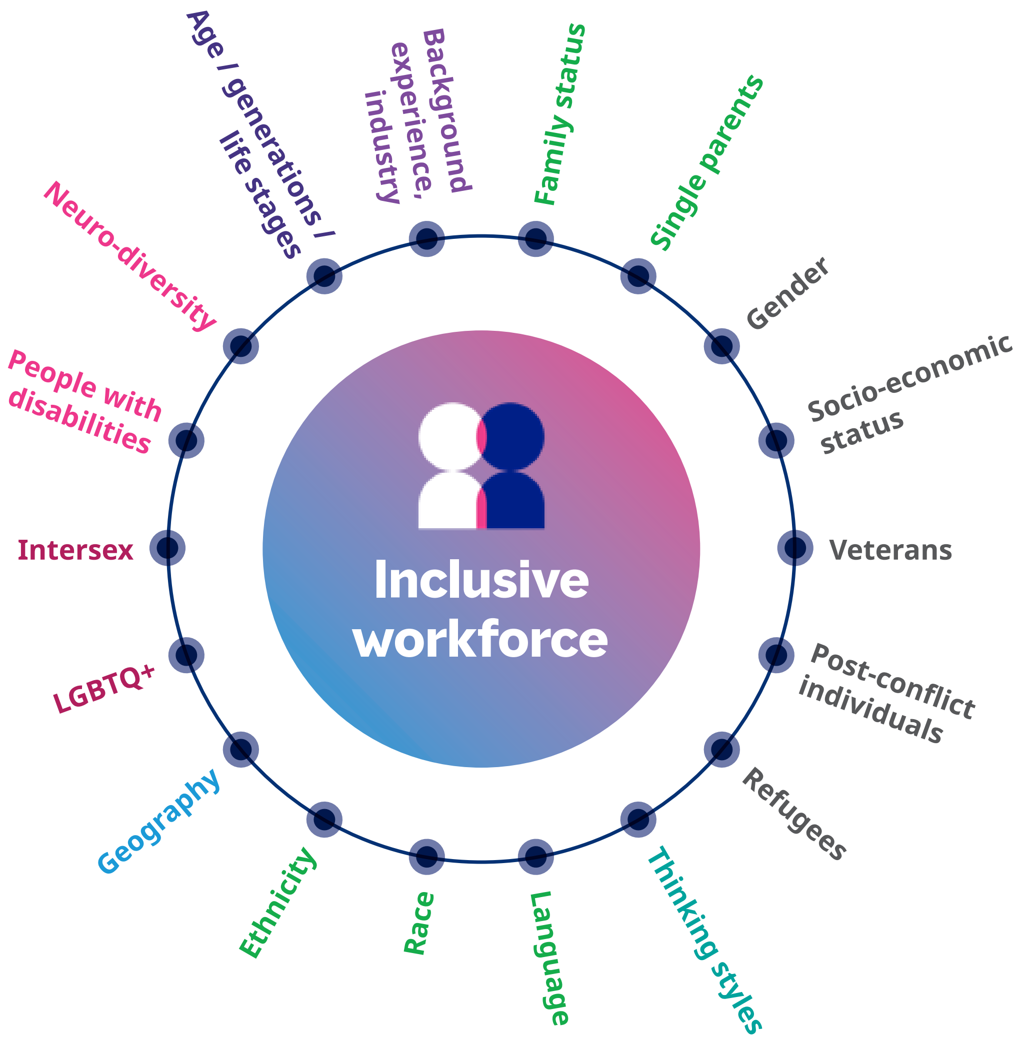
Addressing inequalities

The past year has particularly highlighted the disparities and inequities that exist for disadvantaged or minority groups, including women. At the same time, a sharpened focus on racial and social justice is leading employers to think beyond traditional diversity initiatives.

The workforce continues to evolve while benefit programs have not. Employers need to review their employee benefit plans on a regular basis and look at segmenting offerings to meet the needs of different cohorts of their workforces.

If company policies and culture do not foster an inclusive workplace, employees who don’t feel included will not stay. Incorporating diversity, equity, and inclusion throughout the employee lifecycle is critical to attract and retain a diverse workforce.

The increase in employee-sensing methodologies, persona-based insights and tailoring messaging to diverse groups based on their unique needs are hallmarks of companies that are developing a sustainable approach to DEI. It is equally important to ensure that the providers within medical networks reflect the diversity of the covered populations. For example, are in-network physicians diverse from a race and gender perspective?



Case Study: Extending healthcare access to blue collar workers

Challenge

As COVID-19 started to affect manufacturing supply chains, it was important for several of MMB's clients in Mexico to maintain operations and support employees at such a critical time. However, blue collar workers, many of whom have conditions like diabetes leading to comorbidity complexities, are typically not eligible for supplemental medical benefit coverage in Mexico. There is limited health accessibility through the social security system and onsite clinics, which typically provide basic needs, have not been accessible due to remote working or other concerns. Despite these challenges, progressive organizations have been keen to ensure that their employees have access to appropriate medical care for COVID-19, including outpatient care and emergency services.

Actions

To help multiple clients, MMB quickly designed and developed a product to cover outpatient and inpatient medical services derived from COVID-19 for eligible blue collar employees. MMB was able to bring a multi-disciplinary approach to getting the plans designed, delivered and financed. With experts in benefit design, insurance placement and clinical consulting, we were able to proactively address issues in program policy provisions, financing, communication and care network within a matter of weeks.

Value delivered

The employers' workforces benefited tremendously from this support. Employees with mild symptoms were able to access care remotely while those with more serious symptoms could access inpatient care. This solution not only helped the clients to manage their risks and reduce the operational burden, but also facilitated healthcare access and quality of care for employees that previously were not covered.

4 ways to apply an environment and social lens to your benefits

Some tips to get started...

1

Assess whether your benefit plan is aligned to your ESG/sustainability goals. Your benefit plan is an expression of your organization’s values.

2

Understand the health disparities that exist within your geography, and consider what you can do as an employer to help overcome them.

3

Look for discriminatory practices in your benefit plan and work with your providers to eradicate them. Examples include exclusions for mental health, HIV and congenital illnesses.

4

While it may not be market practice, consider how you can better support employees who are disadvantaged from a socio-economic perspective. This includes addressing key determinants of health like access to healthcare, housing and transportation.

Final thoughts

People risks are interconnected and can be complex to navigate. As we emerge from the pandemic, there is an opportunity to embrace Risk, Responsibility and Reinvention. However, managing these risks requires a balance of empathy and cost. Business leaders need to be conscious of not taking efficiency measures that damage the business in the longer term.

