

OCTOBER 2018

People Risk Survey Report 2018

Key people risk
concerns for
HR leaders



Foreward

I am delighted to present our inaugural People Risk Survey Report in partnership with the Human Resources Institute of NZ (HRINZ).

HR leaders are currently working in a challenging environment with new and evolving people risks appearing all the time.

In this first survey, delving into the people risks of Kiwi organisations, it was clear that acquiring and keeping talent is still a major challenge for many – with 55% of those surveyed saying that talent attraction was their biggest risk, with talent retention being the fourth largest risk. Organisations are not confident that this will be resolved anytime soon with talent attraction and retention also being the risk that is most expected to impact entities over the next 12 months.

Having a work environment with a social conscience, one that embraces diversity and inclusion, has a strong culture, flexible working conditions and a programme of employee benefits to meet the needs of the changing workforce can help to address this challenge.

Key person risks, or heavy reliance on one or more key people within the organisation, were also high on the agenda – coming in as the second largest risk rated by HR leaders. Whilst identified as a large risk, 56% of those surveyed stated that they did not have a plan to deal with it.

With our aging population and a large number of SMEs that are dependent on a key person for significant revenue generation, it was quite surprising that this hasn't been addressed.

More than 70% of self-employed businesses that close down do so, at least in part, because of serious injury, research from NZ's Accident Compensation Corporation shows.

Succession planning is of course a key element in helping to mitigate key person risk however with 50% of entities not having plans in place to deal with succession planning either – businesses are very exposed in this area.

Sadly people risks as a whole are not being prioritised within some organisations. 57% of the HRINZ members surveyed said that people risks were not considered a priority within their entity. A lack of senior leadership buy-in was seen to be the reason by many.

Companies spend thousands of dollars each year to insure their plant and equipment however it would seem that people, who are actually the biggest asset, are not as much at the forefront as perhaps companies are publically saying.

There would be few people that would dispute the fact that good employee benefits help to retain and attract staff to your organisation which, given the current market challenges, is even more important. One underlying issue however is that the workforce continues to evolve while benefit programmes have not.

Employers need to review their programmes on a regular basis and look to segment their benefits to meet the needs of the different generations. Consideration must also be made to include the increasing incidences of lifestyle related illnesses such as cancer, diabetes and mental illnesses.

Cancer is now the number one killer in New Zealand with more than 23,000 people diagnosed every year, and climbing, according to recent figures released by the Ministry of Health. Older style benefit programmes no longer support these changes so need to be reviewed – and on a regular basis.

Mental health and wellbeing was high on the agenda for many HR leaders, coming in as the second biggest emerging risk, and it is clear that further investment is required to help manage it.

Ultimately the most successful employers will be those who have plans to address their key people risks, and have employee benefit programmes in place to meet the needs of the changing workforce.

Finally, I would like to thank all of the HRINZ members who took the time to complete the survey. Your insights have been invaluable in putting this report together.

