Risk Insights: Senior Living & LTC

Episode 5

The role of ESG in future success

Welcome to the Risk Insights: Senior Living & LTC podcast, hosted by Tara Clayton with Marsh's Senior Living & Long-term Care Industry Practice. Each month, Tara, a former litigator and in-house attorney speaks with industry experts about a variety of challenges and emerging risks facing the industry.

Tara Clayton:

Hello everyone and welcome to *Risk Insights*. I'm your host, Tara Clayton. In today's episode, Amy Barnes, the head of sustainability and climate change strategy at Marsh, is joining me to talk about the topic of environmental, social and governance, also known as ESG, to help us better understand the role of ESG for business and corporate-citizen success for senior living and long-term care operators. Hey Amy, thanks for joining the show.

Amy Barnes:

Thanks, Tara.

Tara Clayton:

So Amy, I'm thrilled to have you on today. I've heard you speak a number of times, so I'm really excited to have this conversation. Before we get started, can you tell us a little bit more about your background and your role here at Marsh?

Amy Barnes:

Yeah, thank you. So my background is environmental science that I studied many years ago, but through Marsh I've had a number of roles working in environmental liability insurance and prior to this role have been leading energy and power business in North America. So really familiar with the challenges that the carbon intensive industries have with transferring their businesses and transitioning to a low carbon, net zero economy. And so it was a really exciting opportunity to now help the whole firm try and navigate these challenges leading climate and sustainability, especially for the firm.

So my responsibilities are supporting clients, whether it be how they navigate the insurance landscape or with advisory propositions, how they position themselves to make sure they're set up to maximize the opportunities that are presented by the climate interest sustainability focus.

Tara Clayton:

Awesome. Well it sounds like this ESG concept really hits a wide spectrum of areas, and it sounds like you're kind of heading up a lot of the different pieces of it. I think before we get started into the connection to specifically senior living and long-term care, big picture, when we talk about ESG, what do those letters stand for? What does that concept mean?

Amy Barnes:

I actually think we should take a step back from that because there are a number of terms that get used interchangeably, and sometimes that's okay—and sometimes it's confusing. So kind of like high-level sustainability is thinking about people, planet, and importantly, profit. People have kind of added the fourth P, which is the principles of governance to make it fit better with ESG. So when we think about sustainability more broadly, we are thinking about how businesses make money now and in the future. The financial services community and other stakeholders wanted a way to assess non-financial metrics. And so almost 20 years ago now started to think about ESG - environment, social, and governance metrics. As I said, they're non-financial metrics that are trying to understand how companies manage risk and opportunities. So environment, we think about the climate and that's the one that gets talked about most often, but it's also waste management, water management, use of all natural resources, biodiversity issues.

If we think about social, I think a really nice way to think about social is kind of thinking about trust — how we treat colleagues, how we treat our people, how we think about diversity, and how we engage in the communities we serve. Then governance has always been a focus for businesses, how they organize themselves, how they think about their board and their oversight, how they think about risk. A modern theme that we'd see in there is cyber, increasingly. How do we think about some of those sort of data risks that businesses are trying to manage? So they're the three components of ESG. So the term sustainability, ESG and climate—and people often say ESG when actually they mean climate, and they're talking about specifically carbon or the physical risks from extreme weather events. So it is worth just trying to be a little bit precise with your language, especially if you're talking to an insurer, you know if their focus is really just on the climate aspect or if they are interested in all of those aspects that contribute towards sustainability. A long answer. Sorry, Tara.

Tara Clayton:

No, no, I appreciate that information. And as you know, we've talked, this is a new area for me, and I think that distinction is important and understanding the terms and using them correctly. The practice group that I support is the senior living and long-term care owners and operators in this space. So understanding, you know, where all ESG fits from a climate, a cyber, a social, a governance. What connection, why is this an important concept for senior living and long-term care owners and operators to be paying attention and thinking through?

Amy Barnes:

I think first and foremost, because capital cares. If you look at the amount of capital that wants to be aligned with ESG initiatives, or at least to understand that the ESG and to just think about ESG as non-financial. So capital is seeking good returns, but because they're interested in making money now and in the future, they increasingly think that these non-financial metrics will impact the business' ability to make money in the future. So the capital providers care. Now, whether that's debt or equity, we are seeing more and more 401ks, pension funds, investors wanting to be aligned with businesses that have a strong ESG. Certainly on the debt side, the global financial services have committed over $144 trillion of their investments to ESG alignment.

So again, there's a really strong incentive on the debt side of the house to be focused on these issues. But I think it goes beyond that as well. We find that colleagues, staff, if I just look internally at Marsh, our colleagues care deeply about these issues. And so, our colleagues want to make sure that they're working for a business that is aligned with their vision and their values and that is supporting the environment, the social, and they have good governance. And I think that if we think about senior living then, I mean that's a mission-orientated business. You can see huge connectivity with people in that sector, it strikes me will be already very aligned with an ESG mission based values.