Even though there is some divergence between HR and risk managers on which people-related exposures pose the greatest threat, the *Managing the People Side of Risk* survey confirmed that both groups are strongly aligned on the likelihood and impact of these risks impacting the business. It is of the utmost importance that organizations create a dialogue between these two critical functions and encourage a joint approach to people risk mitigation strategies.

Firms must leverage both enterprise risk management and emerging talent management approaches. This will help to ensure that optimal solutions around benefits design, financing, administration, communication and governance are enabling you to look after your people - your organization's most important asset.

The research identified three key barriers when it comes to addressing the challenges of people risks. We found that HR and risk managers lack the skilled resources to understand and address risks, struggle with senior leadership engagement and face budget constraints.

These challenges can be beaten, and the pandemic has created an opportunity for businesses to rethink their policies, creating friendlier workplaces that truly meet the needs of a modern, flexible and diverse workforce. In particular, workforce exhaustion and mental health are key concerns. Organizations must think about benefits that support employees beyond the pandemic. Digital health, well-being and social support benefits will also become ever more important as employees continue to demand flexibility about how, when and where they work.

Doing this effectively will require new kinds of governance, technology and oversight. In this day and age, people expect consumer-centric experiences in all aspects of their lives. Properly leveraged technology makes sure that benefits fit with wider societal expectations and agile, skills-based talent processes. HR must not be left behind as the rest of the world continues to digitize at pace.

Firms must take a strategic approach to cost containment, reducing leakages and ensuring that every dollar is spent effectively in a way that truly benefits employees. Getting this right should free up budget to invest in areas that most need it. Tone from the top is important, and training is essential, to ensure that managers are aligned with the company's purpose and able to promote diversity, equity and inclusion at all levels. At the same time, society is waking up to the importance of fundamentally changing the way we operate to protect the environment. Firms must adapt, reshaping internal policies (on everything from business travel to recycling) and thinking about their own transition to net-zero emissions. Defining and delivering-on these new work standards requires deep risk analysis and active governance to drive progress. Those who fail risk alienating stakeholders, investors and employees.

There are a whole host of solutions that can help businesses navigate these difficult times. Across Marsh McLennan, we advise on a range of risk management techniques including mental health programs and manager training, work redesign and skills-based talent models through to risk analysis, employee value proposition technology and benefit financing. Working with risk managers and HR in concert – we can strategically design and develop programs that tackle all of your people-related risks.

Appendix A

Applying an enterprise risk management (ERM) framework to people risk

Here is an example of the ERM framework applied to one of the key risks identified, increasing health, risk protection and well-being benefit costs.

Governance

Policies and procedures • Appetite and tolerance • Oversight and assurance

It is best practice to have a multi-disciplinary Benefits Committee (global for multinationals) which sets an overarching, well-articulated cost strategy as part of the "Rules of the Road" used to manage benefits. This should include policies to ensure that both short-term and long-term cost implications of benefit decisions are considered including the preferred approach for cost containment as well as roles and responsibilities for benefits decision making.

Resources and infrastructure

Tools, system and data • Rules and responsibilities • Culture

It is important to have ongoing education on innovative cost management tactics/concepts for those involved in benefit decisions. Other best practices include centralized dashboards that offers insight and transparency into benefit spend around the world and establishing clarity regarding who in HR/Risk/Finance is accountable or involved in individual benefit design, financing, vendor selection, administration and communication decisions.

Core risk management process

Identify

- **Risk identification**

- Map the cost escalation risks that could apply by creating a multi-disciplinary committee, including HR, risk managers, health & safety, finance and line managers.
- As you build out your risk register, consider a wide spectrum of risks, including supplier/supply chain risks, population health risk, utilization risks and financing risks.

Analyze and assess

- **Qualitative analysis**
- **Quantitative analysis**

- Take a data-driven approach to assess the historical and future capability of benefit programs to effectively allocate capital and conduct budget planning.
- There are a number of data sources that can be leveraged, including insured medical/disability/life claims data, well-being program utilization, biometric data, onsite clinic data, employee demographics and sick leave data. Taken together these can provide the insights needed to optimize the decision-making.

Respond and control

- **Treat, terminate, transfer or tolerate**

Based on the analysis, there are a number of different responses that can be considered such as:

- **Treat:** Implement chronic disease management programs for conditions like diabetes that support employees to manage their health conditions effectively and optimize their care.
- **Terminate:** Review plan design to implement measures that will help to incentivize the right employee behavior, e.g.,introducing co-pays, implementing waiting periods, reviewing benefit eligibility requirements.
- **Transfer:** Explore financing mechanisms that minimize the risk of high cost claims, for example, use of insurance or stop-loss.
- **Tolerate:** For budgetable, low risk benefits like vision or dental, consider self insurance to minimize insurance frictional costs such risk, profit and administration charges that are included in premium rates.

Monitor and review

- **Key risk indicators**
- **Key control indicators**

- Ensure that the risks, along with respective indicators such as claims costs, are regularly monitored to allow for adjustments to the cost containment levers that should be applied.
- Consider how you will monitor and communicate the risk performance.
- Periodic and independent specialist benefits reviews will help determine gaps and inefficiencies in the program.

Appendix B

About this survey

The Managing the People Side of Risk survey was conducted over March and April 2021 with 1,381 respondents across the following regions:

Region	% of respondents
UK	12.4%
Europe	18.0%
Middle East and Africa	7.7%
Pacific	13.9%
Canada/US	18.0%
Asia	12.2%
Latin America and Caribbean	17.8%

There was a split of 54% risk professionals and 46% HR professionals with participation across a wide range of industries:

Industry	% of respondents
Financial institutions	11.2%
Retail and wholesale	11.0%
Manufacturing or automotive	9.1%
Communications, media or technology	7.7%
Other (specified separately)	7.7%
Construction	7.2%
Consumer goods, food or beverage	5.8%
Education	5.4%
Energy or power	5.4%
Healthcare providers	4.9%
Chemical	3.8%
Public or governmental	3.8%
Infrastructure	2.5%
Transportation	2.2%
Life sciences	2.0%
Hospitality and gaming	1.9%
Not for profit	1.7%
Aviation or aerospace	1.6%
Real estate	1.5%
Environmental	1.2%
Mining	1.2%
Sports, entertainment or events	0.9%
Rail	0.4%
Marine	0.2%

The respondents were also represented across a cross-section of employer sizes:

Employer size	% of respondents
Under 250 employees	6.9%
250 to 499 employees	19.2%
500 to 999 employees	23.8%
1,000 to 4,999 employees	29.2%
5,000 to 49,999 employees	15.6%
50,000 or more employees	5.4%

Methodology:

Survey respondents were asked to assess the likelihood of the risk occurring in their organization in the next 3 years on a scale of 1 to 5, 1 representing a risk that is not very likely and 5 a risk that is very likely to occur. They also assessed its impact on the business if it were to occur on a scale of 1 to 5, 1 representing no impact and 5 a catastrophic impact.

