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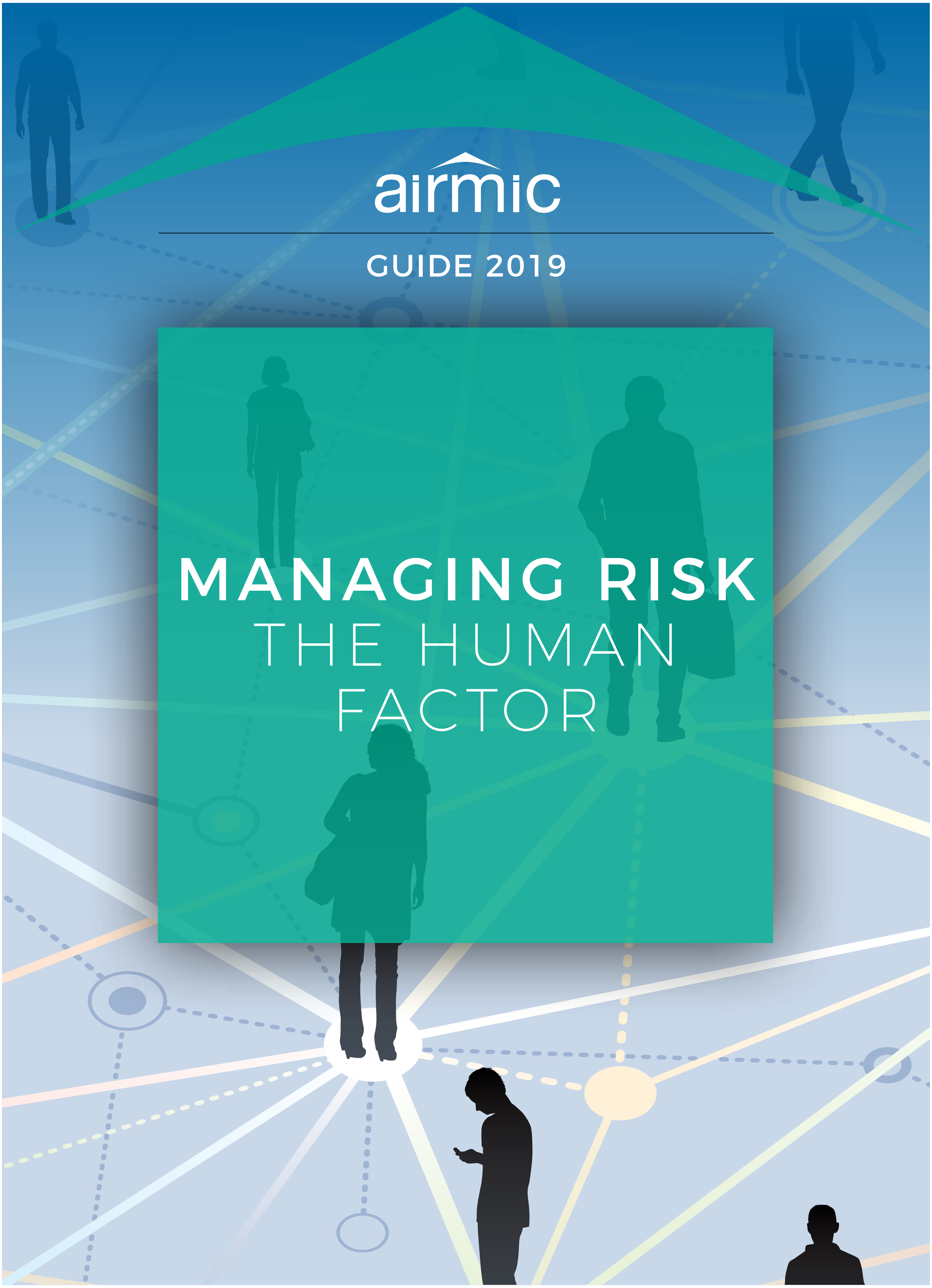

MANAGING RISK
THE HUMAN FACTOR

IN ASSOCIATION WITH:

Arthur D Little

Willis Towers Watson

ZURICH

AIRMIC

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Integrating people risks into our enterprise risk management approach gives a more complete and holistic risk profile, allows better risk aggregation and visibility of controls, and, most importantly, allows issues related to people to be identified and escalated to levels of management that are best equipped to manage the situation.”

Tom Teixeira, Partner, Arthur D. Little Risk Practice

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EXECUTIVE SUMMARY

Historically, risk professionals have tended to think about people risk as risk to employees, for example, from poor safety practices, or kidnap & ransom. Part of an organisation's duty of care to employees includes implementing policies and procedures to alleviate these risks and also protecting the organisation (and individuals) through insurance.

Human Resource managers, on the other hand, have tended to think about people risk as risk to the organisation from human factors. These can be varied and broad, for example, the risks associated with the total cost of reward and benefits, the ability to attract, retain and engage the right talent, and the impact on reputation and financial performance from individual or team actions, for example, instances of mis-selling in financial services.

These viewpoints tend to exist in silos within organisations, despite many of the priorities of Risk Management and HR increasingly converging. In the 2019 Airmic member survey,[1] risk professionals identified loss of reputation (76%) as the top-of-mind business risk, while the failure to attract and retain talent was high on their radar too (43%).

There is advantage to be gained from adopting a more joined-up approach and thinking about people risk as two sides of the same coin – risk to your employees and risk to your organisation from people factors. Doing this means risk and HR professionals working more closely together and, indeed, the tools used in programmes such as ERM and risk assessment or rewards optimisation are very similar. If this synthesis of viewpoints leads to a better employee experience, increased productivity and decreased cost of risk, what's not to like?

> "The desire to attract and retain talent, coupled with the importance of keeping your people safe at work, is demanding risk professionals collaborate more than ever with colleagues in HR, operations and benefits management."
> **Julia Graham, Deputy CEO and technical director, Airmic**

1 Risk Management 2020 Vision. The 2019 Airmic Survey.
https://www.airmic.com/technical/library/2019-airmic-member-survey

SECTION 1: RECOGNISING THE RISKS

Many organisations have achieved improved risk management by adopting methods that incorporate an understanding of human behaviour and psychology. The risks that an employee manages, and is exposed to in the course of their employment, are highly specific to their industry and role, and this has produced a variety of methods in a wide range of areas from occupational safety and product quality, fraud and legal compliance, to staff retention and workplace bullying, all of which are allowing organisations to enhance their management and assurance of key risks to their business. We believe that organisations can realise further benefits by integrating their various people-related risk management arrangements.

This guide presents a new perspective for managing people-related risks within organisations. Rather than a new risk category, the people risk approach applies a people-centred view to show how a broad range of existing risks, traditionally treated as separate and managed by different processes, can be integrated into a coherent framework to provide new insights, offer additional opportunities to control risk and increase the value derived from risk management activities. We consider that adopting this perspective will support increased collaboration between risk managers and other business functions, particularly Human Resources and Operations, but extending into areas of Customer Relations, Procurement and beyond.