Alison Bamford

Mercer Marsh Benefits™ Leader, New Zealand

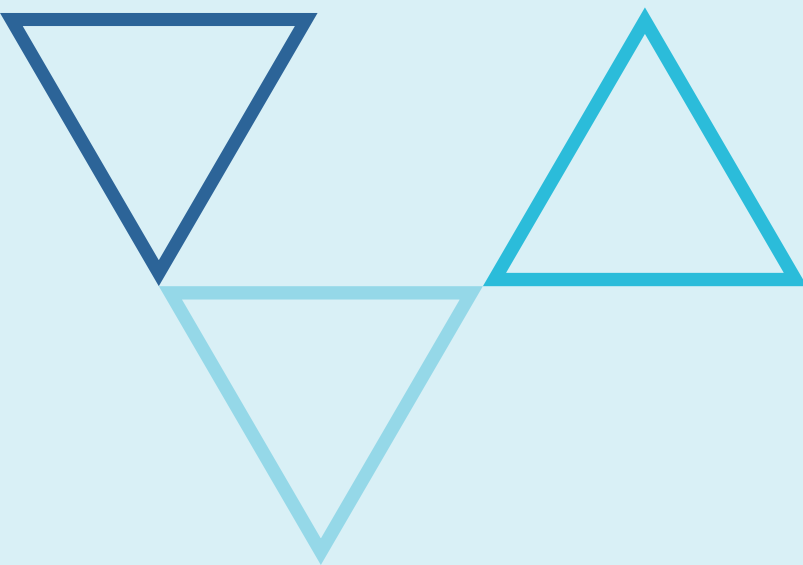


Introduction

Our People Risk Survey was conducted in August 2018 with 229 HRINZ members completing it. We had a good range of responses from small to large organisations across a range of industries.

The report is split into two sections. The first covers an overview of the current and emerging people risks that NZ HR leaders are seeing within their organisations. The second looks at the types of employee benefits currently being offered to people and how programmes are being designed.

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People Risks

Current risks facing organisations

To start, we wanted to hear about the key people risks facing your business and how they are managed.

55% of those surveyed said that attracting the right talent was the biggest risk to their organisation. This aligns with the third biggest risk, which was talent scarcity.

The shortage of good quality candidates within the market has made it even harder for Kiwi companies to find the right people. As employers grapple with the lack of applicants, skills and experience available the Government’s tightening immigration policy has added even more weight to this concern.

According to Mercer’s Global Talent Survey 2018, “To compete in the war for talent organisations must design jobs that people want and careers that they crave, invest in employee’s professional growth and personal wellbeing and show employees how their work is tied to the organisation’s mission and positively impacts society. This is because today’s individuals need to find relevance and purpose in their work.”

Having a heavy reliance on one or more people within the organisation (key person risk) was the second biggest challenge that HR leaders are currently facing.

The death or permanent disability of a key person can have a significant impact upon an entity.

It can cause large financial loss, lack of confidence in employees due to the loss of leadership and the opportunity for competitors to take advantage of the situation and steal market share.

An important part of managing this risk is to have succession planning in place. (The irony here being that succession planning was the fifth biggest risk currently facing HR leaders). You can also provide financial protection by taking out key person insurance.

TOP 5 PEOPLE RISKS BEING FACED BY ORGANISATIONS

- 1** Attracting the right talent
 - 2** Heavy reliance on one or more key people within the organisation i.e. key person risks
 - 3** Talent scarcity
 - 4** Talent retention
 - 5** Succession planning
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Management of people risks

We asked respondents if they had procedures in place to manage these risks.

56% did not have a plan to deal with key person risks.

Over 20% of our respondents work for organisations with less than 50 employees. These organisations are the most vulnerable – especially if the business owner suddenly becomes incapacitated or dies.

Larger organisations that have colleagues with a very specialised skill set or who are in control of a project, which cannot easily be replaced, are also not immune.

It was also surprising to see that 58% of HR leaders said that they didn't have plans in place to manage the risks around their retiring workforce. Whilst baby boomers are working longer they will still exit at some point and it may not be when you expect it. This is line with the NZ "Act Now Age Later" paper which references that 83% of employers are not currently planning for an older workforce.

There may be a lack of understanding around the value older workers can bring to an organisation. A study by Australia's "The Conversation", for example, found that almost a third of Australians perceived some form of age-related discrimination while employed. On the other hand younger employees can feel deprived of opportunities because of long tenured staff.

With talent attraction and retention being a key priority we would suggest organisations have a clear strategy around the benefits of employing, retaining and engaging with an aging workforce.

It is important to plan pipelines of talent to ensure that valuable skills are not lost from long tenured employees whilst also providing opportunities to younger talent.

Retirement, along with resignation, death and serious disablement are the key areas around which succession planning is required and nearly 50% of our respondents said that they did not have succession planning in place. This is an area of risk that organisations need to address as it can have wide reaching implications.