The risk rating score was calculated as a product of the likelihood and impact of the risk occurring.

Respondents were also asked to assess to what extent their organization is currently addressing the risk on a scale of 1 to 5, 1 representing not at all and 5 to a great extent.

Below are the average scores for each category of risk.

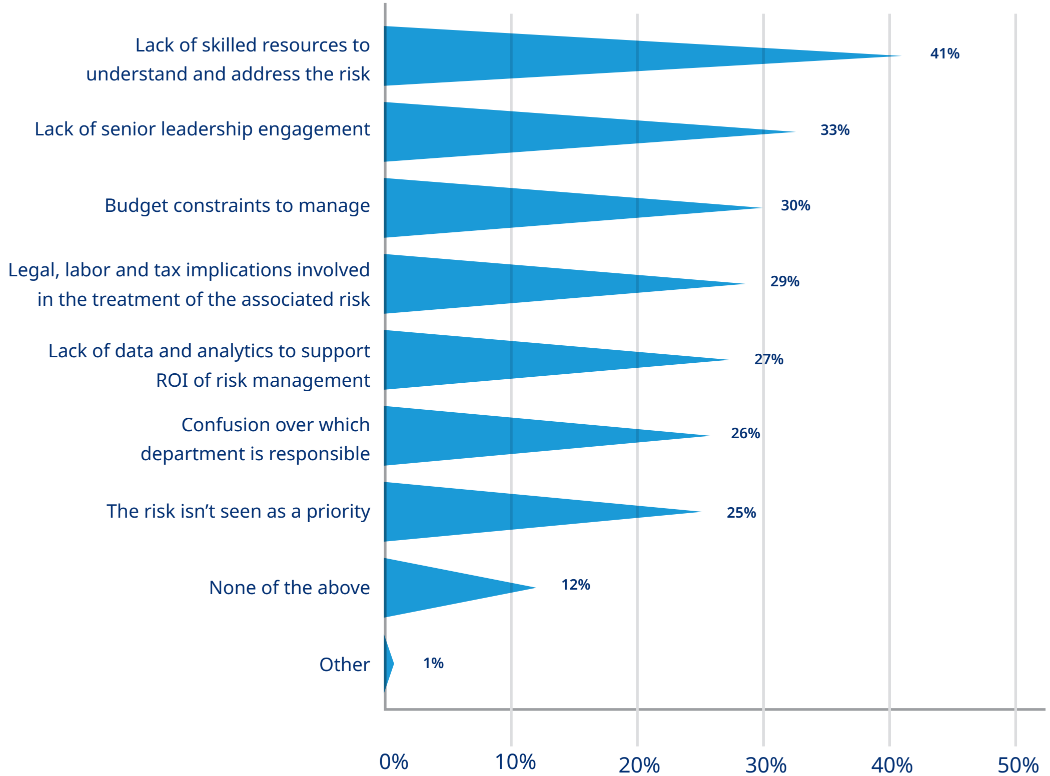
Appendix C

Detailed results: Health and Safety

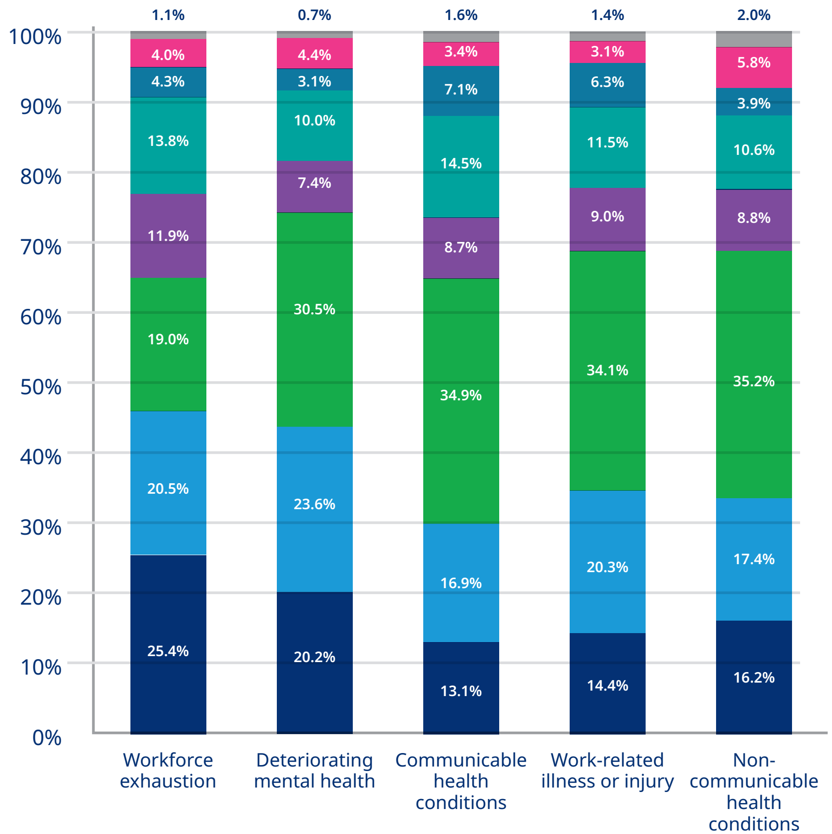
	Risk Perspective				HR Perspective				Combined			
Risks	Likelihood	Impact	Risk impact score	Extent to which risk addressed	Likelihood	Impact	Risk impact score	Extent to which risk addressed	Likelihood	Impact	Risk impact score	Extent to which risk addressed
Workforce exhaustion	3.5	3.4	12.0	3.7	3.2	3.3	10.5	3.5	3.3	3.3	11.3	3.6
Deteriorating mental health	3.5	3.4	12.0	3.7	3.1	3.1	10.2	3.6	3.3	3.3	11.2	3.6
Communicable health conditions	3.3	3.4	11.5	3.7	3.1	3.3	10.4	3.8	3.2	3.3	11.0	3.7
Work-related illness or injury	3.2	3.2	10.8	3.7	2.8	3.0	9.0	3.7	3.0	3.1	10.0	3.7
Non-communicable health conditions	3.2	3.2	10.5	3.5	2.7	2.8	8.0	3.2	3.0	3.0	9.4	3.4

Detailed results: Health and Safety

Which of the following difficulties has your organization encountered when addressing this category of people risks.