Recognising people risks

People come together to build organisations. From the moment they join, the people within organisations, from owners and directors to employees and contractors, enter into a relationship of mutual responsibilities and expectations. The organisation requires the individual to apply their skills to fulfil a defined role to the best of their ability, within a framework of legal, professional and corporate codes, in order to deliver the organisation's strategy. In return, the individual expects compensation and benefits, and some level of development, progression and job satisfaction, within a secure, safe working environment that accommodates their individual requirements.

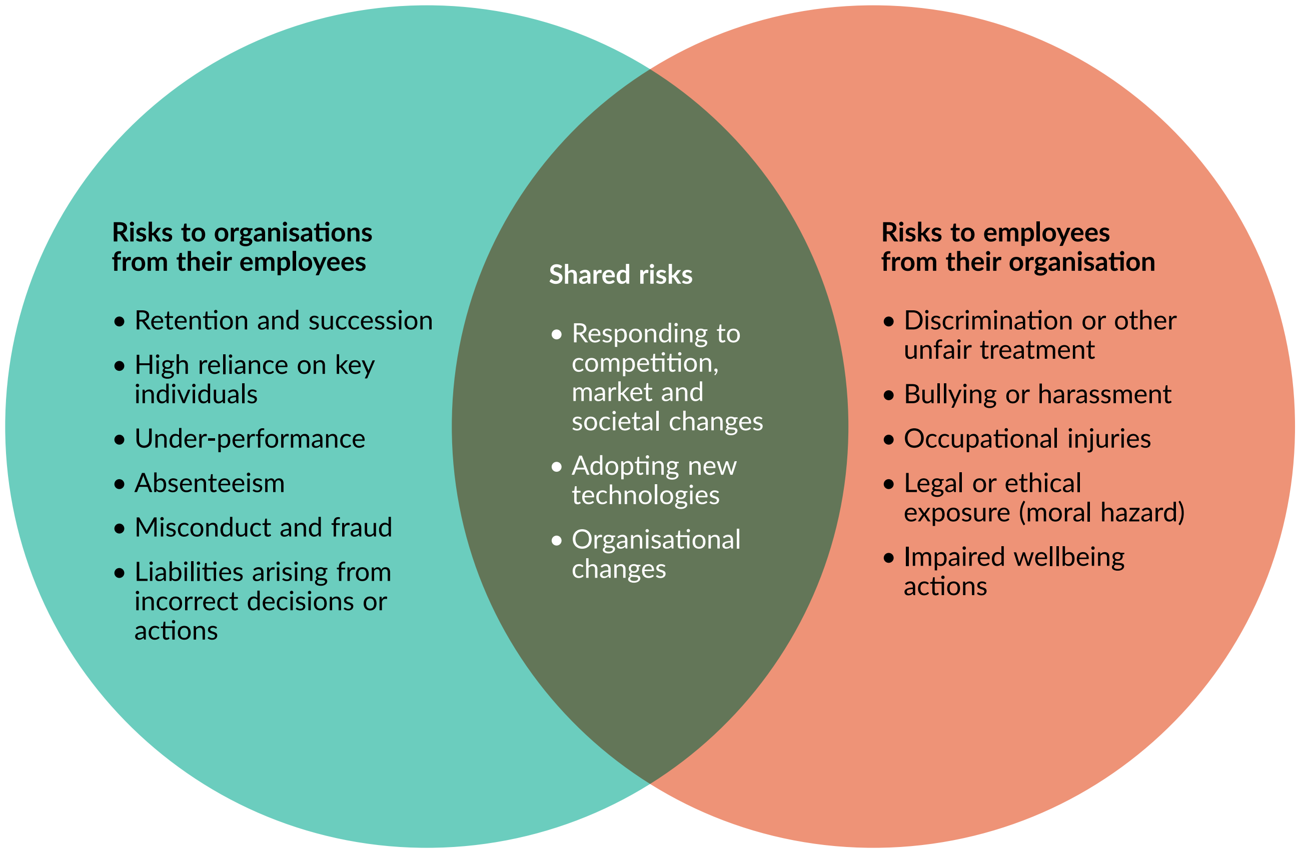
At the heart of our approach to people risk is the recognition that the organisation and the people within it have a two-way relationship that should work to mutual benefit. A wide range of hazards emerge from breakdowns in this relationship.

Approaches to people risk

Approaches based in human psychology and behavioural science have provided great advances in risk management. A familiar example within fraud risk management would be the principles of the Fraud Triangle (motive, opportunity and rationalisation), which continue to provide insights into those who might be tempted to violate a position of financial trust. These principles have formed the foundation of today's sophisticated loss adjustment arrangements, which through careful monitoring and data analysis, allow identification of potentially suspicious claims and even the discovery of systematic fraud by organised criminal gangs (such as 'crash-for-cash' networks).

> "In our view, what has been missing to date is a holistic view of People Risk and how it has the potential to cause losses for the organisation, especially losses that can cause significant financial and reputation damage."
>
> Keith Blacker and Patrick McConnell, in People Risk Management: A Practical Approach to Managing the Human Factors That Could Harm Your Business, Kogan Page,2015

Figure 1. Risks in the organisation-employee relationship



***Source:** AD Little*

In adopting these approaches, risk managers are following a wider trend in technology and management. The engineering discipline of 'human factors' integrates an understanding of human capabilities, preferences and limitations into the design of new systems and products through application of principles of human physiology and psychology, and participation of the intended users through the design and testing process. Starting out in the design of military equipment in World War 2, when it was discovered that unsuitable systems can be catastrophic in service, human factors is now a required discipline in most major undertakings in civil engineering (airports, stations, stadiums), industry (oil and gas platforms, chemical plants, power generation), infrastructure (aviation, rail and metro, highways) and consumer products (car design, medical devices, websites, streaming services and other interactive systems). In each application, human factors has allowed designer and project sponsors to ensure that their systems will support high levels of safety and efficiency, and reduce the risks of under-performance, poor return on investment or costly in-service revisions.

Approaches from human psychology are also used in recruitment, with job specifications including behavioural dimensions and psychometric assessment to aid selection decisions. Models of motivation are used in the design of compensation packages and incentive schemes, and an understanding of group psychology and team dynamics is used to structure the composition of project teams.

Why the time is right for people risk

Traditionally, people risks have been treated as separate and managed by a variety of discrete processes overseen by different parts of the business. For example, in transport operations, where many safety risks are manged by front-line staff (pilots, drivers, ship staff), who must remain vigilant for long periods of duty, organisations will have processes in place to monitor health (at selection and through periodic medical checks), fatigue (working limits, shift design) and operational performance (initial training, periodic reassessment, task monitoring), among others. These processes are often introduced to meet specific minimum requirements set by a national government or industry regulator, and as laws or regulations are expanded, new processes are added.

More proactive organisations will identify priority people risks for their own operation and implement more advanced management methods, setting thresholds beyond the regulatory minimum. An example of this would be Fatigue Risk Management Systems in civil aviation, which apply sophisticated data analytics and scientific principles to monitor fatigue risk in flight crew continuously, providing more robust and flexible management than the minimum Flight Time Limitation requirements.

