



HR Risk Management Employee Benefits Engagement Toolkit

The Airmic Annual Conference 2019



1. Why Risk Management should engage with Human Resource colleagues on insurable Employee Benefits strategy

Strong employee engagement is correlated with good business performance and share price¹. Therefore attracting, retaining and rewarding employees through a robust and sustainable benefits programme is an important consideration for all businesses.

Employee Benefits (including insurable benefits) are becoming increasingly more relevant within organisations. Human risks have become more complex² and costly, and this is particularly highlighted by the fact that the average costs of medical inflation globally is significantly higher than average inflation.

Some key points and trends are as follows:

- Employee Benefits and the Reward Strategy, are key components of an organisation's **Employee Value Proposition (EVP)**. **Many analysts and boards are increasingly using these as part of their assessment of an organisation.**
- **Employee Engagement is positively correlated to share price**, with a Gallup report providing evidence that companies with a stronger Employee Engagement score enjoy 20% higher profit margins³.
- Based on three 2019 Global Medical Inflation reports from Aon, Mercer Marsh Benefits (MMB) and Willis Towers Watson (WTW), **the cost of providing some insurable Employee Benefits is increasing** e.g. Medical Insurance is escalating at a compound average rate of almost 10% per annum globally.
- **Larger multinational organisations are spending more than \$100m per year** on insurable Employee Benefits products such as Life, Accident, Disability (20% of global spend) and Medical (80% of global spend). Additionally, there is a cost to the number of uninsured benefits that are also being purchased.
- Unchecked, premiums could reach unsustainable levels and become too expensive, resulting in **provision of these benefits coming under pressure**. With increasing frequency **Chief Financial Officers (CFOs) are asking Procurement and Risk Management teams to assist Human Resources colleagues** in managing insurable [and uninsurable] Employee Benefits programmes.
- The **human side of risk is coming of age**. Mental health issues are approaching epidemic levels; musculoskeletal, cancer, isolation and technology dependency are all key issues organisations must consider addressing to ensure a healthy, happy and productive workforce.
- **Employee Benefits risks share common characteristics with asset and other risks**, so do the strategies for managing and mitigating those human risks.
- There is evidence to suggest that HR colleagues have historically been protective of the budget for insurable Employee Benefits spend. Therefore, **Risk Managers need to consider a proactive HR Risk Management strategy** to meaningfully add value to HR and the business.

2. Practical strategies and tools to assist Risk Managers in engaging HR colleagues about insurable Employee Benefits

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. The Risk Management function needs to be perceived as a value-add business partner to HR colleagues, assisting them to achieve their objectives.

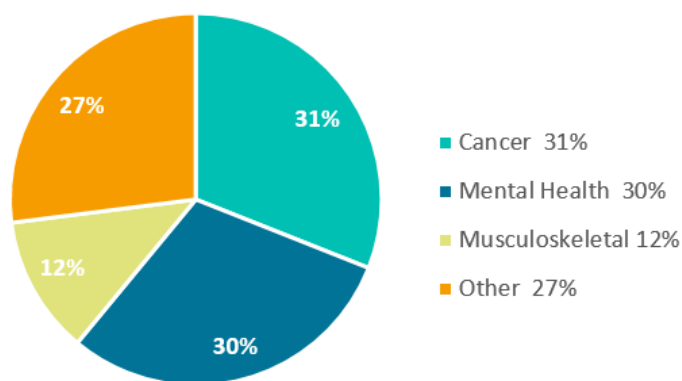
During the 2019 AIRMIC Employee Benefits (EB) workshop, participating Risk Management delegates jointly identified a common set of challenges, strategies and tools that will help to support a successful, long-term HR Risk Management partnership.

Common Challenges	Engagement Strategies, Tools and Solutions
<ul style="list-style-type: none"> Closed mind set around who 'owns' the budget and problem, suspicion of why others may want to get involved. 	<ul style="list-style-type: none"> 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 focussing on mitigation and cost reduction strategies with procurement.
<ul style="list-style-type: none"> Traditional HR role – no perceived value for risk. Risk Managers can feel out of their comfort zone. 	<ul style="list-style-type: none"> Very little difference between the strategies to manage asset and human risks. Risk Managers can support human risk management, in the same manner they currently do with Accident and Employers' Liability/Workers Compensation.
<ul style="list-style-type: none"> Incomplete data, EB data not known/ understood at HQ level. 	<ul style="list-style-type: none"> 80/20 rule with data – outline cost savings/value for money to address procurement challenges and present business case.
<ul style="list-style-type: none"> EB is not always treated as a project. 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Risk Managers do not communicate/market their skills. 	<ul style="list-style-type: none"> Jointly undertake a financing Feasibility Study with a consultant.
<ul style="list-style-type: none"> Procurement seeking value for money (short term focus) / low price. 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Could reduce the financial risk if the risk team get involved. 	<ul style="list-style-type: none"> 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).
<ul style="list-style-type: none"> HR can be challenged in sourcing insurance coverage to match benefit philosophy. 	<ul style="list-style-type: none"> Solutions are available to override limitations of locally available insurance T's & C's or policy limits i.e. a Difference in Limits (DIL) and/or Difference in Conditions (DIC) contract.
<ul style="list-style-type: none"> Decentralisation, every country is different in local program design and approach; showing a global picture can be difficult. 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Exit penalties, to change programmes (e.g. a 5 year tie-in). 	<ul style="list-style-type: none"> This is almost unheard of. Premium rate guarantees (2 to 5 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.
<ul style="list-style-type: none"> Challenge to articulate and monetise future cost of poor health of employees. 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Communication / getting attention is difficult. 	<ul style="list-style-type: none"> Employee benefit surveys to understand which benefits are most important. Treat communication of benefits to employees the same as if you were talking with your customers.
<ul style="list-style-type: none"> In-house doctor expertise. 	<ul style="list-style-type: none"> In-house doctors can and should be part of any EB project.
<ul style="list-style-type: none"> Brokers can tend to roll-over placement of benefits with incumbent vendors. 	<ul style="list-style-type: none"> 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.

