Mercer Marsh Benefits

The Five Pillars of People Risk

Managing risks for workforce and business resilience

Australia

Introduction

The pandemic has reinforced that employee health, risk protection and wellbeing is a central business risk, worthy of C-suite attention.

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

COVID-19 has put people-related risks firmly on the boardroom agenda. As the single-largest health crisis of our time, the pandemic has reinforced that employee risk protection (insurance) and wellbeing plans are central pillars of the employee value proposition. Chief Executive Officers (CEOs) quickly recognised the impact that wellbeing could have on business continuity, safety, employee performance, the client experience, reputation and ultimately, the bottom line.

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, remote working, political and societal risks – dominated the landscape, bringing new challenges that are both constantly evolving and critical to address.

The pandemic has left many companies exposed and vulnerable with regards to their people. Now understanding and evaluating these exposures are 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 impacts for their businesses.

In parallel, we also examined the most effective strategies firms in Australia 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, risk protection and wellbeing can be used strategically to manage a range of threats, while helping to protect employees and improve business performance.

People are an organisation'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 with their Executive Leadership to protect, equip and motivate their most valuable asset. We hope you find this research and insights helpful as you navigate your people risk strategy.

Sarah Brown
Mercer Marsh Benefits Leader, Pacific

The top emerging risks identified in Australia

- Maintaining workplace culture, compliance and supervision has become more difficult as firms have needed to balance the increased dependence on remote working, particularly from home.
- Employees have suffered from escalating deterioration of mental health due to the spread of COVID-19.
- Closed borders in Australia have exacerbated the war on talent and the ability of organisations to attract and retain people.
- Governance requirements around safety and employers' obligations to provide a safe working environment was heightened during the pandemic.
- Rising insurance costs across the board mean organisations cannot afford to be passive when it comes to claims management for work or non-work related injuries.
- Concerns regarding cybersecurity and data breaches have been heightened by COVID-19 and home working orders.

Understanding People Risks

While organisations 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 organisations to identify, prioritise, and manage the threats that are most pertinent to them and take appropriate action.

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

To prioritise 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. Labour and employee relations
4. Catastrophic personal life events
5. Social unrest

Governance and Financial

1. Increasing health, risk protection and wellbeing 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 Digitisation

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

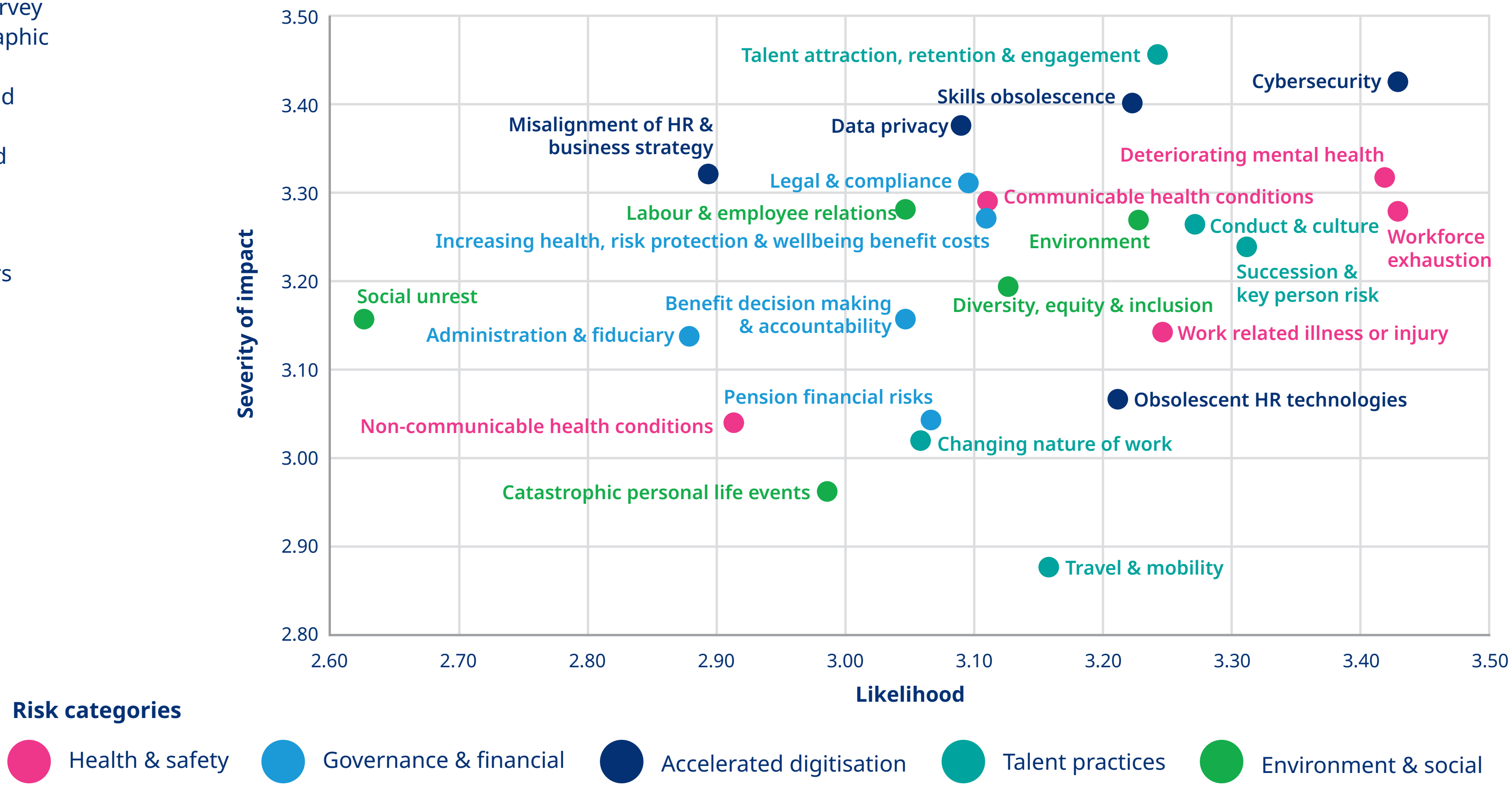
Methodology

Mercer Marsh Benefits conducted the 'Managing the People Side of Risk' survey in 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.

The respondents of this Australian report comprise of 60% risk managers and 40% HR professionals.
See Appendix A for further details.

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 organisation 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 said they are expected to have significant impacts on the business.

Accelerated digitisation and health and safety were the top categorisations of risk, followed by talent practices.

Unsurprisingly, the top risks identified within those categories included:

- Cybersecurity
- Talent attraction, retention and engagement
- Deteriorating mental health
- Workforce exhaustion

All of these risks have been exacerbated during the pandemic.

Top 10 risks, HR versus risk manager

In Australia, cybersecurity, workforce exhaustion and deteriorating mental health were aligned in the top four risks between the HR and risk managers, but skills obsolescence dropped to 8th place among HR directors.

Respondents did diverge significantly on some risks. For example, HR ranked environment and increasing health, risk protection and wellbeing benefit costs highly but these risks did not appear in the top 10 for risk managers.

Meanwhile, conduct and culture was top of mind for risk managers despite not featuring in the HR top 10.

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.

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

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

Ranking	All respondents	HR	Risk
1	Cybersecurity	Talent attraction, retention and engagement	Cybersecurity
2	Deteriorating mental health	Workforce exhaustion	Skills obsolescence
3	Workforce exhaustion	Deteriorating mental health	Deteriorating mental health
4	Skills obsolescence	Cybersecurity	Workforce exhaustion
5	Talent attraction, retention and engagement	Environment	Talent attraction, retention and engagement
6	Succession and key person risk	Increasing health, risk protection and wellbeing benefit costs	Conduct and culture
7	Conduct and culture	Obsolescent HR technologies	Succession and key person risk
8	Environment	Skills obsolescence	Data Privacy
9	Data Privacy	Work-related illness or injury	Legal and compliance
10	Work-related illness or injury	Data Privacy	Communicable health conditions

Risk categories

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

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

Blind spots

The survey revealed several blind spots around critical risks. Notably:

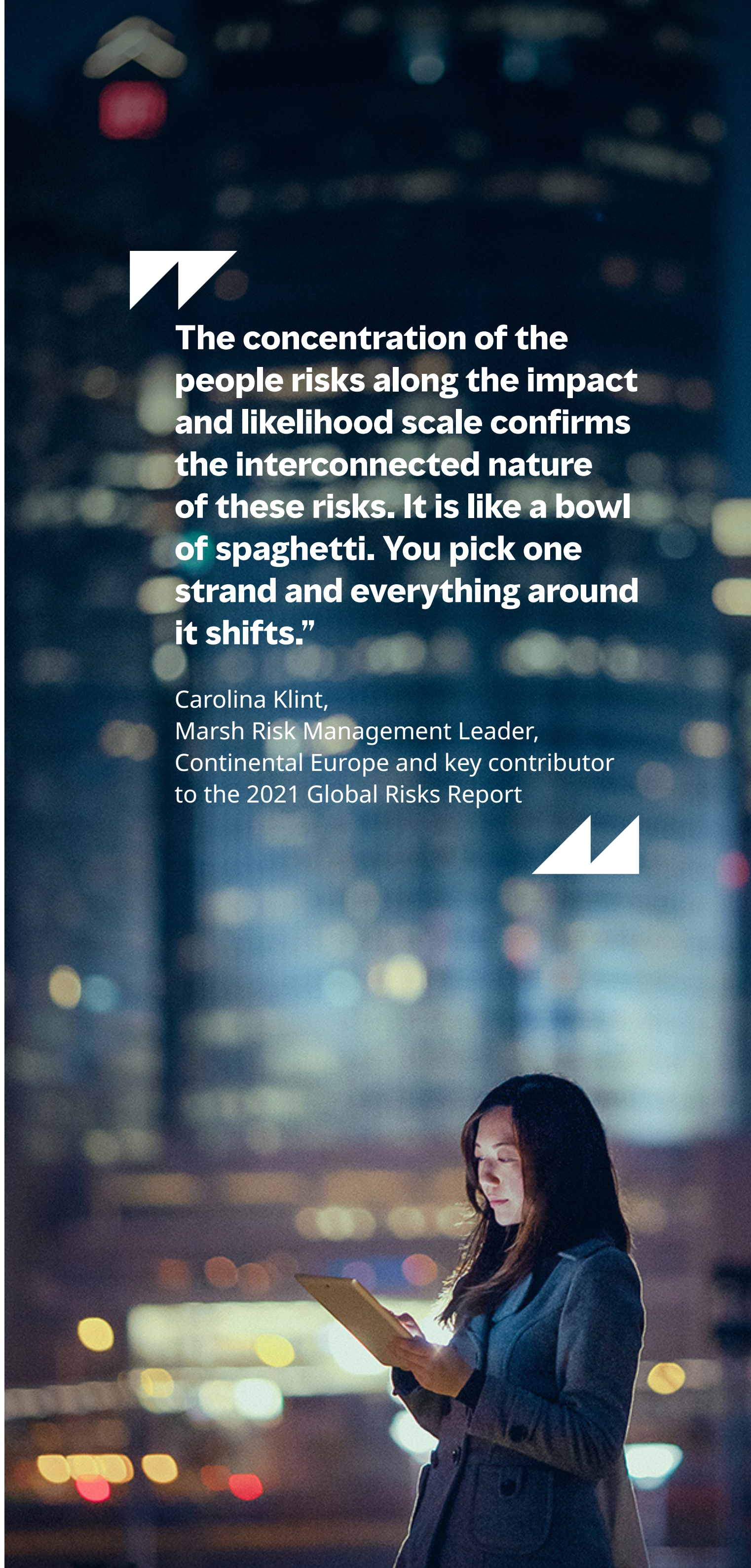
Non-communicable health conditions
This refers to non-infectious conditions like cancer, diabetes and heart disease. Despite these having a lower score, we know that cancer is the leading cause of premature death, disease and disability in Australia and is responsible for 10% of all disability insurance claims.

Pension financial risks
Whilst Australia has a robust national superannuation and pension system, the Mercer CFA Institute Global Pension Index for 2020 saw Australia slip to 14th in the adequacy ranking. Many employers are not aware that the average Australian will be unable to achieve a comfortable standard of living in retirement. The pandemic has only exacerbated the adequacy issue, with many Australians forced to sacrifice retirement savings to survive financially through the early release scheme. The crisis has also increased the gender inequality gap in superannuation savings. Inadequate superannuation savings creates several workforce issues, including employee stress and anxiety, a disengaged, ageing workforce who are unable to retire, and a career crunch where rising professionals cannot find the space to move up.

Administration and fiduciary
Without the right administration processes and controls in place, costly mistakes happen that also cause reputational issues. If administration and system controls are not adequate, a business will have difficulty executing people risk strategies throughout all levels of the organisation. For example, if there is administrative failing of safety systems at work, or failure in training of frontline managers to deal with injury management, this can result in serious employee harm.

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-organisational 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

Barriers to addressing people risks

Respondents most frequently reported that they lacked the skilled resources to understand and address their exposures 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 also reported they faced budget constraints to manage these exposures and interestingly said there was confusion over which department is responsible, particularly for Health and Safety, Talent Practices, and Accelerated Digitisation.

This suggests there is a need for greater clarity around accountability and stronger cooperation across organisations. By working together to identify the key threats and pool budgets, firms can better protect their workforces.

This requires better engagement of the C-suite to adopt an enterprise-wide risk mitigation strategy.

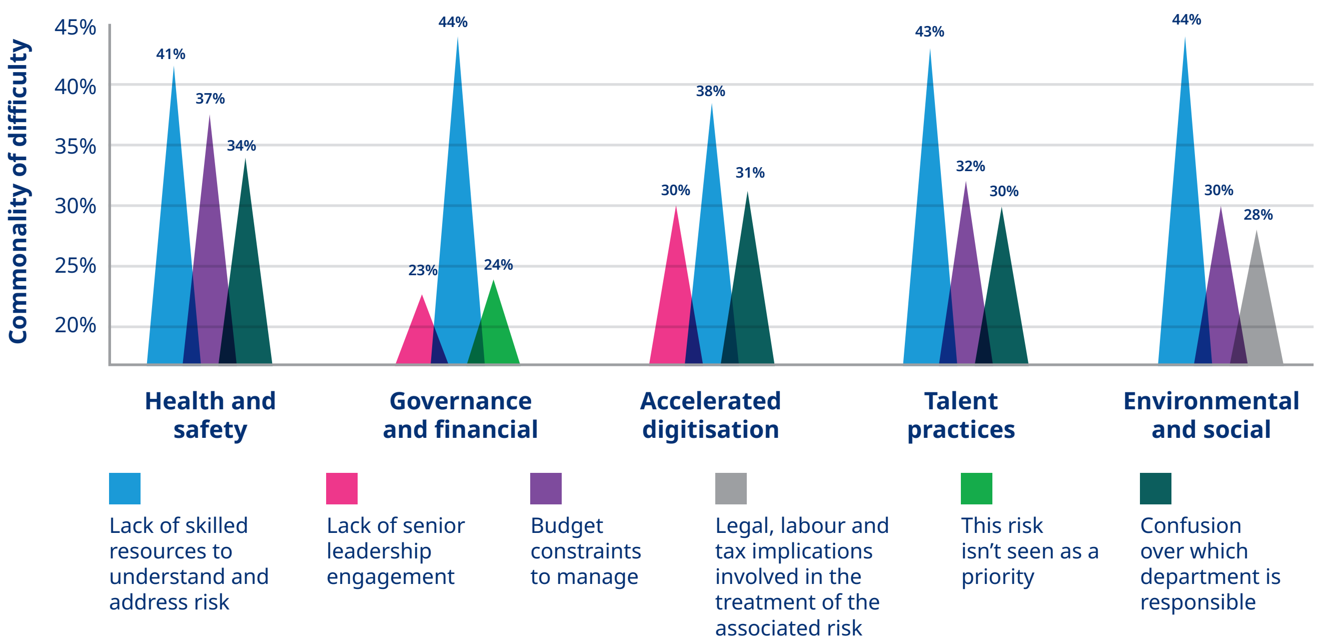
Take for example, the risk category of health and safety. Work-related illness or injury is not a new or emerging risk for businesses and is generally a core value for organisations.

Furthermore, the significant risk for Directors and Officers due to increased due diligence obligations under harmonised Work Health & Safety (WHS) legislation means this should have undeniable board accountability.

The research shows deteriorating mental health or non-work related illness or injury are more often managed by risk managers or occupational health & safety teams, despite the critical business issues and costs resulting from employee sickness or injury absence even when non-work related. This begs the question as to why more businesses are not managing health and safety as a single risk (be it work related or non-work related) at a board or senior leadership level.

Surprisingly, ultimate responsibility for each individual risk varies considerably from company to company. This suggests that collectively, the business community has not standardised roles and responsibilities for managing many people risks.

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



Taking a more holistic view of people risks requires breaking down silos. The complexity of the exposures and their consequences means that no one function or specialist can solve the problem. Diversity of perspectives is critical.

Nicola Sacré
Strategy Execution Leader
Mercer Marsh Benefits Australia

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

Employers that proactively mitigate health issues such as physical and emotional wellbeing through targeted interventions and a culture of safety – drive positive business outcomes. These include a more stable business, more energised and loyal employees and better management of medical, disability and workers' compensation claims.