Which stakeholder is ultimately accountable for addressing this risk?



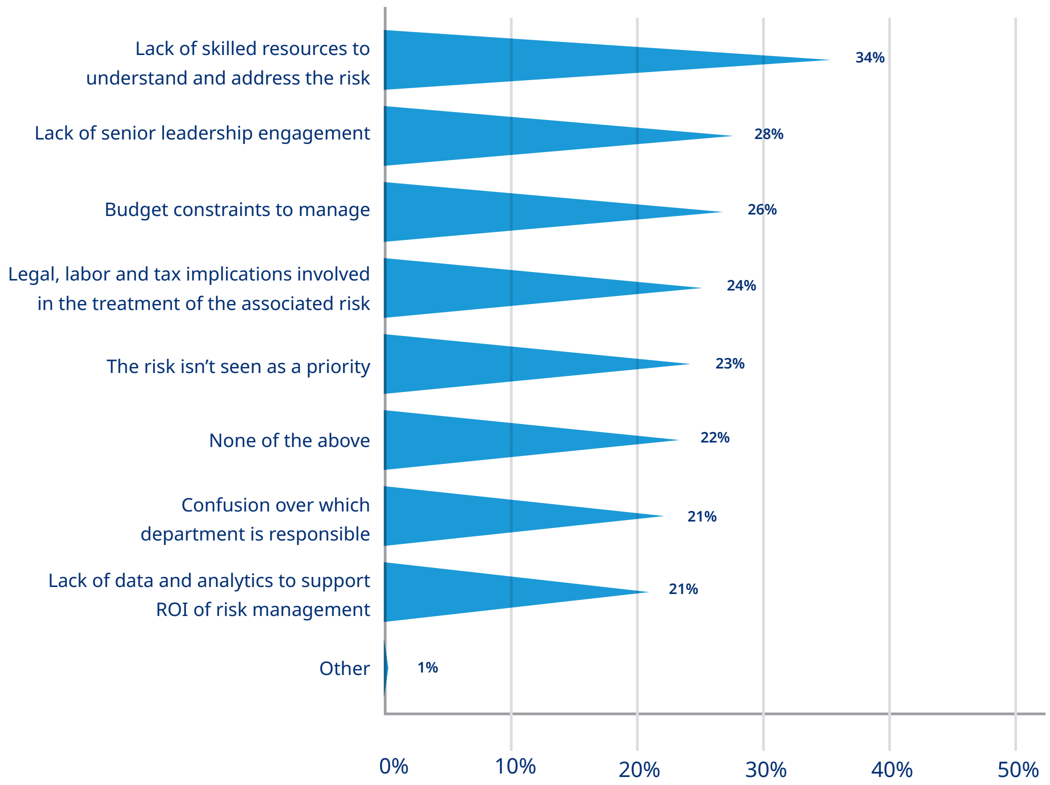
Methodology
Survey respondents were asked which stakeholder they believe is ultimately accountable for addressing the risk.

Detailed results: Governance and Financial

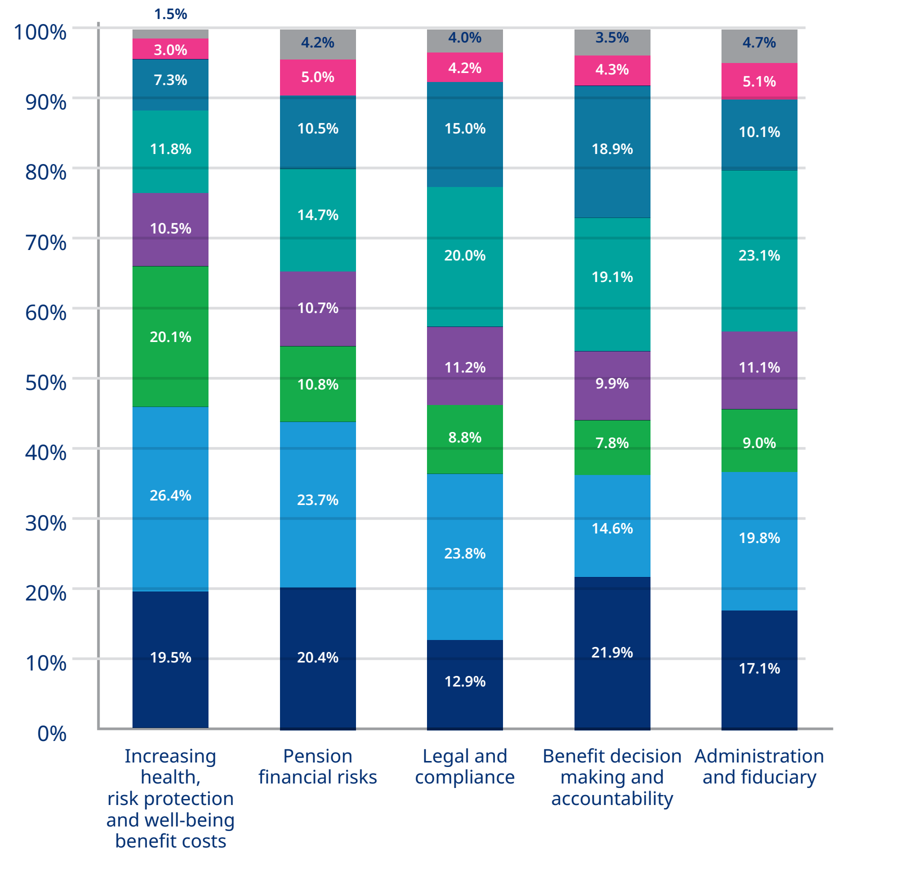
	Risk Perspective				HR Perspective				Combined			
Risks	Likelihood	Impact	Risk impact score	Extent to which risk addressed	Likelihood	Impact	Risk impact score	Extent to which risk addressed	Likelihood	Impact	Risk impact score	Extent to which risk addressed
Increasing health, risk protection and well-being benefit costs	3.4	3.5	11.7	3.7	3.2	3.2	10.0	3.6	3.3	3.3	10.9	3.7
Pension financial risks	3.3	3.3	11.5	3.7	2.7	2.9	8.7	3.3	3.1	3.1	10.2	3.5
Legal and compliance	3.3	3.4	11.4	3.6	2.7	3.1	8.7	3.5	3.0	3.2	10.2	3.6
Benefit decision making and accountability	3.2	3.3	11.0	3.6	2.7	3.0	8.5	3.5	3.0	3.1	9.9	3.5
Administration and fiduciary	3.2	3.3	10.8	3.5	2.6	2.9	8.1	3.3	2.9	3.1	9.6	3.4

Detailed results: Governance and Financial

Which of the following difficulties has your organization encountered when addressing this category of people risks.