3. Using the Risk Management skill-set to add value to HR

Claims statistics from Zurich UK's Group Income Protection portfolio are clear. **Cancer, Mental Health** and **Musculoskeletal** claims jointly represent almost 75% of total claims cost.

With some employers spending more than £1k per person per year on insurable Employee Benefits, global budgets for employers with larger populations can exceed £100,000,000 per annum.



Helping HR to identify trends and to finance ways of proactively managing those risks fits squarely within a Risk Manager's skill set. Formulating compelling business cases to help address employee health issues is likely to be the single largest action that Risk Managers 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.

Cancer	Mental Health	Musculoskeletal
<ul style="list-style-type: none">Medical Second Opinion	<ul style="list-style-type: none">Mental Health First Aiders	<ul style="list-style-type: none">Standing desks
<ul style="list-style-type: none">Cancer screenings	<ul style="list-style-type: none">Employee Assistance Programme	<ul style="list-style-type: none">Physiotherapy / Chiropody
<ul style="list-style-type: none">Smoking cessation	<ul style="list-style-type: none">Buddy / mentoring plans	<ul style="list-style-type: none">Gym Memberships / Yoga
<ul style="list-style-type: none">Captive financed experimental medical treatment/drugs?	<ul style="list-style-type: none">HR policies e.g. work from home related isolation	<ul style="list-style-type: none">Accident prevention
<ul style="list-style-type: none">Nutrition; Stress Management ; Education programmes – sleep, time management / burnout, financial (e.g. Nudge); Virtual GP e.g. Babylon		

A real case study from the AIRMIC workshop

One practical example provided during the workshop was related to Zurich's own experience of introducing Cancer Screening as a voluntary, employee paid benefit, available on its Flexible Benefits platform.

It was explained that take-up of this newly introduced employee paid benefit was less than 3% of the population and that Cancer accounts for more than 31% of Zurich's total insurable Employee Benefits claims cost.

In the workshop it was discussed that if this benefit was employer rather than employee funded, at least for high risk groups, take-up of the benefit would be much higher.

Increased and earlier diagnosis of Cancer would support an argument that this preventative tool could reduce claims cost and therefore future premium spend across Life, Disability and Medical insurances. To support the introduction of this benefit, historical claims data would allow for a cost/benefit analysis to be undertaken and a compelling business case to be drafted.

4. Opportunities for future successes

There are a number of projects that Risk Management could propose which would have a significant benefit to HR colleagues in managing Employee Benefits risk and spend. Most of these suggestions are not mutually exclusive.

- **Investment in low cost tools** e.g. Nudge for Financial Education (Cost of benefit and perceived employee value do not always align). Zurich shared an example that 0.5% of their EB spend had a disproportionately positive effect on EVP (Employee Value Proposition).
- **Invest in preventive HR Risk Management solutions** such as a Virtual GP e.g. Babylon to supplement medical and reduce severity of reactive medical claims through providers such as BUPA.
- **Use of Captives** or other alternative financing approaches to support provision of local or global benefits. A Captive could benefit from insurance profit margin, diversification of the Captive, benefit from rich data set, consolidate provider relationships, leverage efficiencies of collateral, utilise a cross-class solutions and importantly to HR colleagues the Captive can invest proactively in wellbeing solutions such as the toolkit above in order to mitigate health trends and promote a healthier, happier workforce.
- **Implementation of an International Programme for Employees.** A financing solution more familiar to Risk Managers in the Property & Casualty insurances. Mainstream International Programmes for Employees solutions covering insurable employee benefits risks such as Group Life, Group Income Protection and Medical insurances have been available for about three years but its popularity is rapidly growing, particularly for customers with legacy Multinational Pooling solutions where value is limited.
- **Use of real claims data to steer decision making** to support the introduction of new benefits e.g. Virtual GP. Such exercises will require compilation of a compelling business case as this task is (generally) more familiar territory for Risk Managers than HR professionals in terms of required skill set. Receiving budget support for new benefits can be challenging in year one before the cost is a normalised spend. Ensuring that the data relied upon for the business case is homogenous, rich and reliable, you may need to rely upon insurers and Employee Benefits consultants to assist.
- **Opportunity to evidence positive impact** on productivity, employee retention and satisfaction [in addition to potential cost savings] as part of a professional statistical analysis. Specialist third party organisations with data scientist resources are available to assist with such projects and help to demonstrate return on investment.

5. For more information

The AIRMIC Employee Benefits Engagement Toolkit was compiled to help Risk Managers and Insurance Managers to better understand the insurable and non-insurable Employee Benefits landscape and identify methods of working more collaboratively with Human Resource professionals.

This document (including challenges and suggestions) originates from the participants of the 2019 AIRMIC Employee Benefits workshop which was facilitated by Jo Burton, Zurich's UK HR Programme Manager and Rob Brown, one of Zurich's Global Employee Benefits financing professionals.

Should you wish to learn more about any of the topics covered in this document, including Zurich UK's own Employee Benefits transformation or global insurance financing, please feel free to contact Rob, Jo, or your Zurich relationship contact.



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