Even these more proactive risk-informed approaches will still tend to focus on individual exposures.

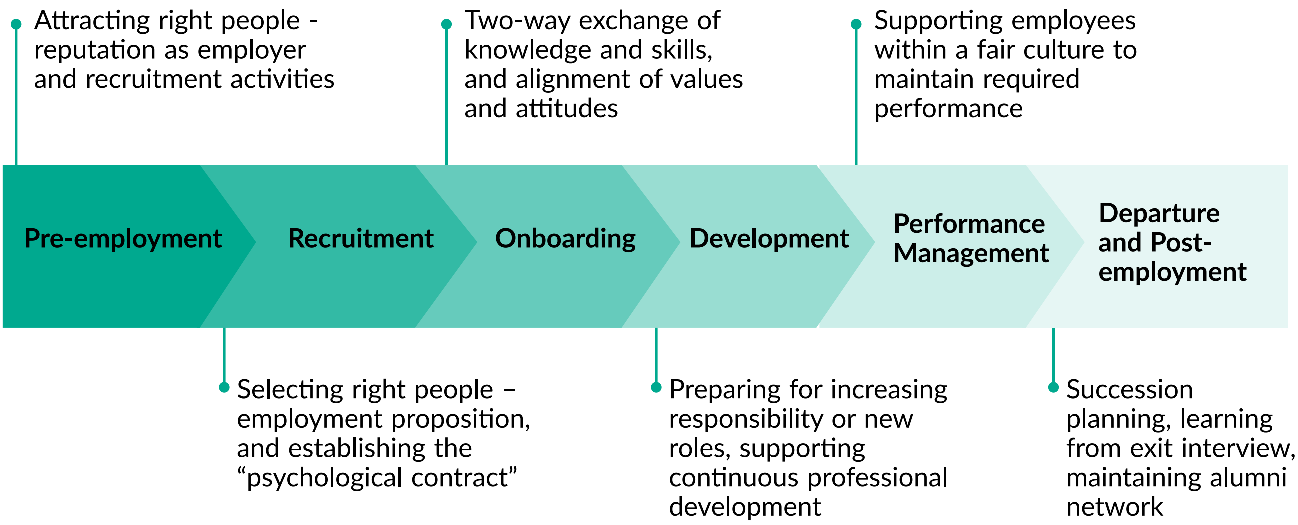
We have identified that leading organisations are achieving further benefits through adopting a more integrated approach to people risk management, drawing together previously disparate processes to provide new insights into individual and workforce risks, and synergies in risk management activities. From our experience:

- A public transport operator identified that customer feedback, particularly complaints about poor service or bad driving on social media, helped to provide early warning of areas of the operation that posed a greater safety risk
- A passenger ship operator identified that an initiative to improve staff retention through offering improved benefits and work-life balance produced great improvement across a variety of metrics including productivity, safety performance and reduced casualty costs. This was attributed to better retention of more experienced staff, who had previously left for jobs on shore or with competitors
- Civil aviation organisations responding to the loss of Germanwings Flight 9525 have focused on staff wellbeing, investing in Employee Assistance and peer support arrangements, to increase resilience of the workforce conducting safety critical duties
- A major engineering and asset management company adopted specific processes for assessing and managing people-related risks through major organisational changes to assure customers and regulators that safety performance would be maintained during and after the changes.

We have identified a number of drivers that are encouraging organisations to adopt this more holistic approach to their people risks:

- Work and workforces are evolving rapidly – to respond to rapidly changing technological, regulatory and commercial landscapes, competitive pressure, volatile political and social pressures, increasingly complex operating models and increasingly severe consequences for service interruption, non-delivery, quality, HSE and conduct failures
- Generational shift – increasing expectations from employees, law-makers and wider society about business conduct, equitable treatment and career fulfilment
- Advances in risk management – corporate risk management approaches require comprehensive representation of all the risks within an organisation to allow accurate assessment, treatment, aggregation and escalation as required. Risks sitting outside of the framework cannot be recognised in the same way, complicating (and potentially distorting) decision-making and strategy setting.
- Avoiding the ‘risk plateau’ – many organisations are reporting diminishing returns from the application of existing approaches (‘more-of-the-same’). Risk managers are seeking new approaches that offer greater insight, control and efficiency to enhance value from risk management activities.

Figure 2. Generic employment lifecycle



Source: *AD Little*

Adopting the people risk Perspective in your risk management activities

While the specific risks to, and posed by, employees will vary greatly depending on their role and sector, we recommend that any organisation seeking to adopt a risk management perspective can apply the following process:

1. Consider all the areas of risk in your organisation managed by people and how people risks are addressed within your organisation's risk management strategy
2. Identify and record all the existing people risk management processes and systems within your organisation
3. Compare your people risk exposure and people risk management processes to identify any gaps
4. Assess the sufficiency of your people risk management arrangements in each area against your risk management strategy, the expectations of your key stakeholders (employees, customers, counterparties, regulators and wider society) and the arrangements of other comparable leading organisations
5. Evaluate opportunities for synergies between risk management processes, creating forums for dialogue between risk owners, shared people risk KPIs and dashboards, and developing co-ordinated action plans to reduce people risks
6. Consider initiatives to enhance recognition of people risk in your organisation, through briefings to leaders and management teams, inclusion of people risk in periodic risk communication and reporting, and consideration of people risk within global processes, for example, within change management processes, risk management checklists and audit protocols
7. Recognise these various people risk processes and cross-functional interfaces within your wider Enterprise Risk Management system and review this periodically
8. Repeat this process periodically or as required following organisational changes.

One way to take a holistic people-centred view of risks is to consider how the risk profile of an individual employee changes through their career. Whether short-term or long-serving staff, all employees can be identified as somewhere on an employment 'lifecycle'. The risks associated with an employee (or cohort) will vary and evolve depending on the stage they are at. Risk professionals should consider the different risks posed to, and posed by, employees at all levels of seniority within the organisation.

Here we present a generic lifecycle that can be readily adapted to reflect a particular industry or staff group. For example, we could apply to key safety critical roles within a transport organisation to evaluate how the risk profile of a pilot, driver or deck officer changes through their recruitment, training, various deployments and increasing seniority, in order to review the management and analytics in place. Equally, we can apply this framework at the leadership level to evaluate the composition of the board based on career stage or to compare the relative risks of new hires joining at the executive level, compared to those promoted from within the organisation.