Tara Clayton:

You mentioned the investment side, which I know is a big piece in our industry, the different types of investors and capital and like your message of capital cares and that's why ESG’s important. You also made a reference to the employees and the associates that provide care for the residents in our community. Is there a connection to be thinking through as it relates to our number one customer aside from associates? We have two number one customers in my view. We have our associates, and we also have our residents and the families. What impact or is there an ESG component that providers need to think about from a resident / family? That's who we’re trying to attract into our senior housing space.

Amy Barnes:

So, I think on a number of elements. I think, when I was talking about how to think about ESG, I said that the social — another word is kind of trust — and you are putting somebody that you care deeply about, a loved member of your family, in an environment over which you have no control. And so trust is so important in thinking about where that resident will be living, and the families care very deeply. So a company that has a strong ESG, that is working well with its colleagues, investing in the community, I think is really more likely to have a high trust score with both residents and the families of those residents.

I think there is also another element, if I may, around the E. I mean a lot of the places that people may well like to move to in retirement are areas that are very climate exposed, and I think that's a real issue. We can talk about Ian, Hurricane Ian, that's just devastated parts of Florida and so thinking about actually the climate exposures to those residents and what are the plans both now for an emergency preparedness but also longer term, how will the facility provide resilience for its residents? So I think there are a lot of issues there, and we can talk about governance as well. I could, I could go on all day.

Tara Clayton:

No, please. No, no, absolutely. I think your connection to Ian... The climate I think is one of the obvious points for our industry. If you think about ESG and why sustainability is important, I think climate — that's an easy one to get your head around — because we are constantly impacted by hurricanes, wildfires, freezing temperatures in areas that we're not used to. But I would love to hear from a governance standpoint some of the other areas that we need to be mindful of.

Amy Barnes:

Can I just come back to the environment and the climate? Because I think it's easy to see the connection, but I don't want us just to shine the light on a problem. It would be really nice to say, "So what do you do about it?", because if your senior living care facility is on the coast in Florida, a fantastic beautiful part of the world, but unfortunately has these risks, what can you do about it? I think the first thing to do is to understand the risk. With any risk management, how do you understand the risk? So I don't know many businesses out there that have budgets in place to start to build in significant flood resilience and resilience for the related events, but I do think that the start point is to understand your exposure and to understand how your exposure to weather-related events could be changing over the next five, 10, 15 years.

Because armed with that information, it means whenever you've got any capital project on the site, you can start to think about, is that capital project climate adjusted? I don't have the budget to go back and retrofit all of these issues, but I know that if I'm replacing a substation or some electrical opponents, am I making sure they're sufficiently elevated? Am I making sure that I'm anticipating some of those weather related changes? Am I making sure that I've got good access to water? Because water stress could be an increasing feature in some parts of the world. So I think I would say to any risk managers that are thinking, yeah, I can see that climate is an issue, but what can I do about it? I would start by making sure you've got access to the data so that information can start informing strategic decisions.

When it comes to the G, one of the areas that we're all struggling with now is the speed and the breadth of the cyber exposure that people are faced with. One of the clear elements of G is managing that cyber risk and anyone in the senior living facilities. They have their duty of care to their residents, and that's one of the more vulnerable community potentially to fishing attacks, to fraud, and so what kind of education and online safety is being provided to those residents because your primary cyber governance concern is no doubt about with your own data and how you manage that resident's data and you have personal data, so you need a lot of governance there. But, I think there is also a duty of care kind like combining the S and the G to make sure that you are providing the protection and resources to very vulnerable part of society.

Tara Clayton:

I do want to touch on a little bit more your thoughts around different solutions. You know it’s, to your point, it's one thing to identify what are those risks, but I know one area that you've put a lot of focus is looking at solutions, different ways that Marsh can partner with clients. So you mentioned, I think, kind of around the climate modeling and understanding from that perspective, what are some other solutions that senior living providers in any of the letters, E, S or G, or all of them. What are some different solutions that risk managers and a senior living community or long-term care facility need to be thinking about now?

Amy Barnes:

So we've already said that more people care about your ESG performance, whether that's capital providers, residents or residents’ families. So I think the start point is to look in the mirror and to really have a clear perspective on your ESG performance. We developed a tool, an ESG risk rating tool that does exactly that. It's not what Marsh thinks is important when it comes to ESG — it looks at the international standards, and sorry for this alphabet soup of acronyms, but GRI, SASBI, TCFD, SBTI, the World Economic Forum, the UN principles of sustainable investment. So a whole host of frameworks have been synthesized into a free questionnaire that provides you with a score for overall

ESG performance. But really importantly, the 18 themes that the World Economic Forum recognize contribute towards sustainability. You get a score for each of those.