Research highlights

80%

of respondents agreed or strongly agreed that their organisations recognised 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:

Deteriorating mental health
59%

Workforce exhaustion
55%

Work-related injury or illness
52%

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

Deteriorating mental health
41%

Workforce exhaustion
40%

Work-related injury or illness
37%

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

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

Budget constraints to manage
37%

Confusion over which department is responsible
34%

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 employee value proposition and brand. High demand and subsequent increased wait times for treatment is lengthening absences and affecting the prospect of successful return to work and outcomes.
- 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 organisational 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, productivity and reputational consequences.
- Unmanaged **non-communicable health conditions** including diabetes, lung disease and cancer impact business resilience, leading to higher costs and weaker organisational performance.

Effective management of Employee Health and Safety

Only 5% of businesses report the same stakeholder for all health and safety risks, across mental health, workforce exhaustion, non-communicable health conditions, communicable health conditions and work-related illness or injury. Most firms have at least 3 stakeholders who are ultimately accountable for employee health and safety, and our experience is that these departments manage these risks with little or no collaboration. This exposes the business to inconsistencies, duplications, gaps and inefficiencies, which could be better addressed by working together. This “siloed” approach is also exhibited within individual risks – such as responsibility for work-related illness and injury. Work-related mental illness and injury might be the responsibility of HR, while physical illness and injury rests with occupational health and safety. This disconnect and inconsistency may increase the likelihood of fines, penalties and prosecution under WHS legislation for failing to effectively control these “foreseeable” risks.

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. The sudden loss of employment and social interaction, the added stressors of moving to remote work and home schooling, and more recently, impacts of sudden, localised 'lockdowns' to prevent further outbreaks have impacted the mental health of many Australians.

Mental health risk is pervasive, as it occurs independently, or secondary to other forms of people risk.

Disability Insurance claims paid due to mental health in 2018 were 53% higher than in 2013 with a 125% increase in the incidence of claims amongst men due to mental health.[1]

Now more than ever, coping with work pressure and behavioural health concerns are at the very top of employers' agendas as evidenced by both exhaustion and deteriorating mental health, making it the second highest rating risk (based on risk rating score). Further evidence to support the importance of mental health on the national agenda is the $5.7 billion funding contribution to mental health and a further $16 billion for the pandemic health response in the 2021 Australian Federal Budget.

Workforce exhaustion, the third highest risk amongst all people risks identified in the research, is an escalating concern that requires immediate attention. However, when asked "To what extent is your organisation currently addressing this risk?" respondents rated it 14th place. Besides the long-term health risks, there is also an organisational cost to ignoring this issue, including toxic work cultures, low employee morale and engagement, high employee turnover, low productivity and higher disability and workers' compensation 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 a combination of factors are at play, including impacts of unaddressed or declining physical and mental health issues, adjustment and grief, job design, supervisory and leadership skills, a hyper-engagement culture, blurred boundaries between work and home, virtual meetings and change fatigue, and caregiving stresses.

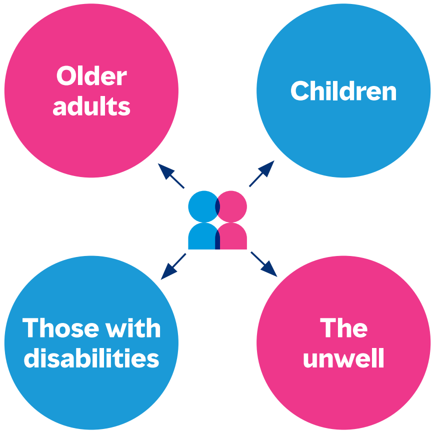
COVID-19 has pushed mental and physical wellbeing up the corporate agenda, but firms must tread carefully. Poorly designed plans or "quick-fix" solutions are likely to cost more money and yield little to no return on investment with the added potential to undermine health and employee engagement. A data lead approach to understanding the specific needs of the workforce, and sub-sets of the workforce is the key to successful program design, measurement and implementation.

Kirsty Nicholson
Health & Safety Leader,
Mercer Marsh Benefits Australia

[1] Joint study reveals large rise in life insurance claims - KPMG Australia (home.kpmg)

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 or performing multiple caring roles simultaneously with minimal support. 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 labour force, particularly for women and low-income earners.[2]

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



[2] 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/creativeideas-to-support-working-parents-during-the-caregiver-crisis.html
[3] Safe Work Australia (2021) https://www.safeworkaustralia.gov.au/topic/mental-health
[4] Australian institute of Health and Welfare (2020) Australia's health 2020 data insights, Australia's health series no.17. Cat. no. AUS231. Canberra: AIHW.

Mental illness is the leading cause of long-term sickness amongst Australian workers, with work-related mental illness costing $543 million in workers' compensation claims per annum.[3] It is widely reported that one in five people in Australia are living with a mental health condition.[4] However, the majority of mental illness seen in the workplace is treatable, and preventable, dependent on the health and wellbeing support available.

Legislative changes in the making

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

- The recently published, ISO 45003:2021 Occupational health and safety management — Psychological health and safety at work — Guidelines for managing psychosocial risks (ISO 45003) is a new global standard that provides practical steps and methods of best practice for managing psychological health within the workplace. It includes rules around managing psychosocial risk and incorporating it into a health, safety and wellbeing framework.
- SafeWork NSW has also recently published the Code of Practice for Managing Psychosocial Hazards at Work (May 2021). An Australian first, this document provides organisations with resources and guidance regarding the management of psychosocial risks within Australian workplaces.

While legislators are making some strides towards better protection of mental health, employers must address this issue now, and take immediate steps to protect their workforces. HR and risk managers are uniquely positioned to reinvent health, safety and wellbeing 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 support services that employers can offer (see right).

> A growing body of research shows good physical health is also a protective factor for good mental health. Similarly, poor mental health can negatively impact physical health, leading to an increased risk of non-communicable diseases and lowering overall life expectancy.[5]

Prevention

- Digital solutions that build skills in areas such as resilience and mindfulness
- Educational campaigns on behavioural health topics
- “Virtual commute” solutions
- Organisational psychosocial risk audit and data analysis to identify key impacts to workplace mental health

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)
- Resources for specialty areas (e.g., addiction)
- Virtual care options or tools such as computerised CBT
- Navigation assistance
- Sleep programs

Support away from work

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

[5] The economic cost of serious mental illness and comorbidities in Australia and New Zealand (March 2016)

Blind spots?

Non-communicable health conditions ranked 24th as a risk and 25th regarding the extent to which it is being addressed. With the current attention turned to infectious diseases, it is important that non-infectious chronic conditions like cancer, diabetes and heart disease are not neglected.

Non-communicable diseases make up 80% of Australia's Total Burden of Disease[6] with cancer being the leading cause of disease. A study by The Australian Institute of Health and Welfare shows that 38% of diseases and injuries are preventable through modifiable risk factors such as smoking, diet, and blood pressure.[7]

In employer sponsored disability and international healthcare plans, these conditions drive a portion of claims costs and corresponding benefit spend. Given that a number of these conditions are driven by lifestyle choices, investing in proactive health management is a worthwhile risk mitigation approach for employers offering these benefits.

It is also important to remember 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 claims 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 mental wellbeing programs • Financial literacy programs • Vocational support • 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 • Tailored treatment programs • Return to work programs	• Second opinion • Care management • Disability management
	Culture of health and safety			

[6] Max Roser and Hannah Ritchie (2016) - "Burden of Disease". Published online at OurWorldInData.org. Retrieved from: https://ourworldindata.org/burden-of-disease
[7] Australian Institute of Health and Welfare 2019. Australian Burden of Disease Study: impact and causes of illness and death in Australia 2015—Summary report. Australian Burden of Disease Study series no. 18. Cat. no. BOD 21. Canberra: AIHW

Recognising the costs of employee absence

Workplace illness and injury has a high profile in Australia, with employers bound by legislation regarding WHS and workers' compensation. Nevertheless, it is also reflective of the serious business impact that comes from illness- and injury-related absence. This includes the cost of lost productivity that comes from an employee's absence from work, employee replacement and training costs, costs associated with a return to work program, and in some cases the cost of cultural and/or reputational damage to the business.

There is also the enormous personal price of workplace illness or injury, with a life changed living with a disability or illness.

It is important to remember that these impacts exist whether the illness or injury is sustained at work, or not at work.

Whilst prevention of employee illness and injury is key to the management of employee health and safety, there is no way of preventing every incident. Therefore, getting people back to work as quickly as possible following ill health or injury, is critical when trying to minimise the impact of employee health and wellbeing to business and individuals.

The Royal Australian College of General Practitioners (RACGP) advise that 'effective and early injury treatment together with good rehabilitation in a shared plan for early return to work is beneficial to both the worker and employers'.[8] This recognises that the longer an employee remains off work, the more challenging the recovery and rehabilitation environment is, and ultimately the less likely they are to ever return.

Clumsily managed absence can be isolating for the ill or injured employee and damaging to the team left behind. Engaging a trained specialist in early intervention and rehabilitation will not only empower your business and leaders to facilitate safe and inclusive recovery, retention and productivity, it will also help to build resilience and capability in your workforce

Katherine Gobbi
Head of Recovre

[8] https://www.racgp.org.au/afp/2013/april/returning-to-work/

Figure 7: The cycle of managing a healthy and protected workforce:

Taking a more strategic approach by investing in keeping your employees well, safe and productive above the 'health line'...