Prioritising people risks

Are people risks deemed to be a priority in New Zealand entities?

We asked how often people risks are reviewed, who was responsible for them and if they are a priority.

25% said that people risks were reviewed quarterly, 18% annually and 17% monthly. 27% of respondents weren't sure, which was a bit concerning.

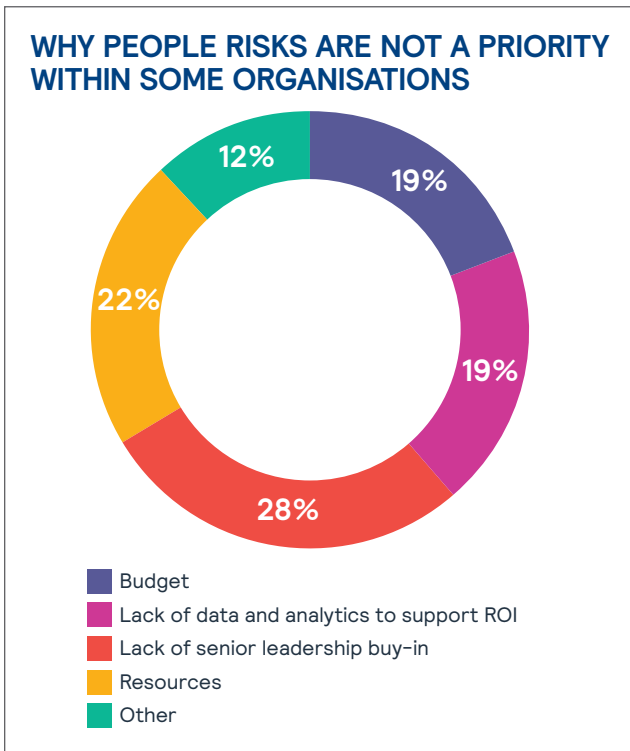
In regards to who had the "ultimate" responsibility for managing people risks within the organisation, 26% said HR, 27% said the CEO and 18% line managers. Of the 17% that said "other", many noted that it should be all of the above or the executive / leadership team ie not one person should be ultimately responsible.

It was quite clear that the majority of HRINZ members who participated did not think that people risks were a priority for the entity they worked for with 58% saying that this was the case.

When asked why, 28% responded that it was a lack of senior leadership buy-in, 22% said lack of resources, while budget and lack of data and analytics to support ROI were at 19% each.

Lack of senior leadership buy-in is disappointing. People are of course an organisation's biggest asset and, in a market where talent is scarce and it is difficult to attract and retain people, it should really be more of a priority.

Perhaps the lack of data and analytics to support ROI (19%) is linked to the lack of leadership buy-in – suggesting more work needs to be done to improve NZ metrics to support the people risk profile in NZ.



Importance of people risk

54% of our respondents told us they believed that their people risks had increased over the last 12 months.

In regards to why, 23% cited the competitive labour market, 15% stated financial constraints eg reduced budgets and salary creep, 14% said the lack of skills required and 10% the retiring workforce.

New Zealand unemployment has fallen to the lowest level in a decade. We all know that finding the right talent is difficult and businesses are having to work even harder to source and attract the right talent. Mercer’s 2018 Global Talent Study shows that the top talent trends are the ability to change and change quickly, working with purpose, flexible workplaces, diverse talent ecosystems and improved digital employee experiences.

Emerging risks

Having identified the risks currently keeping HR leaders up at night, we wanted to ascertain what may keep you up in the future.

It would appear that concerns over talent attraction and retention are not going to go away with 92% saying that it would be an issue of concern over the next 12 months. Managing this matter is difficult in itself and for the 49% of organisations that don’t have plans to manage the risks surrounding the problem, it is even more of a challenge.

Mental health and wellbeing was the second biggest concern (see our mental health spotlight on page 4), followed by ways of working eg flexibility and smart offices.