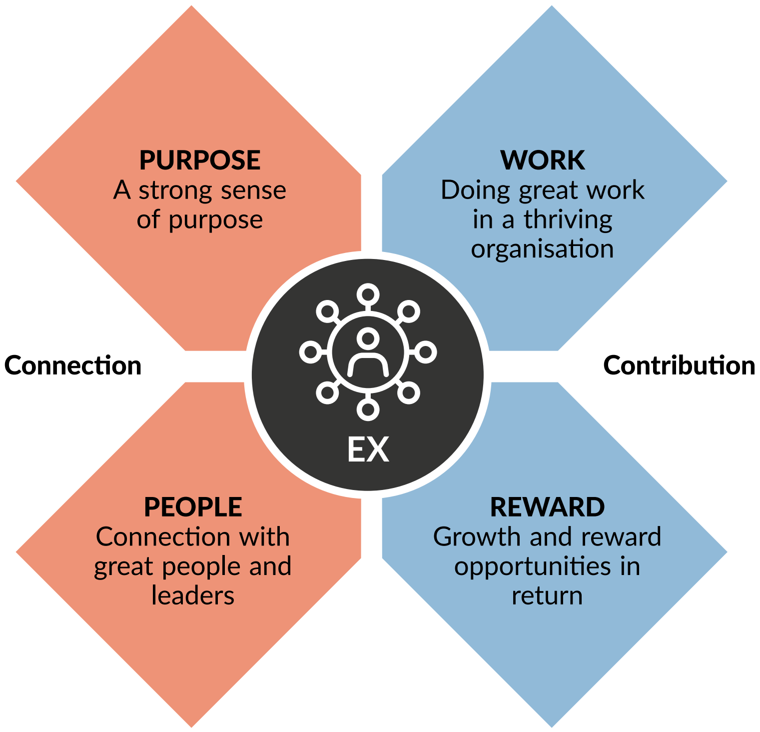
SECTION 2:
THE ROLE OF THE RISK PROFESSIONAL AND RISK MITIGATION TECHNIQUES

New research published by Willis Towers Watson in November 2019 demonstrates the impact on operational and financial performance that a positive employee experience (EX) can have. The fundamentals of EX are identified as purpose, people, work and reward.

By assessing a group of 'high-performance' companies, defined as such by both their financial performance and employee survey scores, Willis Towers Watson has identified the aspects of EX that are the true differentiators. "The best companies, in their employees' eyes, excel by inspiring connection to mission and purpose, providing growth opportunity to fuel ambitions, engendering deep trust in senior leadership effectiveness and creating a sense of drive (through strong customer focus, ongoing change management and agility in meeting marketplace demands). The common characteristic of these factors is that they are a function of the mindset within the company."[2]

A High Performance Employee Experience (HPEX) Scorecard has been developed to illustrate the essentials that all companies need to get right – those that can differentiate and get companies ahead, and those that lead to excellence.

Figure 3. Fundamentals of EX



Source: *Willis Towers Watson*

"People are not your greatest asset. Rather think of them as investors. Employees choose to invest their human capital with your firm, (their knowledge, skills and experience) and they have choices about where to place that investment. As an organisation you need to attract that investment and make it grow. That is the mindset of an HPEX organisation. Treating employees as investors opens up a whole new mindset and unleashes human potential."
Crispin Marriott, Client Relationship Director, Willis Towers Watson

2 Willis Towers Watson Breakthrough Research White Paper.

Figure 4. HPEX Scorecard

		Purpose	Work	Reward	People
Excellence	How to excel	**Inspiration**	**Drive**	**Growth**	**Trust**
Emphasis	How to get ahead	**Inclusion**	**Voice**	**Capability**	**Collaboration**
Essentials	Basics all companies need to get right	**Understanding**	**Organisation**	**Fair Pay**	**Support**

Source: *Willis Towers Watson*

Now that the EX link to operational and financial success is clearly evidenced, its importance has been heightened and it requires greater attention from leadership and collaboration across business units. Human Resources, benefit managers and total reward experts have a central role to play, but the risk and insurance professional can bring a new perspective, techniques and methodologies to the company's strategy.

Engaging HR

EX is intrinsically linked to the environment that employees work in, opportunities for growth and development, and compensation and benefits. Implementing an attractive and productive corporate culture, however, requires transformation and an appetite to take risks and do things differently.

The HR function predominantly see its role as developing and engaging employees, but by their very nature, people have different behaviours, needs and wants. That poses risks for the organisation. As society becomes more cognisant and empathetic towards new trends in areas such as workplace culture, healthcare, fair pay and gender identity, organisations are entering an era of unprecedented volatility with regards to people risks.

If HR practitioners are to start thinking about people risk in a holistic manner, allowing them to be true business partners who contribute to the overall strategy of the organisation, risk and insurance professionals should be prepared to provide support. The risk professional can be analytical and methodical in how they approach people risks and that will be valued by HR.

Risk mapping

The growing popularity of insuring employee benefits, whether through pooling or the global underwriting approach discussed in section three, has largely been driven by risk and insurance professionals applying the tools and techniques they use in non-life areas to the life and benefits side of their organisation. Risk mapping the broader people risks to the organisation will be of great benefit to colleagues in HR and demonstrate the value of risk management.

Many risks will be in the middle group of the risk map, for example, medium to high likelihood and severity. These risks usually call for a combination of insurance and appropriate business practices that will reduce impacts. Very low severity risks may not justify insurance and may be managed to keep their impact on the business minimal and predictable.

Step one
Identify and assess the people risks that exist in the organisation.

Step two
Prioritise according to the potential impacts on the organisation. Which risks are frequent, severe and most in need of attention? Are there some that are infrequent and of low impact and can be given low priority? Are some risks clearly a financial issue for the business and some a financial issue for the employees of the business? Is there a win-win solution that will meet the needs of **both parties?**

Step three
After initial analysis, actions can be considered that will be a mix of prevention or minimisation strategies to avoid, eliminate or treat the risk. Some risks can be comfortably retained as inherent business risks. Other risks will need to be transferred out of the business through appropriate insurance.

Addressing people risks

Event 1: A key employee on an overseas assignment suffers a serious illness. He requires urgent evacuation and return to New Zealand. It is expected he will be off work for at least six months whilst recovering.
Mitigation and treatment: Having well-designed and communicated work travel policies in place that clearly outline the procedure for healthcare and evacuation, when required, will reduce the stress of the employee, their family and colleagues. An effective employee benefits and wellness programme will also ensure the employee is able and ready to return to work when fully recovered.

Event 2: Rates of sick leave, instances of accidents and levels of productivity are poor compared to the industry average because of the high average age of employees and high levels of absenteeism.
Mitigation and treatment: A review or the introduction of a wellness programme and a change in employee selection criteria.

Event 3: A group of senior directors and employees travel overseas into a third-world market and their plane goes down with loss of all lives on board.
Prevention: If certain key employees are identified in advance, this type of incident can be proactively avoided by putting in place company policies that prohibit more than one or two of these respective individuals from travelling together on a non-scheduled airline in a high-risk area.

Non-insurance techniques

Proactive absenteeism management

While high levels of absenteeism can be an indicator of a wider cultural problem that may need to be addressed – poor health or lack of motivation within the workforce, for example – absenteeism and the risks it brings can also be managed.