...to contain increasing costs, reduce absenteeism and minimise the impact of ill health below the line.

Attract/retain the talent your business needs, through a culture of care and wellbeing, supported by benefits and a focus on health to strengthen your EVP.

Manage risk of mental and physical illness, injury, occupational safety, cultural/reputational damage, compliance and legislation.

Insure against the risks of sickness and injury costs and loss of income.

Rehabilitate and return employees to the best state they can be, back to health and productivity.

Case Study: 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 the 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 (data collection) and analysis of existing available health risk data.

2

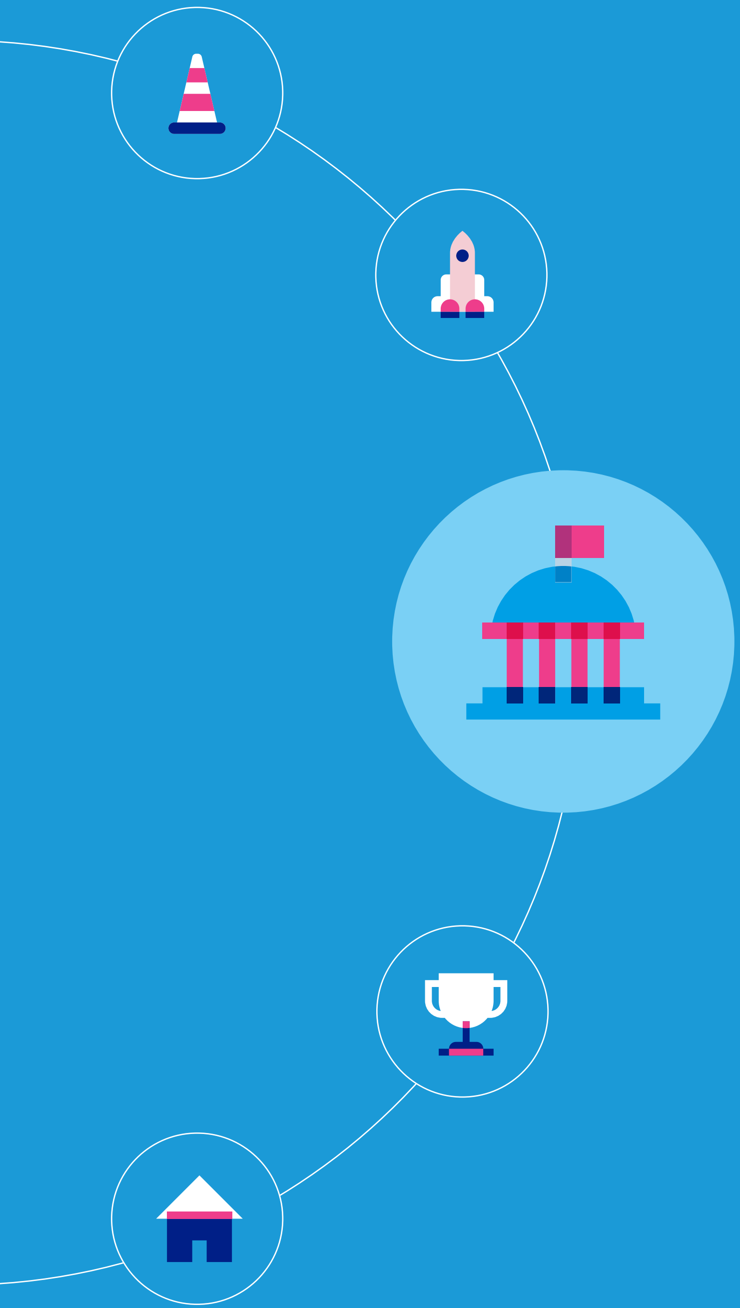
Invest in proactive health management tactics to reduce non-communicable or chronic health conditions.

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 services you might need to introduce, such as mental health supports beyond an employee assistance program (EAP), new offerings in light of remote working or access to support for caregivers.



Governance and financial

Top risks in the category ranked by risk rating score:

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

Governance and Financial

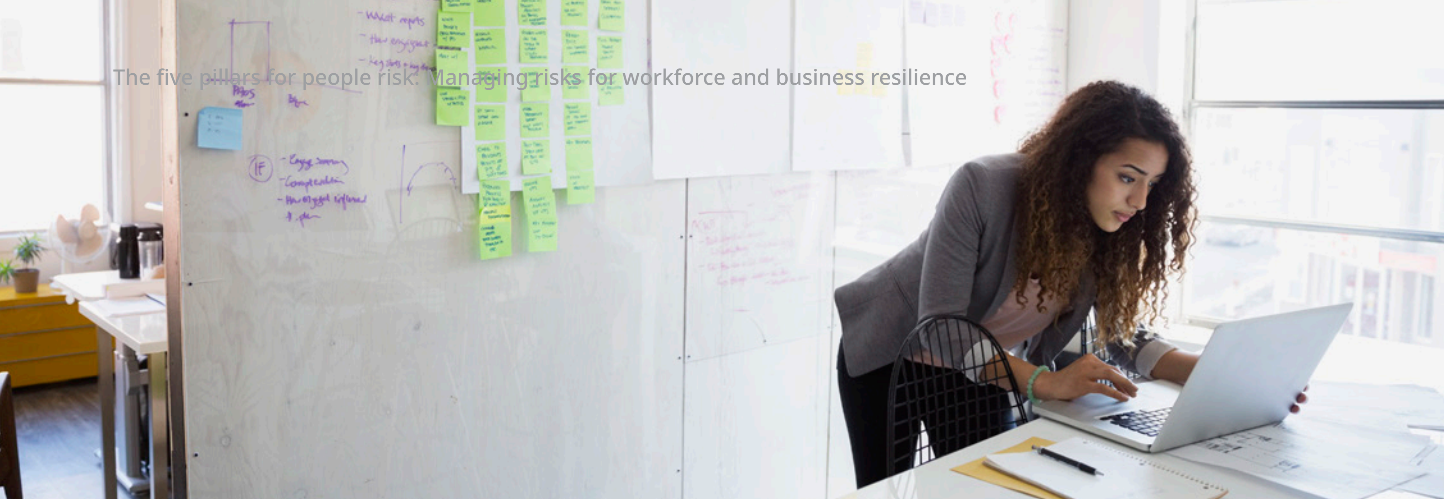
It is no surprise that the Australian results of the People Risk survey ranked Legal and Compliance risks at the top of the list, given the complex and often onerous legislation regarding workers' compensation, safety, and employment law. In addition to the legislative landscape, the rapidly growing cost of people risk related insurance premiums are increasingly getting C-suite attention and evolving to become a critical component of business strategy.

In Australia, work health and safety (WHS) laws mean that company directors have a legal duty to ensure the health and safety of employees and are personally liable for breaches of this duty with penalties of imprisonment and significant fines. Whilst traditional WHS management focused on physical injuries, it is critical that organisations have processes in place to also identify and manage workplace hazards that can cause psychological injuries. Good governance would suggest every board meeting should have work health and safety on the agenda.

The cost of doing business is getting higher. Strong competition means organisations must trim their cost base to compete – but in many sectors, this also requires organisations to spend more on people given the mismatch in supply and demand for labour. Job vacancies are at a record high, and many organisations are increasing wages to compete for the necessary talent. Wages impact base premium for many people risk insurances, and claims costs are higher when wages increase. Workers' Compensation is now one of the biggest insurance spends on a company P&L, often accounting for 50% of total insurance spend. Unlike many other lines of insurance, however businesses can influence premium outcomes through proactive prevention strategies and exceptional claims management practices. It is for this reason that good governance is critical for firms that want to better manage costs and comply with legislation.

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

- **Legal and compliance** is critical for both HR and risk managers: Misalignment of benefits, workplace safety, workers' compensation, mobility and other HR practices/programs to regulatory requirements, tax, labour, and employment law can lead to penalties, litigation and associated reputational damage.
- Reduced insurer appetite or increased insurer pricing, medical inflation and lack of robust claims management practices are pushing up the costs of some people risk insurances The need to support employees' physical and mental wellbeing is growing simultaneously with **increasing health, risk protection and wellbeing benefit costs**. This in turn means squeezed budgets and lower profitability.
- 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 likely resulting in suboptimal costs, liabilities and commitments.
- The **administration and fiduciary burden** on businesses is growing. An inability to administer programs accurately, fairly, in accordance with legislation or corporate promises made may result in costly errors and unmet obligations.
- Despite Australia's three pillar retirement system of compulsory superannuation, voluntary contributions and the Aged Pension, **pension financial risks** remain a concern, particularly regarding adequacy. An employee's superannuation savings are likely to be their second biggest asset after home ownership, and yet many do not have the financial literacy to adequately manage this. Understanding pension risks forms an important part of an employee's financial wellbeing.