Many organisations have already moved to smart office environments with hot desking and portable technologies and a lot of institutions have flexible working available. It is important to note that flexibility isn’t just of course about working wherever / whenever, it is also about rethinking what work is done, how it is done and by whom.

Whilst these ways of working may be in place only 55% of those surveyed said that they had a plan in place to manage the risks associated with these arrangements.

Policies and procedures around flexible working arrangements are not only hugely important – especially with regards to health and safety – the organisation also needs to ensure that it has the right insurance policies in place to align with this. For example, are your employees covered for injury whilst they are working at home and will your cyber insurance cover employees working remotely?

TOP 5 EMERGING RISKS

- 1 Talent attraction and retention
 - 2 Mental health and wellbeing
 - 3 Ways of working eg flexibility, smart offices
 - 4 Increasing corporate governance requirements
 - 5 Impact of disruptive technologies
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Spotlight on mental health and wellbeing

Mental health and wellbeing is a hot topic at the moment. How is it impacting organisations from an HR perspective?

Performance was the main area identified by our HR leaders at 38%, followed by absenteeism at 24%.

21% of respondents could not identify what the impacts were. Of the 10% that stated “other”, there were several mentions of the increase in Employee Assistance Programmes (EAP) / counselling service costs and the expenses associated with legal action in wellbeing-related claims.

Whilst costs are being incurred in some areas, a PwC report “Creating a mentally healthy workplace” found that, on average, every dollar spent to promote good mental health in the workplace reaped a return of \$2.50, which is a pretty good return on investment.

To help address issues around wellbeing there were three key areas where HR leaders were focusing their attention – employee assistance programmes, early intervention and support by managers, and wellbeing programmes. A couple of organisations had even set up employee wellness groups.

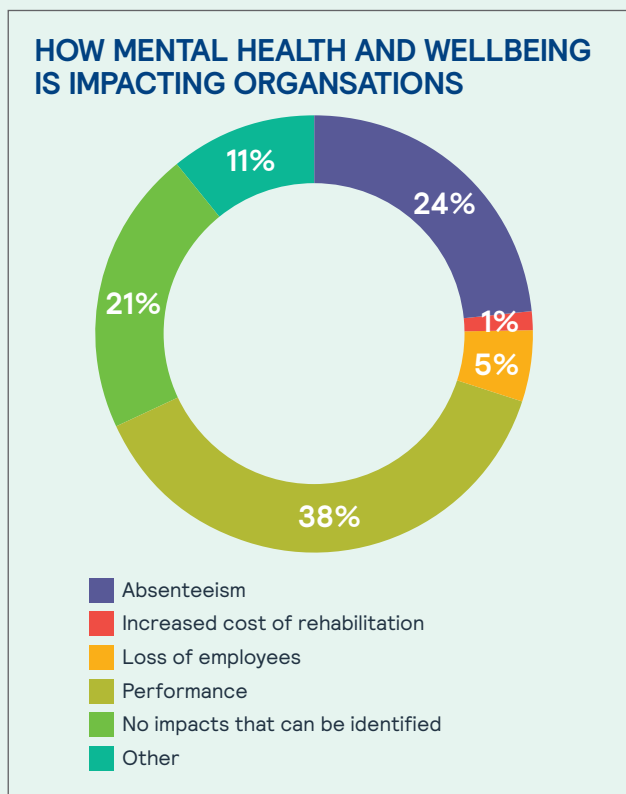
The causes of mental wellbeing are many, as pointed out by our respondents, and can be intertwined. We wanted however to get a sense of where some of the key pressure points lay for employers. 24% said family issues, 19% high workloads, 18% financial pressures and 17% workplace issues. There were also multiple comments made around drug and alcohol issues and post-earthquake recovery in Christchurch.