It's entirely confidential. So it just gets you the opportunity to look in the mirror and see where, for your industry, you may be performing well or not so well. So you can start to prioritize actions that you might take to improve your ESG performance. Now that's important because those capital providers care and increasingly I suspect that when you're talking to your banks, they'll be asking questions around these. Any debt finance, we're seeing more and more questions. You may not get questions quite in that ESG structured way from residents or from their families, but I suspect you will find that there are aspects of the information that you collate through that process that's going to be critical to those stakeholders. So what I've kind of suggested is a baseline, whether it's a baseline around ESG performance or a baseline around understanding the physical risk. It then comes to, "So what next?"

The what next with ESG will be very specific to each facility. Because of that very detailed 18-point granular plan of where you need to prioritize, you can start to develop a strategy, and obviously we'd be delighted to help with that. Then specifically when it comes to climate, you'll no doubt will be aware of the SCC guidance that's due out on climate reporting and many companies listed companies are going to need to report on climate. Even if you're not a traded company, I think it's fair to expect that people in your value chain will be expecting you to report on climate related risks. So the framework that the SCC is contemplating is aligned with the task force for climate related financial disclosure, TCFD. It goes a little bit beyond that, but that's a very well established framework that has been broadly adopted in the UK, Europe, a lot of US companies already reporting to that standard and it asks companies to report on the governance strategies and risk they have around two key questions.

The first is, "What's the impact that my business has on the climate?" Because as everybody transitions to a low carbon or a lower carbon economy, what aspects of your business are going to need to change to become lower carbon? What's the impact that the climate could have on my business? What's the physical risks to which I'm exposed that I need to be managing for and I need to be adapting and building my resilience. Once you've done that kind of like baseline assessments, helping to build out that reporting, it can start off at a qualitative basis, but ultimately it does need to be quantitative, specifying what your current carbon footprint is and what your ambitions are. Again, we can work with clients to help them build out that reporting capability. I know that sounds like a lot. I would just say that the start point is understanding the baseline so you can prioritize actions and build a roadmap because this is big and complex and the elephant has to be eaten slowly, but you at least need to start.

Tara Clayton:

No, that's fantastic and I appreciate that mindset of it's a tailored process and there's a lot of information out there and it's all about taking those baby steps to move towards the ultimate end goal. Amy, I want to go back and touch on the associates and staff members in the community because I think there's an important connection. We've talked, I'm sure you've seen there's a workforce crisis really at this point, not just in the broader healthcare, but also for senior living and long-term care providers. I'd like to talk with you about what connections that you're seeing at this point as it relates to employee safety or even workers' compensation type claims. Because as we know, the happier staff are, the more likely we are to retain those employees. So can you comment just a little bit about what you're seeing in the workers' compensation or employee space?

Amy Barnes:

I love this question. So I talked about the ESG risk rating tool that we've developed and we've had really very broad uptake of it. As I said, it's free and it's confidential. So clients are just taking it and looking at themselves and thinking about how they improve their position. But what it's given us is a really powerful data set to start to look for some relationships to see, can we see relationships between good ESG performance and other outcomes? One of the pieces of work that we did over the summer was exactly, Tara, to test the hypothesis that you say that good ESG should be related with workers' comp, and we found that it was. So the data that we used was experience modifiers. Rather than look at all of the individual workers' comp losses and try to have to adjust them for industry, we figured actually those experience modifiers already contemplate average losses for the industry and the industry type.

So for our data set, we looked at companies' relationship between having a low experience modifier relative to their ESG performance, and we find a relationship most strongly between the S, the social, and a low X- mod. So we then try to drill a bit deeper and we found that companies with the most robust policies and procedures around that S pillar, around diversity inclusion, treating colleagues with respect, engaging with communities, so building trust and thinking about colleague engagement, that they had the lowest X-mods. Then when we drill down a layer further, still it was the companies that were performing most strongly on dignity and equality that had the lowest X-mods. So we're really excited to see those relationships. Now we need to be clear that correlation isn't causation. You can't just write yourself a policy, put it on file, tick a box and think that that's going to change your outcomes.

It is more nuanced than that, but I think it's really encouraging to know that those investments that people are making around the social aspects are paying off tangibly in the terms of the cost of the losses. Now Tara, you also alluded to a piece of work that I want to do, which is obviously with our sister company Mercer, understand if we can find relationships between that S or any part of ESG and colleague retention. Are we finding that colleagues with stronger ESG have lower staff turnovers? So that's next on my list.