Research highlights

75%

of respondents agreed or strongly agreed that their organisations recognised 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:

Legal and compliance
45%

Increasing health, risk protection and wellbeing benefit costs
45%

Benefit decision making and accountability
41%

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

Legal and compliance
44%

Increasing health, risk protection and wellbeing benefit costs
44%

Benefit decision making and accountability
37%

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

Lack of skilled resources to understand and address the risk
44%

The risk isn't seen as a priority
24%

Lack of senior leadership engagement
24%

With People Risk insurance policies, it's what you do between policy periods that will make a difference at renewal.

Blake Gleeson
Chief Client Officer, Mercer
Marsh Benefits Australia

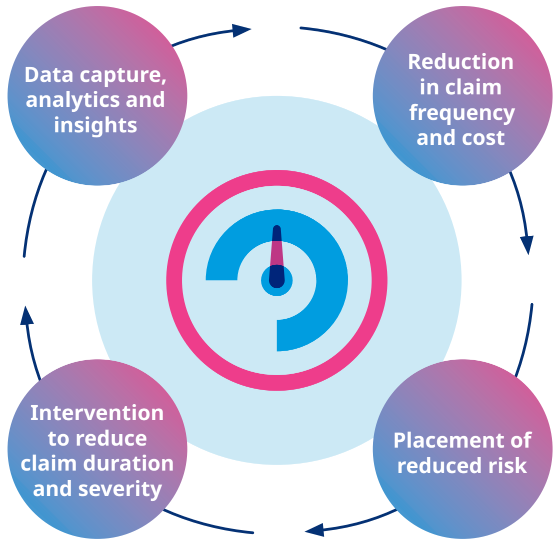
Increasing health, risk protection and wellbeing benefit costs

There is no doubt that the rising cost of risk protection, including workers' compensation, disability and international healthcare insurance, are hitting business budgets. Typical year premium increases of 10-40% across the various insurance categories are unsustainable.

Adding to that, the growing need to include wellbeing programs and you could have a cost containment crisis. However, if businesses make decisions driven by data insights, wellbeing initiatives can be targeted to actually reduce your overall costs, not add to them.

To make a real impact on risk protection and wellbeing costs, companies need to take a strategic approach within their risk management framework. Organisations must utilise data and analytical insights to design and implement targeted risk initiatives to reduce claims frequency and costs. This should be supported by claims management intervention to reduce the severity and duration of their workers' compensation and disability claims. This can then result in taking an improved risk to market at renewal. This approach can be applied across regions or across the globe, to include medical claim costs.

Claims management is essential in mitigating claims cost and achieving enhanced claims outcomes. This, however, requires a very specialised skill set. Traditionally, this has been the role of HR or Health & Safety to work with the respective insurer. However, with rising premiums, more employers are realising they need to engage specialist claims management support, rather than adding this on to an existing role. For multi-jurisdictional employers, this becomes even more critical.



It is important to look at the evidence available and collect new data so your program is not only data-led but also research-informed.

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

3 elements of a truly effective health risk protection cost containment strategy:

1 Design for value through coverage provisions

\+

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

\+

3 Drive efficiencies through smart financing and placement.

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

There is a speciality and complexity to legislated insurances (workers' compensation), insurance benefits within enterprise bargaining agreements, and other employer-sponsored benefits. It is therefore important that the design, financing, vendor selection, communication, administration and risk management decisions are made by people with the right expertise and decision-making authority.

Without a thorough understanding and model of the risks that an organisation may be exposed to across the business, there are several surprises that can creep up, including, but not limited to:

- Significant unbudgeted premium increases, which have not been forecasted, nor the drivers understood or managed.
- Underinsured life or disability insurance due to overlooked medical underwriting for higher paid employees.
- Changes in policy wordings or legislation, which expose new risks, e.g. introducing inclusive benefits to include coverage for mental health, without addressing preventative mental health risks.
- Unaddressed complexities of a national workers' compensation policy structure, leading to an inefficient, costly, and non-compliant program.
- The absence of an early intervention protocol for non-work-related illness or injury, which subsequently turns into a costly disability insurance claim or work-related workers' compensation claim.
- A benefit promise that is uninsured, for example a disability insurance that doesn't match the promise in the Enterprise Bargaining Agreement.
- International healthcare plans, which do not support country legislation.
- Poor ergonomics from working from home during the pandemic, leading to workers' compensation claims.

Businesses are becoming more sophisticated in the way they link and manage people risks collabouratively across functions such as HR and Risk Management. This might start with a common framework for managing all employee work-related and non-work-related illness and injury in a consistent manner, regardless of the insurance that might ultimately support the employee following the incident.

Ross Pavlis
Workers' Compensation Leader,
Mercer Marsh Benefits Australia

Are organisations leaving money on the table by not leveraging economies of scale across your local or global people risk arrangements?

Consolidation, pooling and self-insurance are all effective ways in which organisations can leverage scale, locally or through people risk programs across the globe to improve efficiencies, governance and save on costs.

Consolidation of plans where possible to leverage economies of scale can be a good way to contain costs and reduce administration and governance burdens. For example, many businesses place numerous disability policies linked to enterprise agreements, specific to sites, projects or states and territories. These can be consolidated and incorporated into a single master policy, resulting in significant savings and improved efficiencies too.

Active management of a multinational pooling facility will leverage global buying power. Australian group salary continuance and life insurance policies can be included in a multinational pool, to leverage savings by way of a premium rebate to HQ. This may often offer superior underwriting terms and support global governance.

For large organisations, there are several options available in the way businesses manage the risk and cost associated with workers' compensation, life and disability insurances. From conventional insurance, to burning cost models, wage pooling across privately underwritten states and self-insurance, there are a number of ways that a program could be structured to maximise available financial benefits and eliminate unnecessary expenditure.

Used correctly, self-insurance can remove the margin and frictional costs that exist in insurance premiums such as administration, profit and risk charges and provide greater insights and governance over people risk programs.

Self-insurance can allow companies to manage and pay all their employees' claims for fatality, injury and illness, rather than paying premiums to insurers to take on those liabilities. Once employers self-insure, they no longer pay premiums, as they become the insurer.

There is also an opportunity to harmonise the approach to manage employee illness and injury across work-related and non-work related incidence.

Case Study: Good governance through consolidated benefits

Challenge

Enterprise Agreement (EA) income protection insurance was provided by multiple brokers and insurers with numerous policies, multiple expiry dates, no consistency, no accountability and no defined process.

Actions

We conducted an EA audit; identified an opportunity to consolidate risks into a master policy and designed the program.

Next, we marketed it for a 1,000+ blue-collar workforce, designed a claims and administration process, and implemented robust claims management reporting and monitoring.

Value delivered

The initiative reduced the annual premium by 30% (which represented $1.5m+).

We implemented a Claims Experience Discount with a potential further saving of 20% of the annual premium.

The master policy capitalised on economies of scale and provided 100% compliance with the EA terms.

These were sustainable cost control measures with claims being consistently and suitably managed to ensure premiums were managed.

The business stakeholders had comfort knowing they had a consistent, broad benefit plan, which offered pricing stability, claims visibility, and EBA compliance.

Four ways to improve benefits governance and business resilience

Some tips to get started…

1

Ensure there is an Executive Level owner of your People Risk program, with a clearly defined strategy that will achieve agreed goals with appropriate resources allocated – both financial and specialist capability to deliver the desired outcomes.