By working with health and benefits colleagues, technology can be implemented that prompts managers to make contact with the employee within 24 hours of their reported absence. The personal touch has been shown to decrease levels of absenteeism by 30%, increases the return to work rate and demonstrates to employees that their managers and organisation care about their wellbeing.

Fair pay

The issue of fair pay has continued to rise further up the agenda since the gender pay reporting requirements came into force as part of the Equality Act 2010 in 2017. Any UK employer with 250 or more employees must report pay, bonuses and other data each year to the government's gender pay website.

While adding this level of public transparency brings its own reputational risks, it also provides employers with more encouragement to address and assess their pay structure across the organisation. Pay equity software now exists that quickly analyses compensation levels and highlights pay equity issues. It is also used to quantify the risk exposure to fair pay issues, such legal action or low retention of talent.

Leadership profiling

The roles and behaviours of senior management and boards are central to creating and embedding a strong and healthy culture within an organisation. As such, risk professionals must consider the risk posed by their leaders, both as individuals and as a collective.

Saville Assessment, a Willis Towers Watson company, has developed an approach to leadership risk which presents organisations with clear information to establish where risk may exist, where it could be positive or negative, and how it could go beyond the individual to impact the organisation and culture. Having leaders participate in a behavioural questionnaire can generate a Leadership Risk output which provides details on their greatest risk areas from nine different potential risk profiles (see below).

The profile provides detailed information about the potential effect of this risk on the culture, organisation and the leader themselves. For example, an individual leader with a 'Disruptive' risk profile may display strengths in exploring alternative ideas and approaches, but may pose unintended risks by derailing ongoing work and wasting time on unproductive activities. Collectively, the individual risks can be collated to understand the risk that a leadership team has on the organisation and the culture. For example, a leadership team that has several leaders who are 'Disruptive' risks creating a culture where it is seen as acceptable to deviate from set rules and where non-compliance could expose the organisation to reputational damage.

> "Completely eliminating people risk would mean eliminating people from your organisation. But by understanding people risk better, organisations can address the issues they face through a robust and proactive risk management approach."
> Mark Cook, Senior Director, Willis Towers Watson

Figure 5. Leadership profiles

Perfectionist
Placing emphasis on perfecting the finer details which may result in missing critical elements of the bigger picture

Procedural
Follows the rules rigorously and is cautious about making decisions which could result in missed opportunities

Critical
Looks to spot potential problems which could be perceived as negative and may discourage important contributions

Obliging
Favours accommodating the wishes of others, which may result in agreeing to actions not in the organisation's best interest

Autonomous
Works individually and is unlikely to consult with others which could lead to actions which take little account of other parts of the organisation

Expressive
Prefers to interact regularly and prone to being socially dominant which may result in other people's views being overshadowed

Disruptive
Comes up with alternative ideas and seeks to do things differently which could disrupt productivity

Daring
Prefers to seek new opportunities and push bounderies which may lead to unnecessary risk

Unpredictable
Prefers not to feel constrained by timescales and takes actions which may cause a constant state of flux

Source: *Saville Assessment*

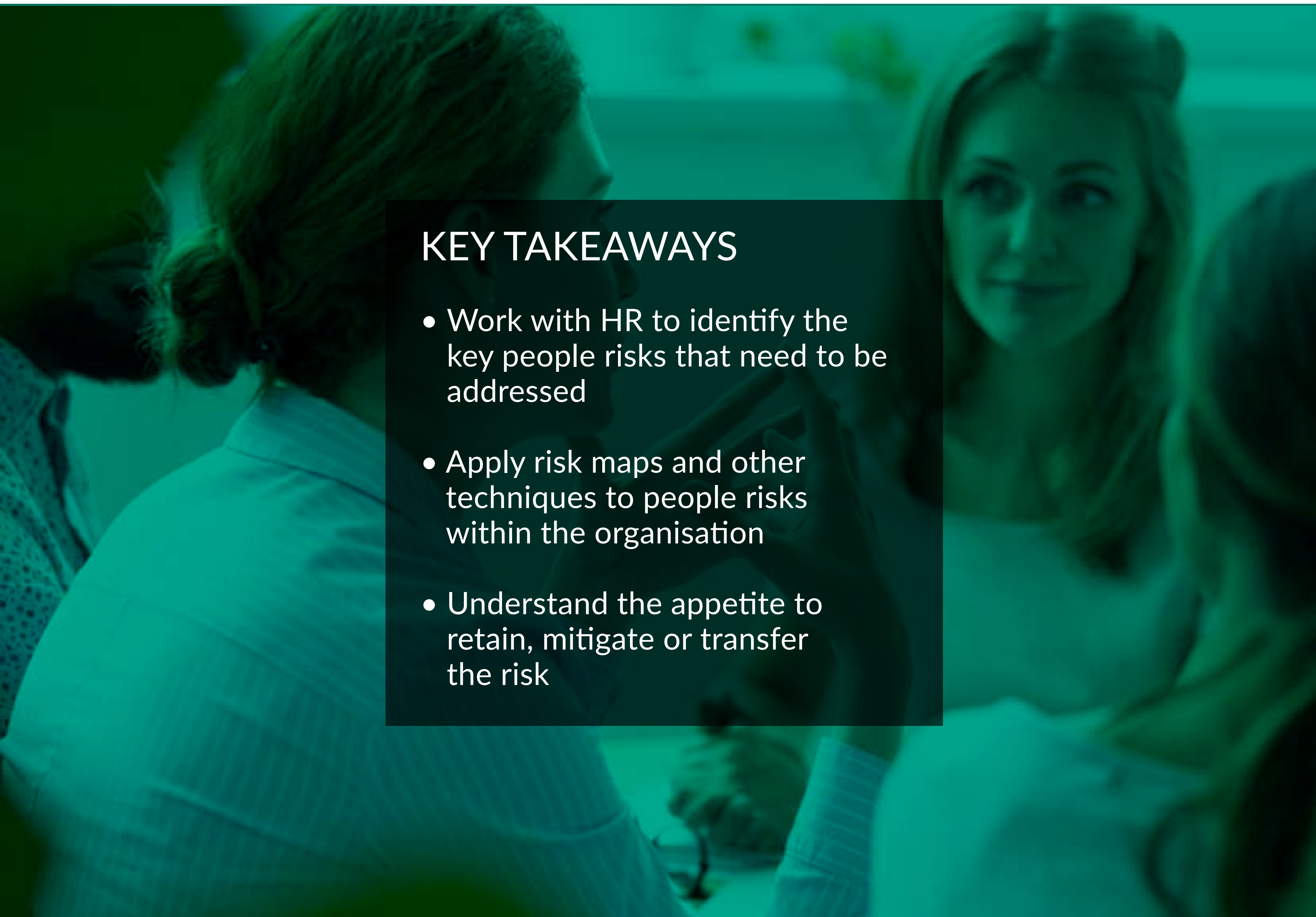
Risk professionals must develop the soft skills – communication and collaboration – to work effectively with Human Resources and other relevant functions to provide effective risk management insight.

They can work with HR to develop metrics and data on workplace culture and employee engagement that can be understood and used to identify emerging risks within the workforce, and implement measures that will mitigate them.

