

Safeguarding human capital

How to protect and enhance the
value of human capital?

11 May 2021



Contents

1	Executive summary	04
2	The growing importance of human capital	10
3	Determining the value of human capital	17
4	How to manage the value of human capital	21
5	How insurance can help if things go wrong	32
6	Moving forward	42

Foreword

Protecting and enhancing the value of human capital

It has been over a year since lockdowns all around the world suddenly changed decades old working practices. For the vast majority of organisations, working arrangements had to change almost overnight as employees could no longer access physical offices. For those organisations that have moved to remote working, a 'work from anywhere' model is now starting to be embedded in their organisational operations, and in some cases is preferred by employees to office based working. It is increasingly likely that these new norms are here to stay even after the pandemic.

The full extent of implications from these changing working practices will no doubt take years to understand, but there are already a range of interesting early findings showing for example that the efficacy of remote work is higher than people expected before the pandemic¹. Meanwhile, while productivity has improved in many cases, there is an increasing number of reports showing an adverse impact on social ties between co-workers, particularly in the case of new relationships. Furthermore, video call fatigue is increasingly common, leading to some organisations introducing 'video call free Fridays'.

In this report, we explore how organisations can protect and enhance the value of their human capital, particularly considering the new challenges related to these entirely new ways of working.

We have identified four key actions that risk owners in organisations need to think about to advance their preparedness to safeguard their organisations' human capital. These include:

- Ensure leadership champions a culture that truly empowers employees in remote working conditions
- Use data to hire and manage your employees
- Prioritise the needs of employees but also reduce the reliance on any one individual
- Horizon scan and be prepared to continuously adapt to change

Insurance can be a useful tool in organisations' efforts to safeguard their human capital. It is possible that future insurance solutions will go way beyond the current risk indemnity offerings and will include cutting edge HR analytics and robust prevention and response services. The solutions will be built to spot potential human capital issues before they actually materialise and provide organisations with the required tools, knowledge and financial capital to overcome the problems whilst minimising business interruption and any adverse impact on their competitive position.

1 Executive summary



Human capital can be defined as the collective attributes possessed by employees which drive organisational value; the pandemic has shifted the relationship between employers and employees and is evolving the way we need to think about human capital

People drive value in organisations by producing goods, services or ideas. There is growing awareness and recognition that people are the key source of sustainable competitive advantage, as technology itself can be replicated and cannot create advantage on its own.

Employers accordingly are investing significantly in their people. This investment spans a number of efforts to try and keep employees happy, healthy, and engaged – in order to maximise business performance. This explicit investment is also leading to expectations of returns on investment, which is difficult to measure, as businesses attempt to maximise the value of their human capital.

There is a distinction between human resource management – which encompasses the systems, processes and policies required to hire, train, and enable employees – and the growing field of human capital management – which aims to optimise the value of an organisation's workforce.

The vast majority of organisations have made significant changes to working arrangements almost overnight as countries went in to lockdown and employees could no longer access physical offices. For those organisations that have moved to remote working, a 'work from anywhere' model is now starting to be embedded in their organisational operations, and in some cases is preferred by employees to office based working. It is increasingly likely that these new norms are here to stay even after the pandemic.

The shift from a traditional production economy to a modern knowledge economy highlights the role of people

Physical assets can often be traded on the open market, whilst it is the intangible abilities and skills of a workforce which drives value for businesses.

Investing in people should improve productivity and profitability

Organisations recognise that investing in their workforce through upskilling, engagement, proactive culture mgmt. and workplace (physical or remote) attracts and retains the best talent.

The mgmt. of human capital goes beyond the HR function, and starts with the CEO

Whilst HR functions have an important role to play in managing the employee lifecycle, the management of employees is the responsibility of senior leaders.

There are four key themes in the post pandemic relationship between employers and employees:

1. Trust and Empowerment

Some employees still feel managers do not fully trust their ability to work at home, **34%** felt that their supervisors "expressed a lack of confidence in their work skills"

2. Focus on physical and mental wellbeing

A survey conducted by mental health charity Mind reported that **60% of adults said their mental health got worse during lockdown**

3. The role of physical workplaces

UK employers expect the proportion of people working from home regularly to **increase to 37% from 18% before the pandemic**

4. Difficulty replacing social interactions

The majority of employees, **65%**, said that **socialising is what they miss most when working remotely**

Organisations should consider the best practice actions that can be taken to protect their human capital

Each of the eight management levers represents a stage at which human capital should be actively managed by an organisation in order to protect or enhance its value.