2

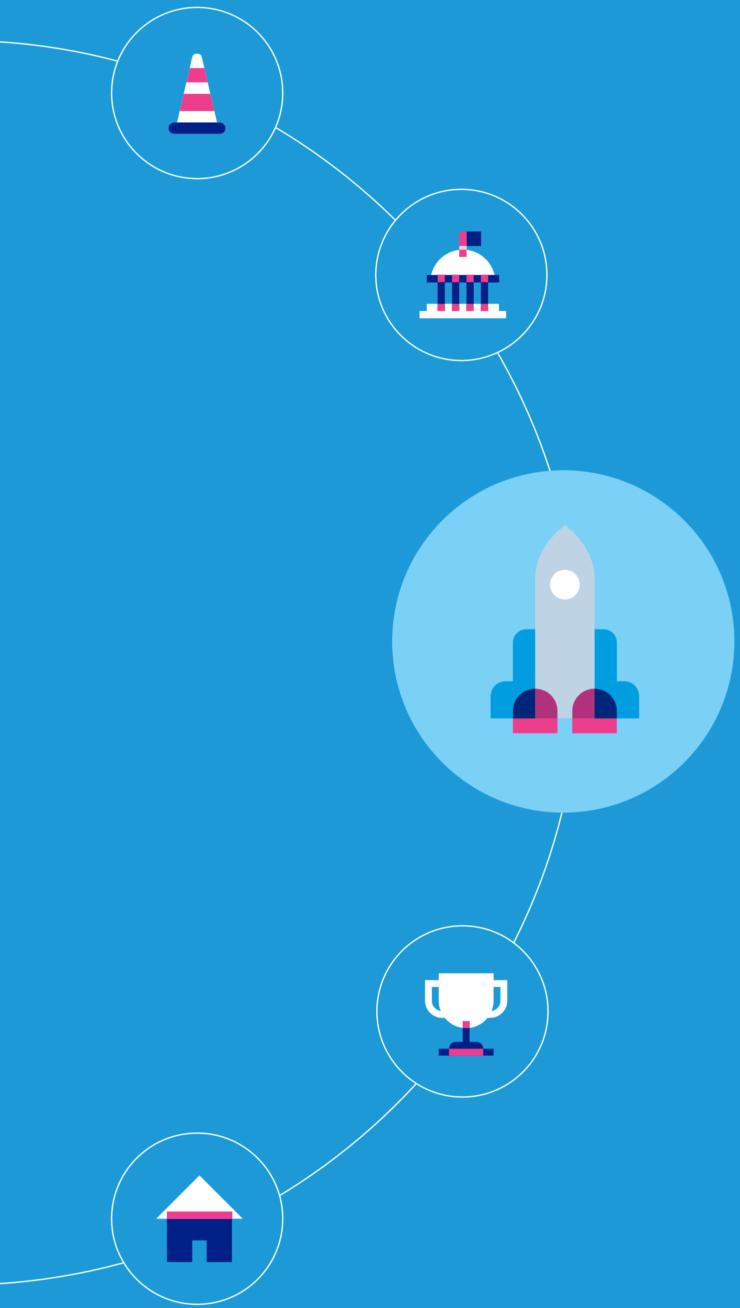
Analyse claims data to identify key cost drivers and develop targeted risk mitigation strategies, which are monitored, measured and managed.

3

Understand where the gaps in knowledge hinder your ability to adequately manage the legal and compliance risks, and outsource an audit and recommendations.

4

Introduce a multi-year and multipronged cost-containment strategy – supported by a business case for prevention, early intervention and rehabilitation to reduce claim frequency, duration and cost.



Accelerated digitisation

Top risks in the category ranked by risk rating score:

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

Accelerated Digitisation

Cybersecurity risks are growing and employers need to tackle them

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 increase in digital health and wellbeing programs during the pandemic.

However, when it comes to health and wellbeing, there are many different types of consumers within an organisation's workforce, and each cohort will experience health and wellbeing differently. A digital platform does not always reach everyone. So, whilst there is no single argument for digitisation being the way forward, it is important to be mindful of the risks that come with that, such as the loss of emotional intelligence, the social connection that comes with face-to-face interactions and real-time empathy and emotional support. There is also a heightened risk of data security.

The changing nature of work and working from home during the pandemic has also significantly contributed to heightened technology security risks. Large populations of employees are no longer accessing corporate systems within the parameters of a securely managed IT network in an office setting. Instead, they are remotely connecting into workplaces from potentially unsecured home or public location internet, and/or using outdated operating software installed on personal computers.

This increased threat surface area is something malicious parties have taken advantage of in recent times. We saw a significant increase in the number of ransomware attacks across 2020, and we continue to see an elevated level of attacks this year as threat actors seek to exploit vulnerabilities created by the large-scale shift to remote working. In addition to impacting the availability of business systems, ransomware attacks also focus on exfiltrating sensitive information, including HR data, to further incentivise a company to pay an extortion demand.

How poorly managed accelerated digitisation 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 have an adverse impact on reputation and attract regulatory fines.
- **Skills obsolescence** due to rapid digitisation and automation may lead to businesses struggling to meet their strategic goals.
- Poor workforce planning or organisational 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 and benefits more personalised, convenient and secure.

Research highlights

77%

of respondents agreed or strongly agreed their organisations recognised accelerated digitisation risks as a serious threat to the business.

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

Cybersecurity
55%

Skills obsolescence
53%

Obsolescent HR technologies
48%

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

Cybersecurity
53%

Data privacy
46%

Misalignment of HR and business strategy
45%

The top three difficulties organisations encounter when addressing accelerated digitisation risks:

Lack of skilled resources to understand and address the risk
38%

Confusion over which department is responsible
31%

Lack of senior leadership engagement
30%

Security Management

The management of people risks and in particular, the implementation of insurance programs and processing claims, requires significant levels of sensitive personal information, such as health and salary data. If the collection, transfer and storage of this data is not handled appropriately, there is a heightened risk of data security breaches.

It is not only critical that the people within your organisation are handling personal and sensitive information appropriately, you should ensure the partners you are working with are also complying with National Privacy Principles (NPP) when it comes to personal and sensitive information transfer and storage. Despite NPP exemptions, organisations should comply to ensure data privacy.

Companies are moving towards outsourcing HR services to specialist external service providers. As companies increasingly engage with third parties, it is important they vet the cybersecurity of these vendors. Put in place consistent auditing of technology frameworks and connections to monitor adherence to agreed security standards, and regularly engage with external vendors to establish clear expectations and responsibilities.

COVID-19 related issues

- Greater cybersecurity considerations are needed due to employees working from home e.g. Multi Factor Authentication (MFA).

- Organisations also need to work out what cyber insurance protection they have while employees are working remotely. Cyber insurance remains a very effective means of risk transfer. Core coverage within policy wordings is broad, and includes coverage for the direct costs associated with responding to and recovering from a cyber breach, as well as scope to indemnify a company for loss of profits arising from disruption to business operations.

- It is important to ensure employees' access to insurance claims can function digitally.

Making sure you protect the data of your employees is not just a legal requirement, but also the right thing to do. In the event a of a breach, employers will not only face regulatory sanctions but will also have exposed employees leading to a potential loss of talent and a severely damaged reputation.

David Fraser
Life & Disability Leader
Mercer Marsh Benefits Australia

The impact of digitisation on mental health

1

Employees responsible for safeguarding company IT infrastructure and assets carry a lot of pressure. A cybersecurity or privacy data breach within an organisation may lead to personal and emotional sense of guilt and possibly job losses or lengthy litigation. This can cause mental health issues such as stress, anxiety, and trauma.

2

Dependency on technology and connectivity to undertake critical elements of our work means that when there is a failure of technology, or an individual lacks skill in this area, this can cause to increased stress and anxiety.

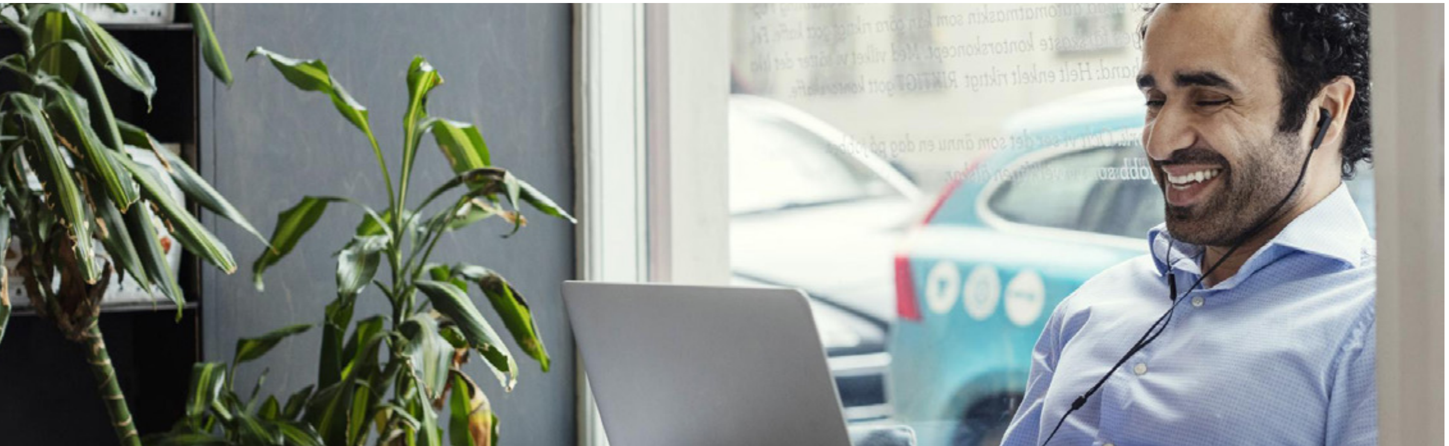
3

Employees working remotely, either resulting due to COVID-19 restrictions, or as part of their work in remote and isolated parts of the country may become highly dependent on technology and may find it challenging to achieve work-life balance leading to stress, anxiety, relationship breakdowns or suicidal tendencies. These can then potentially lead to domestic violence or substance abuse issues.

4

All employees living and working in a digitised world have the potential to be exposed to cybercrime and violation of online privacy through their personal or professional social networking platforms (and/or web based email), which can impact employee mental health to varying degrees.

It is important for an organisation to identify people who are at risk and provide the necessary support to these individuals.



Who is responsible for cybersecurity?