We did separately do some work last year, not with our own data set, but with publicly available ESG data, looking at the relationship between ESG and directors and offices losses. And found again, not surprisingly, that companies with the best ESG performance had less frequent, less severe D&O losses. I predict that as our data improves, we'll find more of those relationships. We'll find companies that have a strong E - strong waste management, strong water management environmental systems, think about air quality, think about climate. Those companies inherently feel to me like they should have fewer, I should say, non-cat, fewer non-cat property losses. So watch this space for more analysis, and if there's any hypothesis, any wants to test, send it to me and if I can get the data, I happily will.

Tara Clayton:

Awesome. A lot of these concepts make sense from a hypothesis standpoint. So it's great to hear that as you guys are getting data, the pieces of the puzzle are starting to fit together. I think too, the more data that you guys start to accumulate, I think that's helpful for different industries to understand what of the ESG policies that they have are really strong and really working to share those from a learning standpoint.

Amy Barnes:

One of the other things that we love being able to do with the data is share the benchmarking. So we have some really nice benchmarking that means that clients can see by revenue size, by geography, by sub-sector, exactly what their ESG performance is relative to their peer group, whether your peers have sustainability offices, all kinds of questions. Now I have to say we don't have a subset for senior living. In terms of our benchmarking, we benchmark against the healthcare sector generally. But if we get enough data in senior living, then we'll happily provide specific benchmarking.

Tara Clayton:

Awesome. Well to listeners, that was your cue to start.

Amy Barnes:

Yes, please.

Tara Clayton:

Well, Amy, I've really enjoyed our conversation. I want to end with just a wide open question. Is there an area on ESG that we haven't hit yet that you really want to make sure that we talk to the audience about?

Amy Barnes:

I'm really conscious of not wanting to overwhelm, but I think one of the trends that you should look out for, I know the US has yet to introduce climate related reporting, but we can all see that it's coming. Next year, there will be a new set of guidelines published around nature risk. The World Economic Forum did a study a few years ago that showed that 44 trillion dollars of economic value depends on nature. Now we can probably all in think, "Oh yeah, that makes sense with agriculture. If we have don't have healthy soils, it’d be difficult to grow crops. We need bees to pollinate our plants." But it also is not just in our food systems; it's tourism, it's cosmetics, it's all through the value chain. We are dependent on nature and so there's an expectation that the guidance will be produced next year, at some point following, that people start to report on their nature related risks.

If you think about the nexus between climate and nature, actually a lot of these senior care facilities have very nice grounds, have a really nice environment. And so they do have a nice natural environment that can be a real strength. So I think don't worry about nature yet, but have it on your radar that nature related risk reporting is coming. So I think that's one of the things that I would flag. The other thing I would flag is we haven't really talked about the insurance market. We've been talking about ESG as it relates to risk, but your insurers are also increasingly curious about ESG performance. Now that is more of a European insurer rather than the US insurers, but the US insurers' curiosity is increasing at pace as well. So do expect to see more questions.

Unfortunately, there isn't a standardized question set that insurers have so it's far more storytelling at the moment, then I can say, "These are the data points that you need to provide." But expect more curiosity there. And insurers also are starting to look at the climate footprint of their clients. Some insurers have made net zero commitments in their underwriting. They have said that the carbon footprint of their insureds will be net zero by 2050. So that means that the insurers who've made those commitments — and that includes AIG in the US — have, from next year, will start counting the carbon footprint of everybody they insure and then slowly they're going to start transitioning that, so they're also going to want to understand what your de-carbonization journey is. So, sorry to add yet more onto your plates, but there is more coming.

Tara Clayton:

Thank you, Amy. To me, kind of, it sounds like from investors to insurers to our residents, the families, our associates that are in the building, everyone's paying attention to ESG in some format or fashion. It sounds like we're still very early in how this eventually looks and plays out. So I appreciate all the work that you're putting around getting information, testing hypothesis, and really just getting the message out on the importance of ESG and how our clients need to be looking at it. So Amy, thank you so much for joining us on the podcast today.

Amy Barnes:

Thank you so much for the opportunity.

Tara Clayton:

So I've learned a ton, hopefully those listening in have learned a ton. Again, this is a huge topic, and we can only get so much into it on a small little podcast episode. But, if you would like to learn more about Marsh's ESG risk rating tool that Amy referenced, a great place to start confidentially to understand what your baseline is, you can find that tool and other resources to understand your ESG performance by visiting our website listed in the show notes.

And be sure to subscribe so you don't miss any future episodes. You can find us on your favorite podcast platforms, including Apple and Spotify. And as always, I would love to hear from you. If you have any topics you'd like addressed on the podcast or if you'd like to volunteer to submit your data to Amy as she asked for, you can shoot me an email at the address listed in the show notes as well. As always, thank you so much for tuning in, and I hope you'll join us for our next *Risk Insight*.