There are specific risks that an organisation should be aware of at each of these eight stages, along with recommended best practice considerations for ensuring human capital is protected.

Some of these best practice actions may seem like obvious steps that all organisations should be aiming to take, however, it is important that management teams are not complacent about protecting their human capital. They should take decisive and deliberate action to ensure that their direction and approach manifests as intended and protects the value of their human capital in practice.

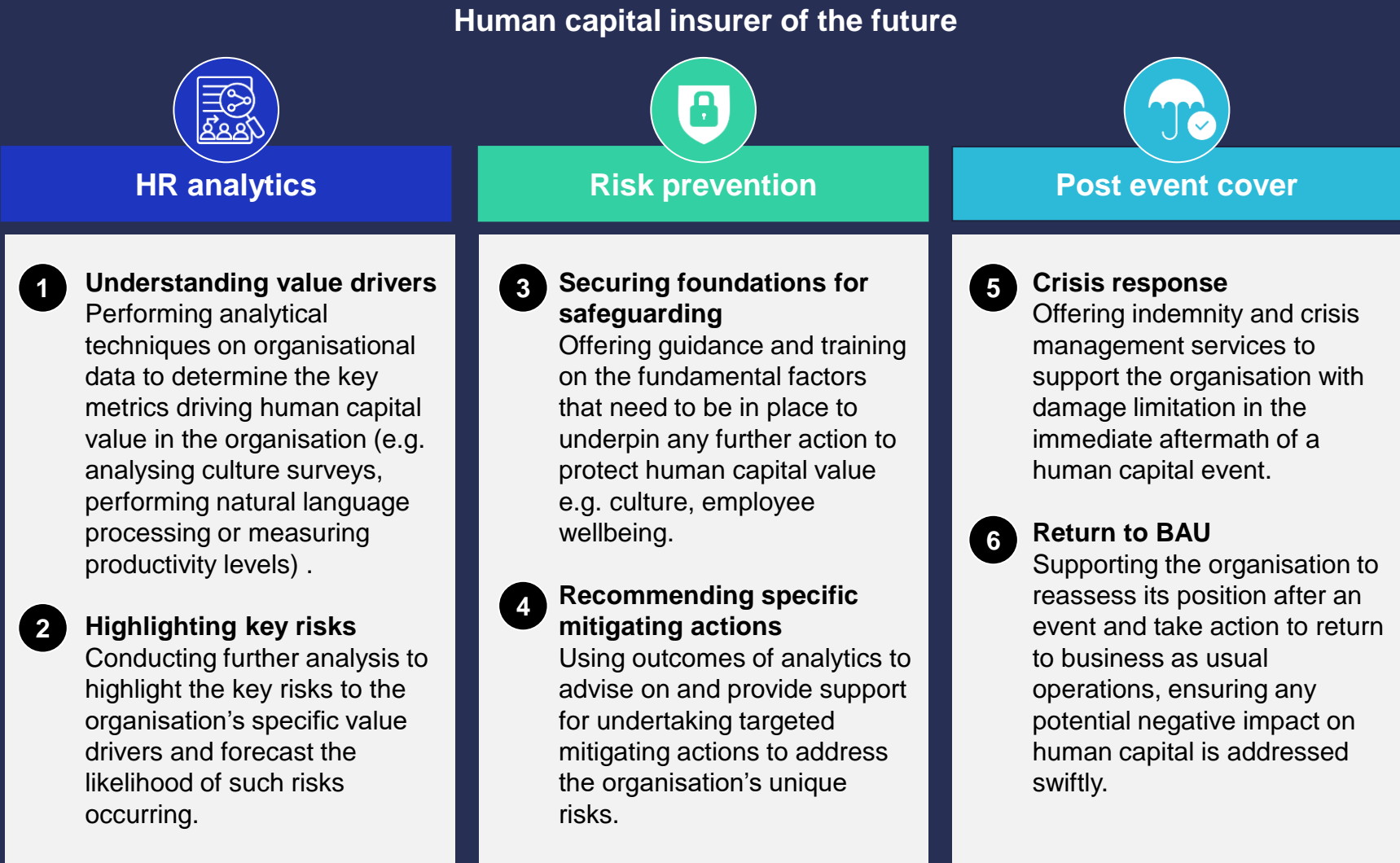
Management lever	Why is it important?	What is best practice management?
Culture and IDSE	46% of job seekers feel that company culture is very important when choosing where to apply	<ul style="list-style-type: none"> Ensure employees feel valued Align behaviour drivers to culture Review culture regularly
Leadership	63% increase in job satisfaction amongst employees who felt their leaders treated them with respect	<ul style="list-style-type: none"> Communicate clearly and openly Support leaders to be authentic and accessible Trust and empower your team
Recruitment and onboarding	82% improvement in new hire retention observed by organisations with a strong onboarding process	<ul style="list-style-type: none"> Align processes with firm-wide goals Assess talent effectively Ensure thorough local onboarding
Learning and development	70% of employees report that they have not mastered the skills required to perform their jobs	<ul style="list-style-type: none"> Codify training programmes Develop a learning culture Align upskilling to future capability requirements
Performance management and reward	69% of employees say they would work harder if they felt their efforts were better recognised by their employers	<ul style="list-style-type: none"> Ensure processes are transparent Ensure processes drive the right behaviours Continuous review through meaningful conversations
Physical and mental wellbeing	17.9 million working days were lost due to work-related stress, depression or anxiety in 2019/20 in the UK	<ul style="list-style-type: none"> Identify key health needs Establish formal policies Support from the top down
CSR and organisational purpose	64% of millennials said they would not take a job if a company does not have strong corporate social responsibility values	<ul style="list-style-type: none"> Set authentic organisational purpose Encourage two way conversations Empower employees to support
Exit / alumni management	40% of the Fortune 500 companies that conduct exit interviews consider the practice as successful	<ul style="list-style-type: none"> Use feedback to improve End things on a positive note Establish an alumni network