As a people risk, mental health and wellbeing is only set to increase over the next few years. According to The World Health Organisation

mental illness will be the leading cause of disability and absence in the workplace by 2030 if it’s not proactively addressed, while Health and Safety NZ says that one in six Kiwis will be diagnosed with a common mental illness at some time in their lives.

So what can employers do to help meet this challenge head on? A Mercer Marsh Benefits™, Benefits Benchmarking and Trends 2018 report, states that “There is still considerable opportunity for employers to take steps to enhance the mental health and wellbeing of both their healthy and ‘at risk’ employees, by understanding psychological risk factors posed by specific roles, minimising psychological hazards, providing individual wellbeing and resilience programmes, management of occupational violence and bullying and ensuring early intervention and support by managers.”

Mindfulness and resiliency programmes can also be impactful, along with initiatives that help colleagues with their financial health.



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Employee Benefits

Employee benefits (EB) play an important part in a people risks' strategy.

What benefits are currently offered?

It is helpful to assess what benefits are being offered to enable us to provide insights around things you should look at in regards to your own EB programmes.

- 51% of the organisations surveyed offered health insurance as a benefit with 80% of those entities offering it on a voluntary basis.
- 20% offered death and total and permanent disablement – with 46% of those providing it as a compulsory benefit.
- 17% provided income protection – with this being compulsory for 26% of those employees.

A small proportion provided compulsory insurance products with voluntary top ups.

Other benefits ranged from flu vaccinations (23%), EAP (22%), wellness programmes (12%) and fruit baskets in the office (10%). Additional benefits included extra sick leave, hearing and cancer checks, to flexible working arrangements.

Why are benefits provided?

21% said that they provide benefits as a proactive wellness measure, 18% because it's the right thing to do and 16% for employee retention. There were also comments around employee engagement and mitigating health and safety risk.

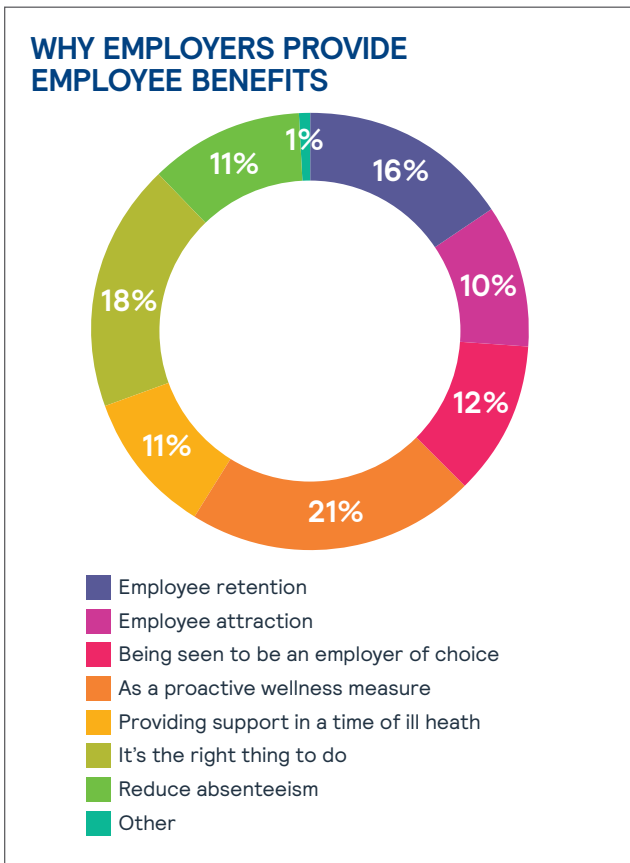
Navigating the changing talent ecosystem by supporting employees' health and wealth needs is becoming a large market differentiator.

Employee benefit programmes now often don't meet these needs, which include the increasing incidences of lifestyle related illnesses such as cancer, diabetes and mental illnesses. For example, popular employee benefit design in the 1980s was life and total & permanent disability. With improvements in medical technology and workplace integration this type of benefit is becoming more difficult to claim against – so we are seeing less of a need for this type of benefit.