31% of respondents say that there is confusion within their organisation as to who is responsible for the risks regarding digitisation. This is hugely surprising given the potentially severe consequences of this problem.

With regards to the top risk of cyber, this has traditionally fallen into the realms of technology risk. However, as cyber events affect companies financially, operationally and reputationally, it is important that an enterprise-wide approach is taken when managing this key risk exposure.

Recommended best practice for cyber risk management is to incorporate:

- **Enterprise level governance:** Broad ownership by key organisational stakeholders, with sponsorship at executive and board levels.
- **Risk identification:** Assessment of cyber risk vulnerabilities to determine where key exposures lie, particularly in the context of the current threat landscape.
- **A holistic approach, focusing on building cyber resilience:** Cyber risk should be managed like all other strategic risks. Employ a comprehensive approach that includes planning, mitigation, testing of response to cyber event scenarios and risk transfer via insurance.

Skills obsolescence – Keeping pace with change

Rapid digital transformation is the constant of our times. As digitisation 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.

Existing jobs are increasingly becoming obsolete with the growing influence of automation, Artificial Intelligence (AI), and Machine Learning (ML). The pace of change has started to affect the nature of employment and the workforce.

Given these transitions, organisations should calibrate and re-engineer job roles to equip their workforce with the right skillsets and competencies.

With transformation occurring everywhere we look, reskilling could well be the biggest opportunity and challenge of the decade. Companies that make people development a priority will leverage the changing workforce to propel themselves forward, while others will fall into the trap of doing nothing and trying to catch up later. Employees with digital technical skills and agile-design thinking will be most in-demand in the next five years.[10] As organisations transform, HR professionals must focus on building digital capabilities and critical skills to become a vital partner in the new work landscape.

[10] Mercer Global Talent Trends 2020

Case Study: Vendor security

Challenge

We were asked to provide vendor management of personal and sensitive information for a global benefits program across 26 countries.

Compliance with numerous legislative and corporate requirements was required for data privacy.

Actions

We understood the client's security requirements for their vendors.

We worked with the client to adjust their corporate vendor security policy to align to the employee benefits landscape.

We have our own privacy policy ensuring different levels of security around Personal and Sensitive Information to ensure everything is compliant.

We wrote these into the requirements when we remarketed the policy ensuring the selected participants are able to satisfy the requirements.

Value delivered

Vendors were compliant with local regulations.

We ensured the company policy could be applied to the employee benefits landscape, refining where necessary to attain the right balance between managing risk and supporting the best insurance outcomes.

We refined the policy to ensure it could be applied efficiently across multiple markets, policies and insurers.

This ultimately delivered protection of brand and a reduction of reputational risk.

Seizing opportunities from accelerated digitisation around people risk to drive business and workforce resilience

Some tips to get started...

1

Evolve sophistication around data and employee listening. Increase capability in data engineering, data science and data visualisation to benefit from the insights data can provide. Implement sophisticated and nuanced employee listening techniques to fully understand employee, customer and stakeholder interactions.

2

Engage someone with the necessary skills to perform a cyber risk review , to recommend risk mitigation actions and assist with implementation.

3

Review data protection practices and ensure there is a clear policy in place regarding collection, storage and transfer of sensitive personal information. Processes should be regularly audited to ensure compliance.

4

Build a talent and learning ecosystem. Understand future jobs and valued skills in your business, function or company, and think broadly about where and how learning occurs. Understand who has these skills, where in your organisation they are needed and how they are best cultivated beyond organisational boundaries.

Talent practices

Top risks in the category ranked by risk rating score:

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

Talent Practices

The COVID-19 pandemic brought about 10 years' worth of revolution in just a matter of months. The lines between personal and professional obligations blurred, virtual collaboration became a lifeline for organisations in almost every industry and essentially, the world of work fundamentally changed in ways that are likely to outlast the pandemic.

Australian organisations 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.

To address key risks, Australian organisations are prioritising the definition of future workforce needs and restructuring systems and processes to support them.[11] Another key priority is upskilling and reskilling the workforce, which is on the minds of 54% of HR leaders across Australia. Reinventing flexibility – something that has been on the agenda for years – is now one of the top items receiving investment from organisations.

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

- 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. These shifts are sources of competitive advantage. Firms that fail to offer flexible work arrangements will be challenged to attract and retain top talent.
- With international borders effectively closed until the end of 2021 or early 2022, organisations 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 critical talent shortages impacting service delivery, growth, innovation and customer retention.
- 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.
- With more than 50% of organisations stating they will permanently have some form of hybrid working well after the pandemic, Australian companies will be challenged to balance flexibility with the needs of the organisation whilst remaining compliant with modern awards obligations and wage compliance risks.
- Business mobility, travel and international assignments are creating issues like crisis/evacuation management, unforeseen events such as interstate border closures are impacting on the business and personal lives, business/colleague dissatisfaction, review of traditional expat assignments and increased focus on duty of care – all of which firms must address in the new world of work.

[11] Australian companion paper to the Mercer Global Talent Trends 2020-2021; Local Companion Report, Australian Edition

Research highlights

76%

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

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

Succession and key person risk
56%

Talent attraction, retention and engagement
51%

Travel and mobility
50%

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

Talent attraction, retention and engagement
52%

Conduct and culture
40%

Succession and key person risk
40%

The top three difficulties organisations encounter when addressing talent practices risks:

Lack of skilled resources to understand and address the risk
43%

Budget constraints to manage the exposure
32%

Confusion over who is responsible
30%

Australia's talent shortage is an undeniable business risk for many organisations. It highlights the need to reimagine the employer-employee relationship, build robust talent pipelines, and deliver on a compelling total value proposition and employee experience. This will contribute to customer retention, growth and business evolution.

Cynthia Cottrell
Career Business Leader,
Mercer Pacific

Succession planning – mitigate risks and drive business performance

Successful businesses manage succession risks by taking an integrated approach to include:

- leadership risk mitigation
- ready-now external pool of successors
- talent and capability development
- workforce planning

It is important to benchmark internal and external succession talent based on talent profiles to truly understand if you have the best possible people in the pipeline. When building talent profiles, it is important to align these with any changes (planned and unplanned) in:

- The strategic, functional and organisational direction of the business; and
- The composition, structure and performance of your leadership team and key critical roles.

Investing in leadership risk mitigation and a ready-now pool of potential external successors has a proven ROI. It creates significant time and cost savings from the process of recruitment, transactional placement fees and major business disruption. This is even more critical during this time of increased talent scarcity.

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 recognising 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 energised want four things from their workplace.

	Empathetic	**Enriching**	**Embracing**	**Efficient**
	"Support me with caring for myself and what matters 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"
Energised employees are	**7x** more likely to work for an organisation 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 wellbeing needs of employees.**	**Avoid inherent biases in design and coverage to ensure inclusive benefits that meet needs of diverse populations.**	**Deliver an intuitive and personalised digital experience to access benefits.**

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, organisations 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: Partnering across the talent life-cycle

Challenge

We were asked to introduce a robust methodology for using data-led insights in talent decisions (selection, development and succession).

The company wanted to define great leadership in line with the organisation's context and strategy and set the benchmark.

We needed to understand depth of talent and bench strength of senior leader cohort; identifying risks and gaps to close.

Ultimately, the company wanted to enhance bench strength and build a pipeline of high performing future leaders hiring the best in breed.

Actions

We designed a future focused Leadership Capability Framework – using an 'inside out, outside in' approach, leveraging Mercer's insights and competency library.

We also designed a robust methodology for assessment purposes.

All internal GMs took part in full-day assessment centres to build a holistic view of each individual's realised and underlying potential, as well as core development areas.

Simultaneously, all external GM candidates were assessed according to the same benchmark with a view to hire external talent of the same calibre and to assess culture fit.

Value delivered

Delivered a Leadership Capability Framework that is integrated into all future assessments to define what great leadership looks like in the context of the 'future of work' and tailored to the unique challenges facing the business going forward.

Objective development and readiness data on all internal GMs to inform potential sideways moves and redeployment.

Recommendations on focus areas for development of the GM cohort going forward, aligned to the business context and their unique business challenges.

On an individual level, customised development recommendations and one-on-one debriefs to determine development initiatives and inform development plan and pathways.

Data on external hires to inform acquisition of talent aligned to the culture of the organisation and with a view to continue building bench strength at this level.

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 caregiving, such supports are extremely valuable for those that do.

4

Rethink employee benefits in line with a reimagined talent value proposition (TVP). The TVP is about crafting a vision of a shared future where employers make "work" work for employees and increase their support for health and financial wellbeing.