Which stakeholder is ultimately accountable for addressing this risk?



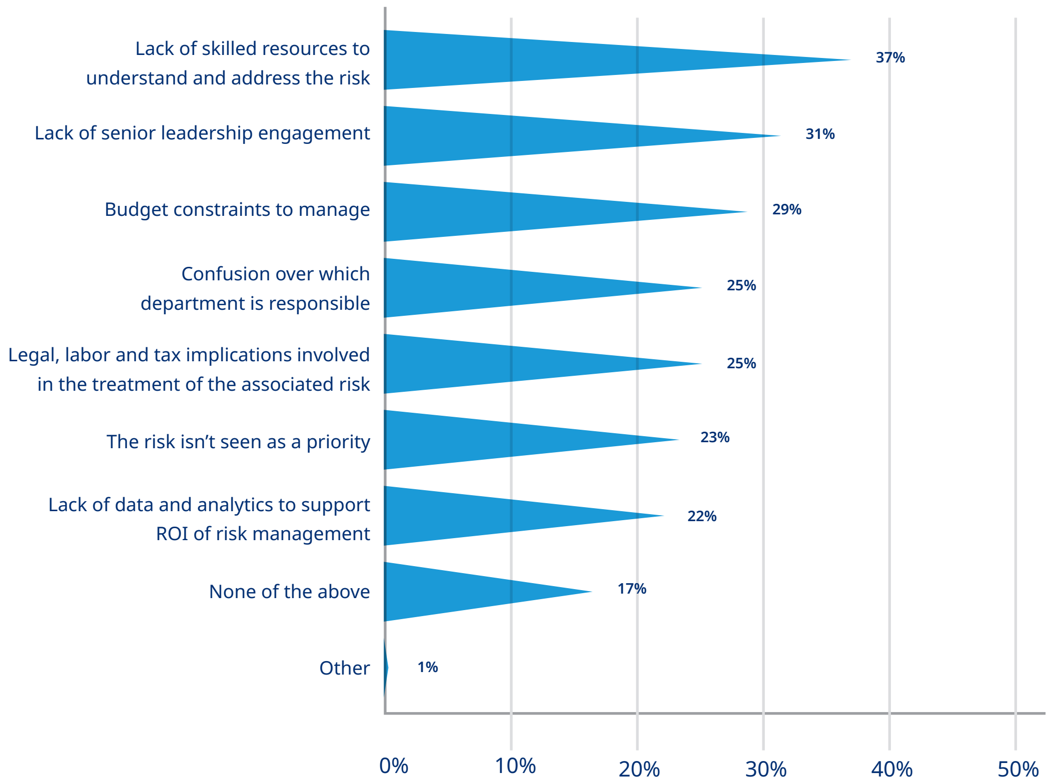
Methodology
Survey respondents were asked which stakeholder they believe is ultimately accountable for addressing the risk.

Detailed results: Accelerated Digitization

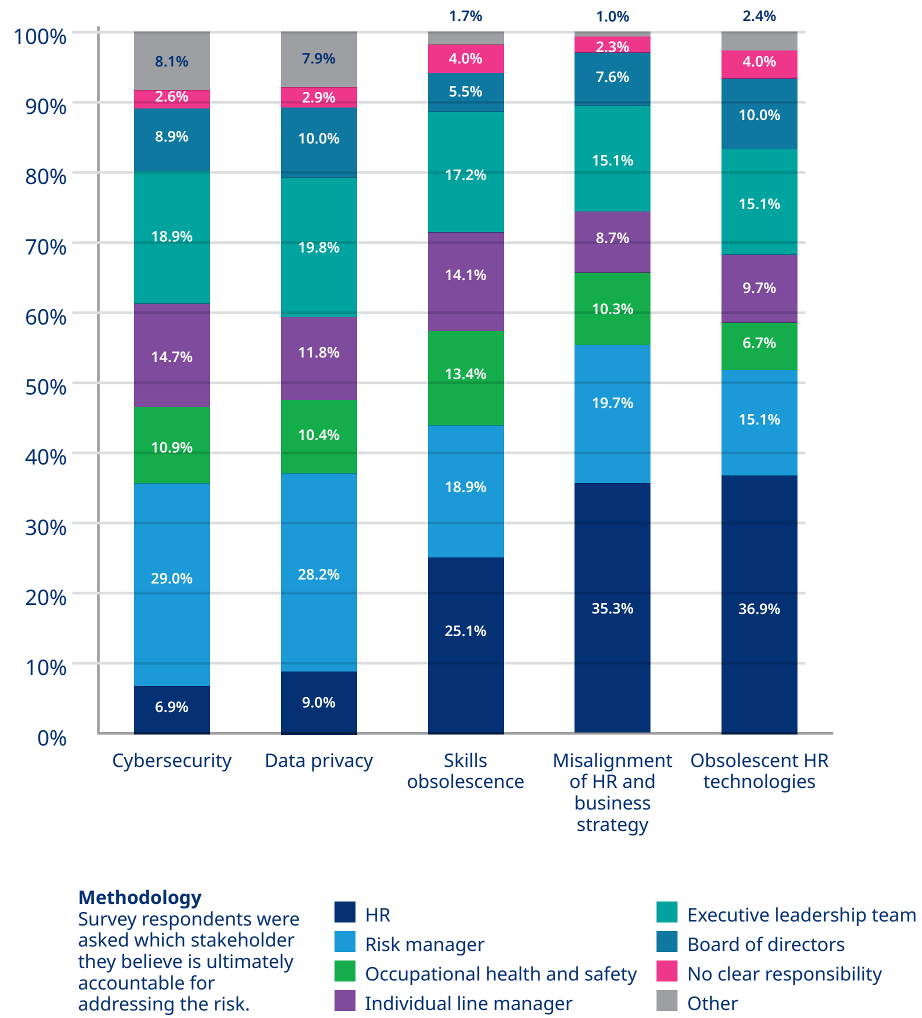
	Risk Perspective				HR Perspective				Combined			
Risks	Likelihood	Impact	Risk impact score	Extent to which risk addressed	Likelihood	Impact	Risk impact score	Extent to which risk addressed	Likelihood	Impact	Risk impact score	Extent to which risk addressed
Cybersecurity	3.5	3.6	12.9	3.8	3.2	3.6	11.9	3.8	3.3	3.6	12.4	3.8
Data privacy	3.3	3.5	11.9	3.8	3.0	3.5	10.7	3.9	3.2	3.5	11.4	3.8
Skills obsolescence	3.4	3.4	12.1	3.7	3.0	3.3	10.1	3.5	3.2	3.4	11.2	3.6
Misalignment of HR and business strategy	3.2	3.4	11.3	3.7	2.7	3.3	9.2	3.6	3.0	3.4	10.3	3.7
Obsolescent HR technologies	3.2	3.2	10.6	3.5	2.9	3.1	9.5	3.5	3.1	3.1	10.1	3.5

Detailed results: Accelerated Digitization

Which of the following difficulties has your organization encountered when addressing this category of people risks.