Total cost of reward optimisation

The competition for attracting new talent and retaining valued, experienced professionals embedded in the company culture is fierce, and it falls to HR to implement a compensation and rewards programme that achieves these aims. There is a balance to be struck, however, in creating a rewards programme that is competitive, encourages a healthy culture and appropriate behaviours, but is also not too expensive.

An increasingly diverse and multi-generational workforce is making the task harder, but tools such as advanced employee surveys and detailed modelling in combination with strong financial data means that an optimum programme can be achieved. HR should continue to lead on these efforts, but many of the tools and techniques used will be familiar to risk and insurance professionals. And once the optimum rewards programme is known, how to structure and finance the insurable elements of the employee benefits programme can be explored more effectively.



KEY TAKEAWAYS

- Work with HR to identify the key people risks that need to be addressed
- Apply risk maps and other techniques to people risks within the organisation
- Understand the appetite to retain, mitigate or transfer the risk

SECTION 3:
INSURING EMPLOYEE BENEFITS

While use of insurance products covering areas such as workers' compensation, travel and kidnap & ransom are crucial tools for insurance managers looking to protect employees and the organisation in the event of a crisis, employee benefits insurance combined with complementary wellbeing-related products and services can be used to improve the health and wellbeing of staff on a day-to-day basis, as well as attracting talent, improving retention and cultivating company culture.

The costs, however, of providing insurable employee benefits is increasing, with 2019 Global Medical Inflation reports from Aon, Mercer Marsh Benefits and Willis Towers Watson all showing medical insurance escalating at a compound average rate of almost 10% per annum globally. These rising costs attract the attention of CFOs and senior management who are keen to see them brought under control.

With some employers spending more than £1k per person per year on insurable employee benefits, global budgets for employers with larger populations can exceed £100m per annum.

Helping HR to identify trends and to finance ways of proactively managing those risks fits squarely within a risk professional's skill set. Formulating compelling business cases to help address employee health issues is likely to be the single largest action that risk professionals can take to help manage the human side of risk and support the sustainability of these benefits.

Below is a non-exhaustive inventory of tools which can be employed in managing human risk. This 'HR Risk Management Toolkit' includes both mature and some contemporary solutions.

As with the mitigation of people risks, implementing an ambitious employee benefits programme that manages costs while supporting benefits and wellness objectives will require collaboration between the risk and insurance professionals and their colleagues in HR, benefits and procurement.

The way that risk management engages with HR regarding its organisation's employee benefits strategy is important. The right level of engagement ensures that risk management is not categorised as a policing/compliance function. Risk management needs to be perceived as a value-added business partner to HR colleagues, assisting them to achieve their objectives.

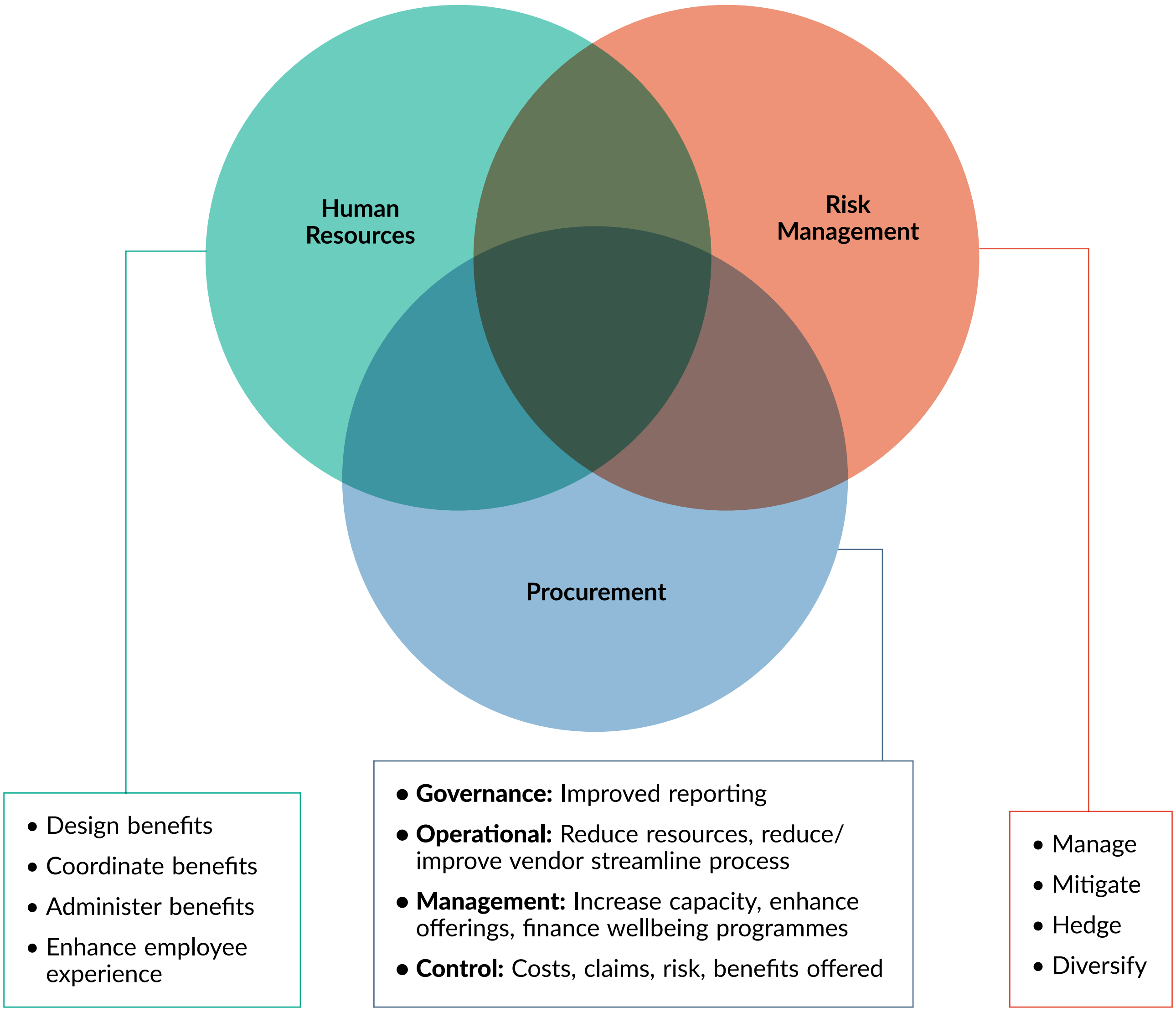
During the 2019 Airmic Employee Benefits workshop, facilitated by Zurich, participating risk management delegates jointly identified a common set of challenges, strategies and tools that will help to support a successful, long-term HR/Risk Management partnership.