Many group medical insurance programmes were also started back in the 1980s, however, according to Mercer Marsh Benefits™' medical trends around the world, medical insurance rate increases are expected to reach 9.7% – almost three times the rate of global inflation. Strategies need to be implemented to ensure there is flexibility around co-payments and plan upgrades so that coverage levels are meeting employees' needs verses employer affordability.

Benefit design should allow for support in the short term whilst employees take off time for treatment and recovery – as well as support if it is a longer term absence or employees are unable to return to work. Mercer Marsh Benefits™ is seeing a rise in the shorter term critical illness style benefits, for example.

The NZ level of benefits falls significant short – especially compared to other countries. This survey came back with approximately 46% of employees offering life and total & permanent disablement style benefits, which is low compared to Australia at 81% and the UK at 92%. Income protection (offered as a two-year benefit) is similarly low – only being offered to 26% of companies in NZ while the Australian uptake is 75% and the UK is 80%.



- Baby Boomers, on the other hand, are interested in tailored exercise programmes, financial seminars and value health screening programmes such as hearing and eye checks.

Other examples of benefits, which suit a multi-generational workforce, are “lifestyle” type benefits such as travel insurance, gym membership, gadget insurance, computers and discount cards.

Thomsons’ recent research of over 2,000 global employees, Expectations and reality: the widening gap in global benefits, showed that benefits that help employees stay physically and financially healthy, offer them advice and help them manage childcare – are those that are more likely to create higher engagement and greater return on investment for the employer.

If we look at the insured benefit market overseas, 45% of UK companies provide some form of flexible benefit plan – according to Mercer’s Total Remuneration Survey, 2015. There is a wide range of employee choice. Take-up by age and gender shows a more individual and proactive approach to employees managing their benefits. This needs to happen in NZ.

54% of respondents review their EB programme annually and 10% every two years. 27% didn’t actually know when their EB programme was reviewed. Suffice to say, an annual review should at least be put in place as it is important to meet the needs of your changing workforce.

Review and design of programme

EB programmes should of course always be designed around the needs of your employees and a “one size fits all” methodology no longer works. A more modern approach is to segment your workforce by generation – as each one has its own unique needs. Only 23% of our HR leaders have gone down this path.

Examples of the different generational needs are as follows –

- One in five Millennials has experienced on-the-job depression, compared to only 16 percent of Gen Xers and Baby Boomers. Given these higher rates of depression many want their benefits to provide access to mental health professionals.
- Trying to balance children, elderly parents, work aspirations and their own health and wellbeing is demanding – so for Gen X a focus on work-life balance and flexibility is essential.

Some tips for creating greater engagement around your employee benefits programme are:

- Align the benefits with your employee value proposition.
- Regularly survey employees as to what benefits they would like.
- Provide regular communication about your benefits – not just new benefits being introduced but also what you already have in place as people tend to forget | what is available to them.

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About the Respondents

229 members of HRINZ completed this survey, which was run in August 2018.