Environmental and social

Top risks in the category ranked by risk rating score:

1. Environment
2. Diversity, equity and inclusion
3. Labour 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, 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 education, employment opportunities, digital technology and savings plans have widened the protection gap and pose reputation risks for businesses. Employers need to manage the needs of a multitude of stakeholders, including those focused on environmental issues, and also create strong working relationships with unions. As such, many 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 organisations 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. allergies/asthma due to pollution).
- 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 **labour and employee relations** – may lead to a high volume of labour 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 characterised by growing **social unrest**. Global 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

74%

of respondents agreed or strongly agreed their organisations recognised 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
52%

Diversity, equity and inclusion
49%

Labour and employee relations
43%

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

Environment
41%

Diversity, equity and inclusion
41%

Labour and employee relations
41%

The top three difficulties organisations encounter when addressing environment and social risks:

Lack of skilled resources to understand and address the risk
44%

Budget constraints to manage
30%

Legal, labour and tax implications involved in the treatment of the associated risk
28%

The rise of stakeholder capitalism

After a tumultuous period characterised by a pandemic, 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 organisations 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 and meet commitments to unions and meet legislative requirements, 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 organisation's commitments.

Investing in healthy labour relations makes good business sense. This is heightened within unionised industries where industrial disputes are a real and present threat to business productivity. Investing in employee benefits not only builds employer/employee relations through reward, it takes benefits off the union bargaining table.

Eric Klatt
Accident & Health Leader
Mercer Marsh Benefits
Australia

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 worldwide expect climate change to seriously compromise their public health assets and services.

For example, Australia's 2019-2020 wildfire season triggered AUD 2 billion in health costs from smoke-related premature deaths and hospitalisations. This is more than three times the previous record of nearly AUD 600 million from the 2002–2003 fire season.[12]

Disclosure: The following content, which touches on self-harm, may be disturbing to some readers.

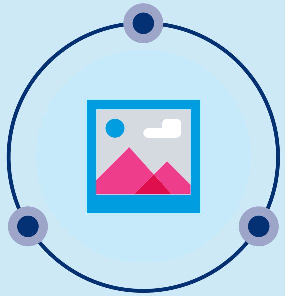
INJURIES
Climate-driven economic hardship worsens mental health

During 2000–2019, drought in Australia decreased average annual farm profits by 22% (AUD$18,600), harming the livelihoods as well as the mental health of farmers and farm workers. Male Australian farmers have about double the suicide rate of the general male population. Mental ill health can also affect the next generation – children in drought-hit farming communities struggle with increasing workload, adversity and stress.

In a high emissions scenario, the climate cycle that triggers severe drought in Australia could become more frequent, from once every 17 years during the 1900s to once every six years this century. This would exacerbate economic hardship and resulting mental health burden.[13]

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?

[12, 13] Marsh McLennan's Client Health Threat Illustrator

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.

Increasingly, investors evaluate companies based on their human capital management (HCM) and Diversity, Equity and Inclusion (DEI) metrics. In Australia, we are seeing demand for pay equity analytics gain traction every year as employees and stakeholders expect more reporting and action in this area. Although 42% of companies are planning to improve pay equity analytics in 2021, there is much room for improvement in other areas of DEI. As HR leaders map out future workforce strategies, only 18% are taking into account the impact of 2020's transformation plans on minority groups and just 15% are considering the pandemics impact on distinct groups (e.g. race, gender ethnicity).

Statistics from Mercer's *Global Talent Trends Report 2020-2021* – Australian Edition Companion show that 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 DEI 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.

Many organisations today have diversity targets which is a step in the right direction. However, we must go a step further to ensure that all employees are also supported in the workplace at all stages of life. Benefits packages can look to achieve this and make a true impact on the lives of employees by addressing gaps in coverage raising the standard of cover available for all.

Venessa Almond
Mercer Marsh Benefits
Multinational Leader, Pacific

Case Study: Reviewing benefits through a DEI lens

Challenge

An organisation with a targeted commitment to DEI sought to review their employee benefits program with the view to ensuring it sufficiently benefitted a broad range of their employees.

Actions

MMB developed a process to review all employee benefit policies, focusing on 3 areas as it relates to DEI, including:

1. Protection against both physical and mental health issues including suicide
2. Ensuring that overseas secondment maintained cover during periods of war or civil unrest (with concern about the riots in Hong Kong and the US)
3. Provision of benefits to the ageing workforce.

Value delivered

All employees are now entitled to financial protection for both physical and mental health conditions, including suicide. All employees are now covered if they are disabled or killed as a bystander in war or riot activity, provided they are not taking part. Some benefits were extended to age 70, protecting a greater segment of the workforce for longer.

The firm is now also considering the introduction of Mercer's Care & Living program which provides help and support to employees caring for ageing loved ones. The program helps people to plan, implement and monitor arrangements for their ageing care and living needs, recognising that caregiving responsibility can be difficult to juggle with work responsibilities and can be a major contributor to stress.

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 organisation’s values.

2

Understand the health disparities that exist within your workforce, 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.

4

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 nutritious food or addressing alcohol dependence, illicit drug use and cigarette smoke.

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 organisations 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 design, financing, administration, communication and governance are enabling you to look after your people - your organisation'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, can be confused over which department is responsible 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.

Keeping people safe and protected at work, with appropriate safety systems in place to manage pandemic related risks, will need to be a critical consideration for organisations as they navigate hybrid work arrangements and an ongoing need for infection control protocols.

Employers must think about benefits that support employees beyond the pandemic. Digital health, wellbeing and social support benefits will also become ever more important as employees continue to demand flexibility about how, when and where they work. In particular, workforce exhaustion and mental health are key concerns.

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 and serves the business. Getting this right should free up budget to invest in the 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 to tackle these areas risk alienating stakeholders, investors and employees.

There are a whole host of solutions that can help businesses navigate these difficult times. Across MMB, we advise on a range of risk management techniques including mental health programs and manager training, strategic workers' compensation claims management, work redesign and skills-based talent models through to risk analysis, and risk financing.

Working with risk managers and HR to complement and extend your people risk management capabilities in concert – we can strategically design and develop programs that tackle all of your people-related risks.

Appendix A

About this survey

The Managing the People Side of Risk survey was conducted over March and April 2021 with 133 respondents.

There was a split of 60% risk professionals and 40% HR professionals.

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

Employer size (worldwide)	% of respondents (Australia)
Under 250 employees	9.0%
250 to 499 employees	22.6%
500 to 999 employees	30.1%
1,000 to 4,9999 employees	28.6%
5,000 to 49,999 employees	6.0%
50,000 or more employees	3.8%

Survey respondents were asked to assess the likelihood of the risk occurring in their organisation 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 organisation is currently addressing the risk on a scale of 1 to 5, 1 representing not at all and 5 to a great extent.

Appendix B

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 wellbeing, 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 organisational 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 organisational performance.

Governance and Financial	
Increasing health, risk protection and wellbeing benefit costs	Increased spend due to factors like reduced insurer appetite for risk, medical inflation, increase in utilisation, 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, labour, 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 Digitisation	
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 digitisation and automation resulting in unmet business goals.
Misalignment of HR and business strategy	Workforce planning, organisational change management and HR/benefit technologies and processes being inconsistent with strategic business vision.
Obsolescent HR technologies	Failure to capitalise on technology advances that will make HR activities, benefits and healthcare more personalised, 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 behaviour, fraud and/or cultures that foster behaviours 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.
Labour and employee relations	High volume of labour 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 organisation 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 Marsh McLennan consultant, or call Brad Cady on +61 (2) 8864 8208.

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

– Brokerage of workers' compensation, core employee benefits as well as special risks like international health insurance and business travel.

– Consulting for health, safety and wellbeing, strategic claims management, rehabilitation and return to work.

– Advice regarding program design, financing and communications.

About Mercer Marsh Benefits™
Mercer Marsh Benefits™ (MMB) was born out of the unification of one of the world's best loved HR consultancies, the global leader in people risk advisory and the number one disruptive benefits technology firm to form one unique business. Together they have shaped some of the world's most loved employee benefit experiences for small companies, growing enterprises and global firms. MMB is 7,000 strong, on the ground in 73 countries, and servicing clients in more than 150 countries. It brings local expertise to more places and works side-by-side with clients, and Mercer and Marsh colleagues around the world. Mercer and Marsh are two businesses of Marsh McLennan (NYSE: MMC), together with Guy Carpenter and Oliver Wyman. The Company's 78,000 colleagues advise clients in 130 countries. With annual revenue over $18 billion, through its market-leading companies Marsh McLennan helps clients navigate an increasingly dynamic and complex environment.

Mercer Marsh Benefits™ provides clients with a single source for managing the costs, people risks, expectations, obligations and complexities of employee health and protection.

Mercer Marsh Benefits™ is the global brand name for our network of Mercer and Marsh offices providing employee benefits solutions for clients around the world. In Australia we are Marsh Pty Ltd trading as Mercer Marsh Benefits™. The business is a collaboration between Marsh Pty Ltd and Mercer Consulting (Australia) Pty Ltd. Together we represent one of the largest health risk and protection businesses in Australia, with more than 50 years' combined experience in broking and consulting.
Marsh Pty Ltd trading as Mercer Marsh Benefits™, ABN 86 004 651 512 AFS Licence #238983 ("Mercer Marsh Benefits™")

Businesses of Marsh McLennan