Which stakeholder is ultimately accountable for addressing this risk?



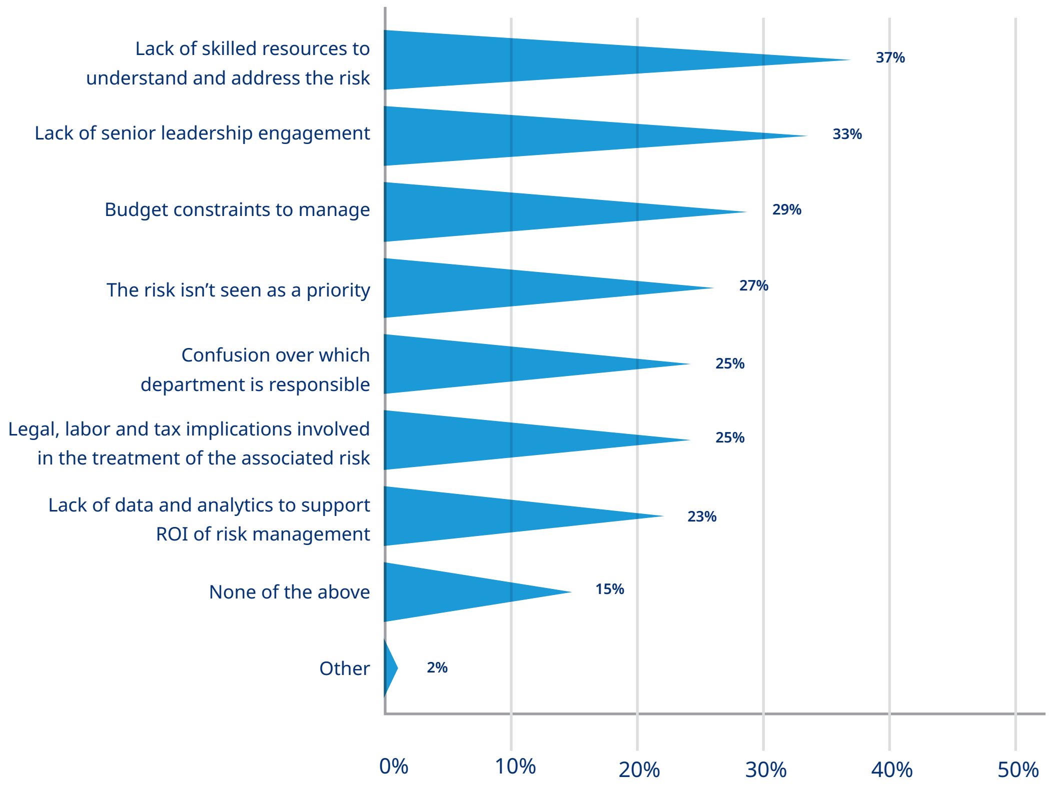
Methodology
Survey respondents were asked which stakeholder they believe is ultimately accountable for addressing the risk.

Detailed results: Talent Practices

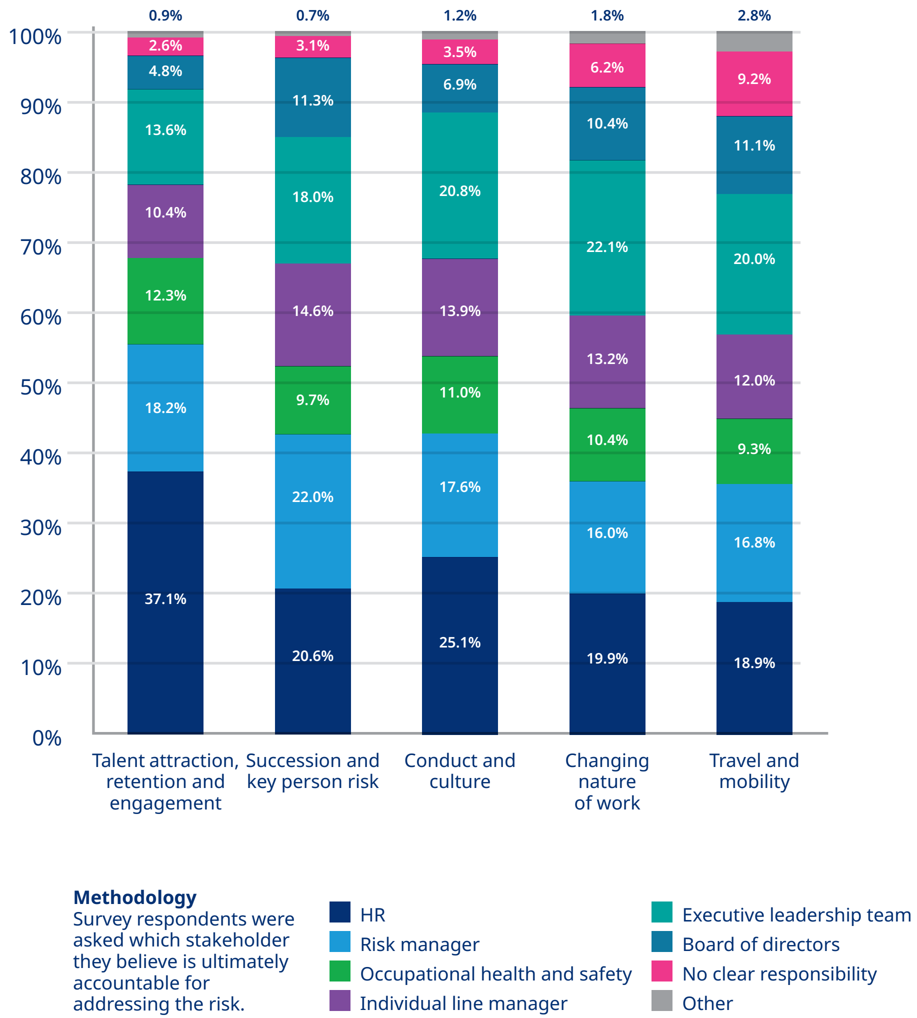
	Risk Perspective				HR Perspective				Combined			
Risks	Likelihood	Impact	Risk impact score	Extent to which risk addressed	Likelihood	Impact	Risk impact score	Extent to which risk addressed	Likelihood	Impact	Risk impact score	Extent to which risk addressed
Talent attraction, retention and engagement	3.5	3.5	12.3	3.7	3.3	3.4	11.5	3.7	3.4	3.4	11.9	3.7
Succession and key person risk	3.4	3.3	11.4	3.6	3.2	3.2	10.8	3.5	3.3	3.3	11.1	3.6
Conduct and culture	3.4	3.3	11.6	3.6	2.9	3.1	9.6	3.7	3.2	3.2	10.7	3.7
Changing nature of work	3.3	3.2	11.0	3.6	3.2	2.9	9.7	3.4	3.3	3.1	10.4	3.5
Travel and mobility	3.2	3.1	10.5	3.5	2.9	2.6	8.3	3.2	3.1	2.9	9.5	3.4