Table 1

Cancer	Mental health	Musculoskeletal
Medical second opinion	Mental health first aiders	Standing desks
Cancer screenings	Employee assistance programme	Physiotherapy/chiropody
Smoking cessation	Buddy/mentoring plans	Gym memberships/yoga
Captive financed experimental medical treatments/medication	HR policies, e.g. Working from home related isolation	Accident prevention
Education programmes – nutrition; stress management; sleep, time management / burnout, financial (e.g. Nudge); Virtual GP (e.g. Babylon)		

***Source:** Zurich Global Employee Benefits Solutions*

Figure 6. Employee benefits collaboration



Source: *Zurich Global Employee Benefits Solutions*

Table 2

Common challenges	Engagement strategies, tools and solutions
Closed mindset around who 'owns' the budget and problem, suspicion of why others may want to get involved.	As EB spend increases, CFOs are asking Procurement and Risk Management to use their skills in supporting HR teams in financing and managing human risk. HR continues to 'own' the benefit design, strategy and benchmarking, with Risk Management focusing on mitigation and cost reduction strategies with Procurement.
• Traditional HR role – no perceived value for risk. • Risk professionals can feel out of their comfort zone.	Very little difference between the strategies to manage asset risks and human risks. Risk professionals can support human risk management, in the same manner as they currently do with Accident and Employers' Liability/Workers' Compensation.
Incomplete data, EB data not known/understood at HQ level.	80/20 rule with data – outline cost savings/value for money to address procurement challenges and present business case.
EB is not always treated as a project.	Management of EB is most successful when treated as a project involving a broad number of stakeholders, e.g. HR, Procurement, Risk Management and Unions/Workers' Councils, from the outset.
Risk professionals do not communicate/market their skills.	Jointly undertake a financing Feasibility Study with a consultant.
Procurement seeking value for money (short-term focus)/low price.	• Try to develop a culture where EB spend is not a cost, but a long-term investment, which may result in longer-term savings. • **Quick wins:** Multinational pooling, data collection/inventory.
Could reduce the financial risk if the risk team gets involved.	• Opportunity to explore alternative risk transfer financing options, e.g. use of an international programme or captive. • It can be financially attractive to combine lines of business in a captive arrangement (Solvency II risk diversification, collateral efficiency, proactive wellbeing toolkit investment).
HR can be challenged in sourcing insurance coverage to match benefit philosophy.	Solutions are available to override limitations of locally available insurance terms and conditions, or policy limits, i.e. a Difference in Limits (DIL) and/or Difference in Conditions (DIC) contract.
Decentralisation, every country is different in local programme design and approach; showing a global picture can be difficult.	• Different benefit designs per country are normal, consistent with local norms. Taking a global approach has many advantages. • Consider migrating to a single benefits platform and/or ask a benefits consultant to compile a global benefits data inventory.
Exit penalties, to change programmes (e.g. a five-year tie-in).	This is almost unheard of. Premium rate guarantees (of two to five years) are available, which are binding on the insurer, but not the customer. It is a different approach to a mutually binding long-term agreement (LTA) more familiar to risk and insurance managers.
Challenge to articulate and monetise future cost of poor health of employees.	Use of an international programme or captive financing vehicle for Life, Disability and Medical insurances provides rich and consistent data to support human risk modelling.
Communication/getting attention is difficult.	• Use employee benefit surveys to understand which benefits are most important. • Treat communication of benefits to employees in the same way as if you were talking with your customers.
In-house doctor expertise	In-house doctors can and should be part of any EB project.
Brokers can tend to roll over placement of benefits with incumbent vendors.	Risk management and/or Procurement can offer an independent opinion and or 'second pair of eyes' to challenge, innovate or support when relationships become too familiar.

***Source:** Zurich Global Employee Benefits Solutions*

Wellness and programme design implications

The data collected, particularly in the two global underwriting structures outlined below where data can be made available on a quarterly basis, can provide valuable insight into the workforce's wellbeing and healthcare trends within territories. This insight supports global benefits managers in responding, almost in real-time, by designing local plans more effectively. The benefits of receiving and analysing this data include improving the health and wellbeing of employees, identifying and comparing health trends and performance across geographies, and providing and extending coverage that might not be available in the commercial market.

Options and structure for insuring employee benefits

Despite the challenge of achieving buy-in from across the organisation, discussed above, and the transition from employee benefits being controlled territory by territory to being managed centrally, more multinational corporations are beginning to implement an international employee benefits (IEB) programme. There are three common approaches to running an IEB programme, which vary in their degree of sophistication and the potential cost savings that they can deliver.

Multinational pooling

The pooling approach was first pioneered in the 1950s and is a relatively simple way of bringing together the financial performance of an organisation's benefit plans into one consolidated account. It is risk free and requires a smaller number of insured lives (at least 200 across two countries or more with an annual risk premium volume of more than £200k) than the other solutions to become feasible, but there is less data insight available and low potential returns.

The consolidated account measures the premiums paid against claims and other administrative, commission and tax costs. At the end of each accounting period, if the account is negative, the costs will be absorbed by the employee benefits network (insurer), but if the global result is positive, an international dividend can be pay paid back to the organisation. Due to the pool being accounted for on an annual basis, access to claims data can be slow (often delayed by 18 months) and, as a result, ineffectual when wanting to respond to worrying health and claim trends.
The below table shows how the positive results from two countries (countries A and C) can help offset the costs of a poor performance in another (country B). Without pooling, the positive results from companies A and C would have been lost by the client.

Table 3

Pros	Cons
Risk free	Slower access to data
Suitable for middle-market organisations	Diminished returns
Encourages central control	Medical insurance is rarely included

> “By minimising the cost and offering the broadest cover possible, we feel it creates a significant advantage of employee attraction and retention.
> **Bill Fitzpatrick, Vice President Corporate Risk Benefits, Deutsche Post DHL**

Table 4

Cancer	Total	Country A	Country B	Country C
Premiums	1,200,000	400,000	200,000	600,000
Benefits paid	-480,000	-100,000	-180,000	-200,000
Local admin charges	-160,000	-50,000	-30,000	-80,000
Commissions	-40,000	0	-10,000	-30,000
Local dividends	-80,000	-30,000	0	-50,000
Local balance	440,000	220,000	-20,000	240,000
Risk charge	-62,000	-20,000	-12,000	-30,000
International cost	-18,000	-5,000	-3,000	-10,000
International dividend	360,000	195,000	-35,000	200,000