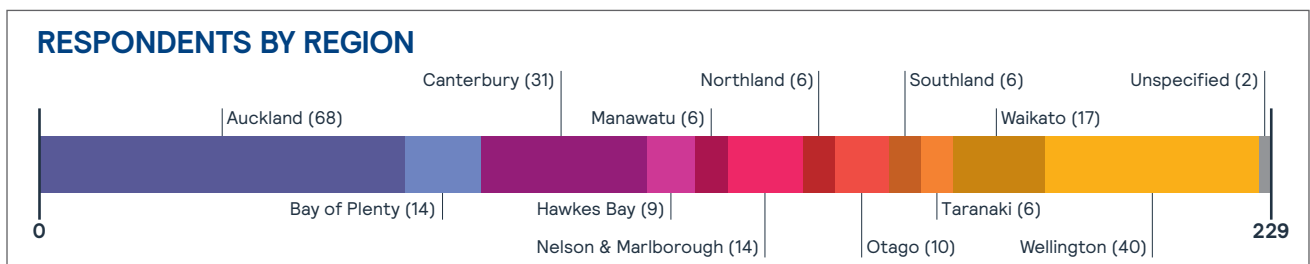
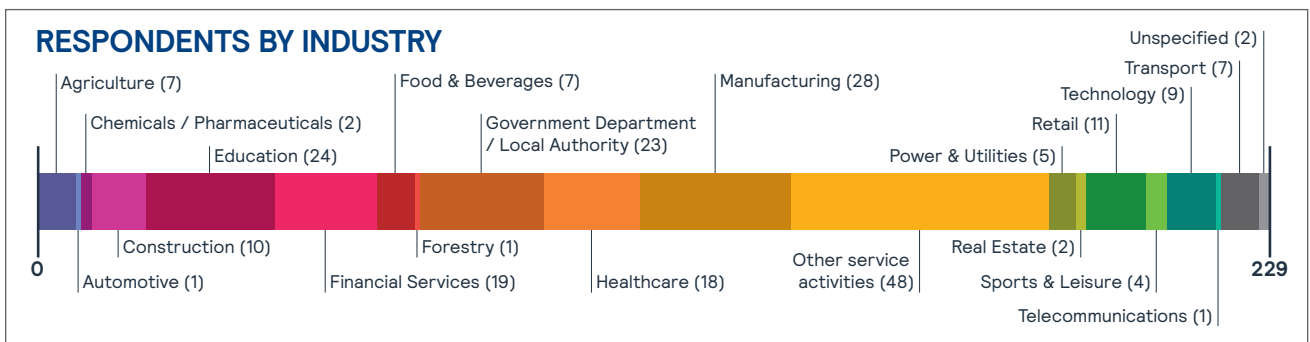
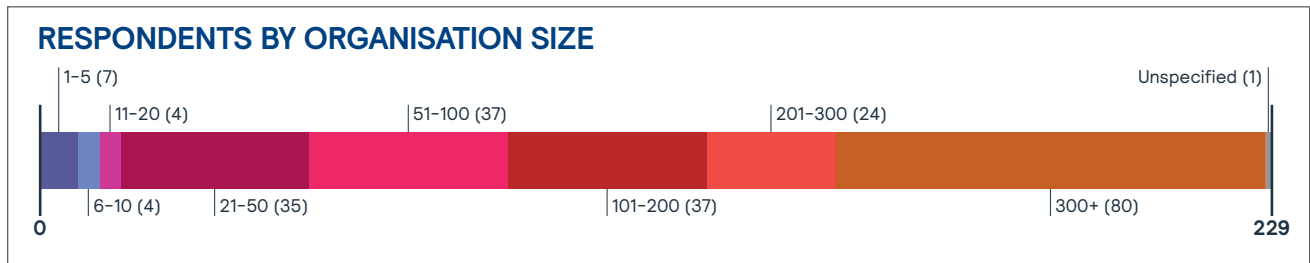
43% were HR managers, 15% HR leaders, 17% HR business partners and the majority of the rest in other senior HR / executive roles.

38% worked for a private or family owned company, 17% for a non-for-profit organisation and 16% from a public limited company. These entities were across a range of industries from agriculture to professional services to manufacturing.

In regards to the size of the organisations represented there was a good spread of respondents from SMEs of 1-50 employees (22%), staff of 51-200 (32%) and over 300 people (35%).

From a geographical standpoint, 30% of the respondents came from Auckland, 18% from Wellington and 14% from Canterbury.

18% of the participants were male, 75% female and the balance preferred not to say.



FOR FURTHER INFORMATION

For more information about this survey or to discuss your people risks, please contact Mercer Marsh Benefits™:

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About Mercer Marsh Benefits™

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