Detailed results: Talent Practices

Which of the following difficulties has your organization encountered when addressing this category of people risks.



Which stakeholder is ultimately accountable for addressing this risk?



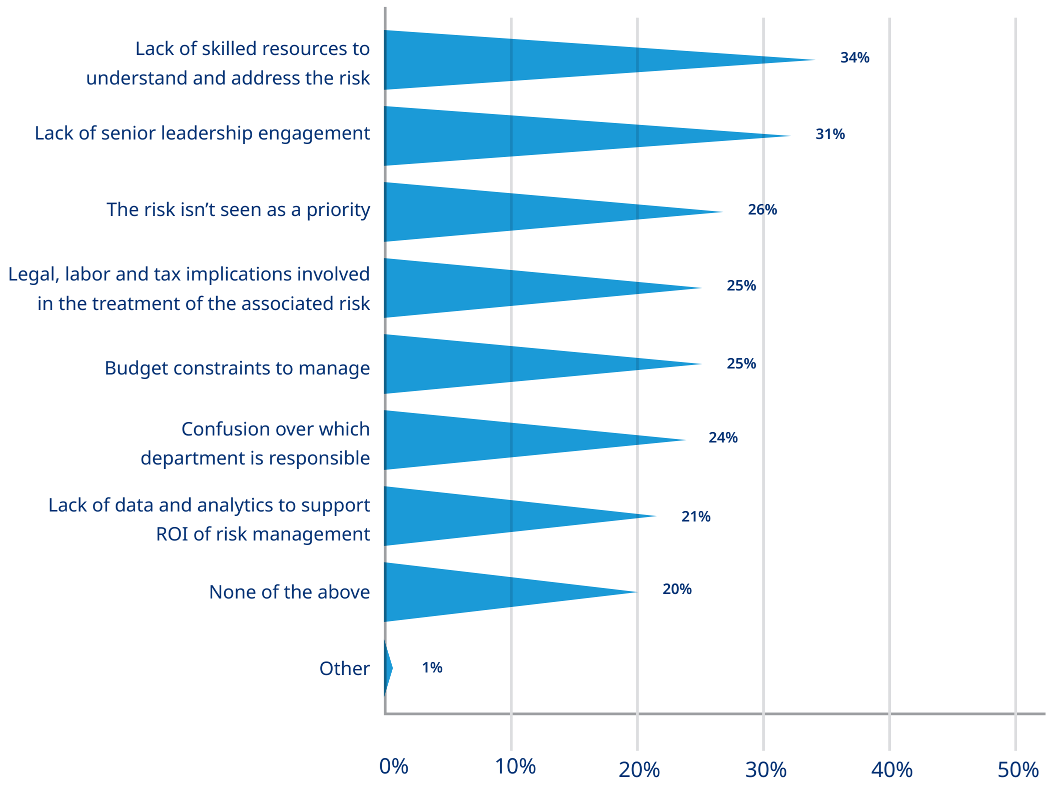
Methodology
Survey respondents were asked which stakeholder they believe is ultimately accountable for addressing the risk.

Detailed results: Environmental and Social

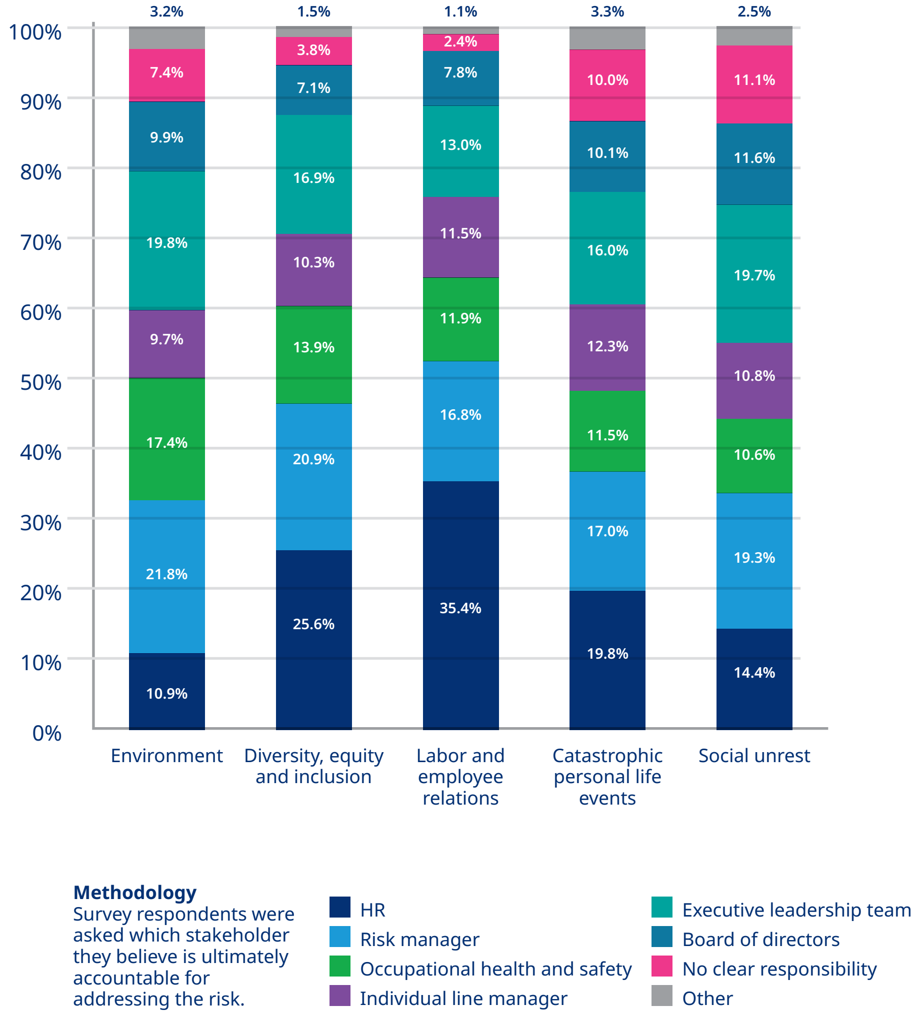
	Risk Perspective				HR Perspective				Combined			
Risks	Likelihood	Impact	Risk impact score	Extent to which risk addressed	Likelihood	Impact	Risk impact score	Extent to which risk addressed	Likelihood	Impact	Risk impact score	Extent to which risk addressed
Environment	3.3	3.3	11.6	3.7	2.9	3.1	9.5	3.5	3.1	3.2	10.7	3.6
Diversity, equity and inclusion	3.2	3.3	11.1	3.6	2.8	3.1	9.2	3.7	3.0	3.2	10.2	3.7
Labor and employee relations	3.2	3.3	10.8	3.6	2.9	3.2	9.5	3.7	3.0	3.2	10.2	3.6
Catastrophic personal life events	3.1	3.2	10.3	3.5	2.7	2.9	8.3	3.3	2.9	3.0	9.4	3.4
Social unrest	3.0	3.3	10.1	3.4	2.6	3.0	8.1	3.2	2.8	3.1	9.2	3.3