Table 5 Global underwriting

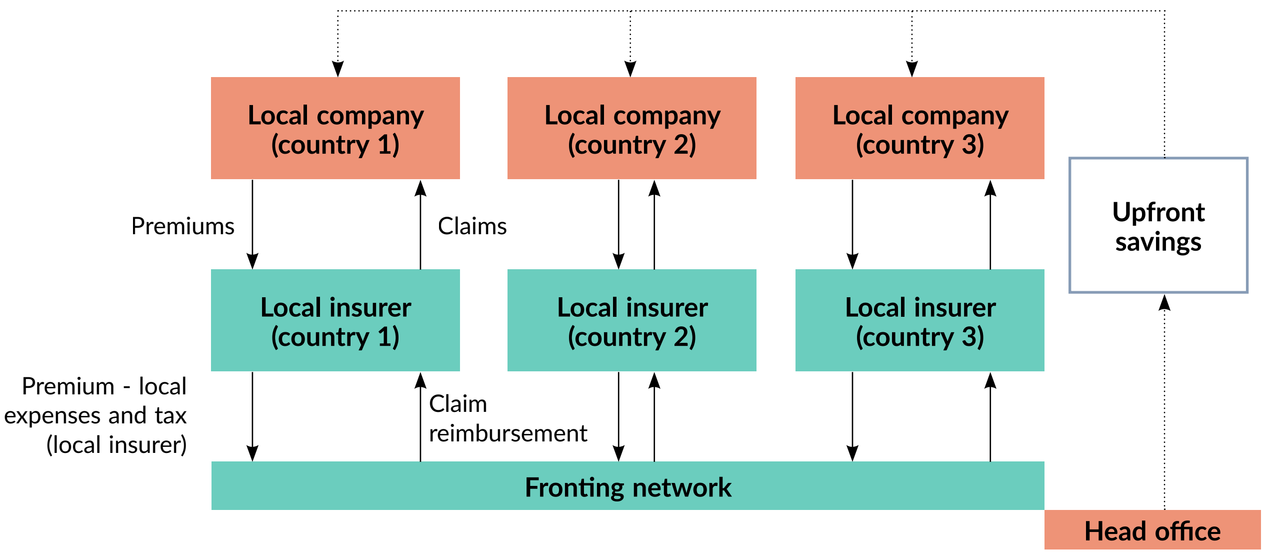
Pros	Cons
Greater central control of the programme	Requires at least $1m risk (life, accident or disability) premium
Wider range of employee benefits offered	Longer-term commitment required by fronting network
Does not need a captive to implement	Includes risk and administration charges by networks
Quicker and more in-depth data insight	

Over the past decade, particularly in the last three to four years, multinationals have started transitioning to a global underwriting solution. A more centralised employee benefits programme, this approach will usually require at least 10 countries and $1m risk premium, and will strengthen the employer's purchasing power by buying benefits across multiple countries as a group.

Having collected two to three years of claims data, the group and its benefits partners can assess which countries would bring the most value from being added to a global programme. Unlike with multinational pooling, greater control over premium optimisation means that any discounts can be applied upfront and provided direct to the local subsidiaries. The latter also helps attain buy-in from the subsidiaries around the world, supported by delivering immediate cash flow benefits,

Global underwriting should produce quarterly claims data to the group, allowing employers to identify health trends and receive early warning signs so these can be addressed where possible.

Figure 7. Global underwriting structure

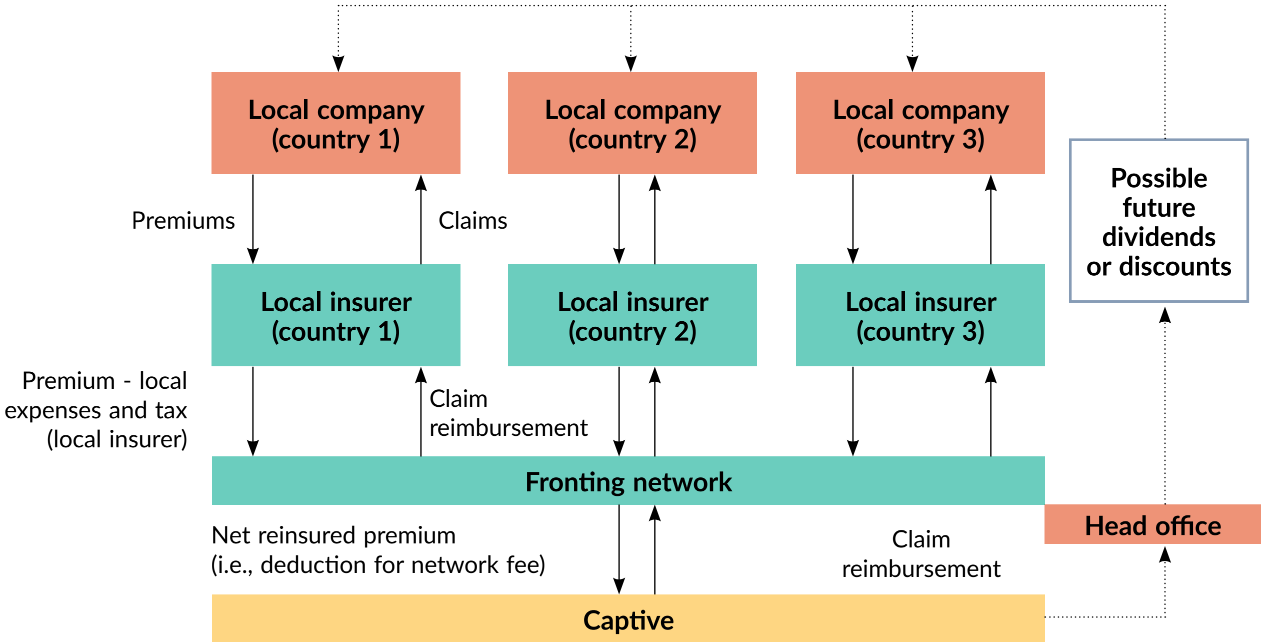


Source: *Willis Towers Watson*

Table 6 Captive-backed global underwriting

Pros	Cons
Group-owned captive can share in underwriting profits	Requires the use of an existing captive or formation of a new captive
Reduces insurer risk charges	Exposes the captive to greater claims activity and, where reinsurance is not considered, potential losses
Improved control of claims and claim management	
Enhanced control over pricing and rate setting	
Quarterly data insight	
Further diversifies the group captive, consistent with Solvency II accounting standards	

Figure 8. Captive global underwriting structure



Source: *Willis Towers Watson*

Organisations can choose to use a group-owned captive insurance company as part of a global underwriting programme. The programme has similar requirements to global underwriting, but the structure is altered to include a reinsurance captive. There are currently around 100 captives writing multinational employee benefits, a number that has grown from almost none 20 years ago.

The fronting network(s) issue local paper to the subsidiaries, as with a traditional global property and casualty programme, and the programme is reinsured by the group's captive.

The growth in popularity of the captive-backed approach has been supported by more global fronting networks offering more sophisticated captive administration support, administration and reinsurance protection options. There are now six global employee benefit networks for captive owners to choose from and multinationals will often use up to three different networks depending on the size and geography of their programme to ensure the best coverage.

“

For our HR team, the captive has become a vehicle that gives them transparency. They can view a lot of the programme that they haven’t been able to before. It helps them to standardise if there are any variables they are not happy with. It has definitely worked for risk, insurance and HR.

Phil Clark, Director of Insurance, Vodafone

KEY TAKEAWAYS

- Collaborate closely with HR from the very beginning
- Define the organisation’s primary objectives on employee benefits
- Take a holistic view of the employee benefits spend and programme
- Communicate clearly how different insurance structures can enhance the EB programme

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