Detailed results: Environmental and Social

Which of the following difficulties has your organization encountered when addressing this category of people risks.



Which stakeholder is ultimately accountable for addressing this risk?



Methodology
Survey respondents were asked which stakeholder they believe is ultimately accountable for addressing the risk.

Appendix D

Risk descriptions included in the survey

Health and Safety	
Workforce exhaustion	Overtiredness stemming from work life balance issues, change fatigue and too many priorities and distractions leading to errors, employee turnover, reduced productivity and damaged reputation.
Deteriorating mental health	Workforce mental health issues (e.g., anxiety, stress, depression and addiction) leading to suboptimal well-being, productivity, benefits spend and employment value proposition/brand.
Communicable health conditions	Spread of infectious diseases, including future pandemics, impacting business continuity and operational cost escalation and overall individual and organizational performance.
Work-related illness or injury	Accident, unsafe exposure, security incident or aggravation of pre-existing conditions in a work environment (on-site, remote working).
Non-communicable health conditions	Unmanaged chronic illnesses including diabetes, lung disease, and cancer impacting business continuity and operational cost escalation and overall individual and organizational performance.

Governance and Financial	
Increasing health, risk protection and well-being benefit costs	Increased spend due to factors like reduced insurer appetite for risk, medical inflation, increase in utilization, claims duration and severity impacting employee benefit premiums and other costs.
Pension financial risks	Investment, inflationary and longevity risks affecting the plan sponsor financial commitments to retirement plan (balance sheet, cash and expense) and individual retirement savings adequacy.
Legal and compliance	Misalignment of benefit and other HR practices/programs to regulatory requirements, tax, labor, human rights and employment law causing fines, penalties and litigation.
Benefit decision making and accountability	Inappropriate benefit plan design, financing, vendor selection/management, communication and administration decisions due to lack of controls/expertise resulting in suboptimal costs, liabilities and commitments.
Administration and fiduciary	Inability to administer plans accurately, fairly, in accordance with promises made or prudently manage employee benefit programs/investment funds resulting in errors and unmet obligations.

Risk descriptions included in the survey

Accelerated Digitization	
Cybersecurity	Increasingly sophisticated and frequent cybercrimes including those that stem from people management processes and vendors resulting in business interruption and brand damage.
Data privacy	Breaches resulting in loss or misuse of personal information, including those that stem from people management processes and vendors.
Skills obsolescence	Gaps in workforce skillsets due to rapid digitization and automation resulting in unmet business goals.
Misalignment of HR and business strategy	Workforce planning, organizational change management and HR/benefit technologies and processes being inconsistent with strategic business vision.
Obsolescent HR technologies	Failure to capitalize on technology advances that will make HR activities, benefits and healthcare more personalized, convenient and secure resulting in a suboptimal employee experience.

Talent Practices	
Talent attraction, retention and engagement	Inability to create a strong talent pipeline, employment value proposition and growth opportunities to sustain and motivate the needed workforce.
Succession and key person risk	Lack of depth in succession bench and talent flight risks resulting in business being heavily reliant on key individual(s).
Conduct and culture	Misconduct including bullying, harassment, dangerous behavior, fraud and/or cultures that foster behaviors that are misaligned to corporate values, illegal/unethical.
Changing nature of work	Issues associated with flexible working, gig workers, technology adoption, growth mindset creating new business challenges in areas like innovation and workforce management.
Travel and mobility	Business travel and international assignments creating more issues like crisis/evacuation management, business/colleague dissatisfaction and duty of care.

Risk descriptions included in the survey

Environmental and Social	
Environment	Climate change and environmental degradation leading to weakened employment brand, workplace impact (e.g., flood, fire) and workforce health issues (e.g., hunger/famine due to drought, allergies/asthma due to pollution, increase in water borne illnesses).
Diversity, equity and inclusion	Lack of inclusive workplace resulting in reputation risk amongst employees, customers and other stakeholders.
Labor and employee relations	High volume of labor grievances, perception of uncaring culture or lack of desirable company purpose leading to higher operational costs, suboptimal customer experience and social responsibility issues.
Catastrophic personal life events	Catastrophic personal events like death, critical illness or disability highlighting organization gaps in employer-sponsored benefits protection measures and hence reputational issues.
Social unrest	Factors such as political instability, youth disillusionment, increasing disparities leading to productivity losses and brand damage.

For further information, please contact your local Mercer Marsh Benefits office.

Mercer Marsh Benefits provides a range of solutions to help you manage people risk, including:

– Brokerage of core employee benefits as well as expatriate and special risks like business travel accident.

– Advice and support for health and well-being, plan member communications, and benefit plan financing.

– Digital solutions to engage plan members in their health and benefits.

About Mercer Marsh Benefits™
Mercer Marsh Benefits™ provides clients with a single source for managing the costs, people risks, and complexities of employee benefits. The network is a combination of Mercer and Marsh local offices around the world, plus country correspondents who have been selected based on specific criteria. Our benefits professionals located in 135 countries and servicing clients in more than 150 countries, are deeply knowledgeable about their local markets. Through our locally established businesses, we have a unique common platform which allows us to serve clients with global consistency and locally unique solutions.

Businesses of Marsh McLennan