Insurance can also play a role in safeguarding human capital. Future insurance solutions could be developed to offer a range of support services and risk transfer solutions, underpinned by analytics

Future human capital insurance solutions could be developed to focus on protecting the value associated with teams, rather than just key individuals, as well as covering risks relating to intangible human capital factors such as employee experience and motivation. Future solutions could also include proactive support services to help prevent risks from materialising.

A future solution could be comprised of three key elements and aim to provide a holistic and innovative approach to protecting human capital:

- 1) The first of which being HR analytics, which will be fundamental to properly identify and understand the human capital risks faced by organisations.
- 2) Based on the outcomes of the HR data analytics conducted, insurers could offer bespoke risk management solutions and services which are designed to help organisations prevent risks to their human capital from materialising.
- 3) Although human capital is difficult to quantify making it challenging to fully transfer the associated risk, there are existing and potential new products which can help minimise the damage if an adverse human capital related event does occur.



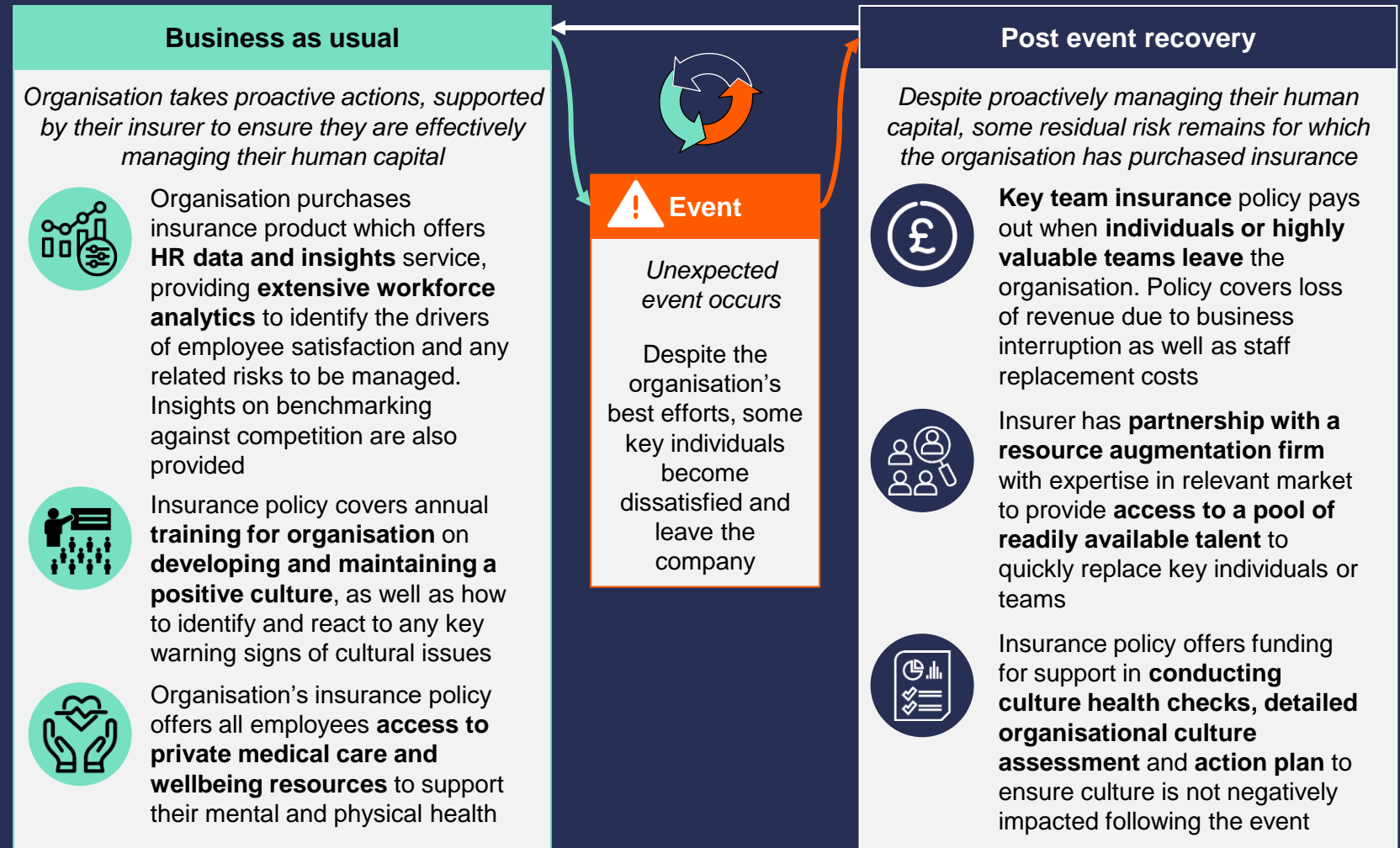
Organisations should look to implement a combination of preventative support and risk transfer solutions to manage their human capital

Organisations can take steps to ensure their business as usual operations allow for effective management of their human capital. For example, by following best practice human capital management and by taking advantage of insurance products which offer workforce data analytics services to provide insights which will enable targeted action to mitigate key risks.

However, even organisations that are extremely proactive in managing and protecting their human capital will face an element of residual risk relating to unexpected events.

In this case, risk transfer solutions will also be required to minimise the implications of the event. Solutions are likely to offer financial pay outs and support for a wide range of risks, such as recovery of lost income and services to help limit damage to culture and reputation and return to business as usual.

Example human capital risk management and transfer scenario



Moving forward – four considerations for risk owners

1

Ensure leadership champions a culture that truly empowers employees in hybrid working conditions

Strong leadership and a positive culture are two of the most fundamental factors driving an organisation's human capital. Leadership will require innovative use of technology to provide a clear sense of direction while also empowering and trusting their employees. This is particularly critical in a remote working setting, as the usual culture amplifier – the office – might not be present. New hires who have not lived the 'old ways of doing things' will often need to learn them via video calls.

2

Use data to hire and manage your employees

Strong data analytics will be critical to help organisations hire the most skilled, diverse and compatible employees, help manage their performance (including productivity, innovation, influence to internal networks, alignment with organisational culture etc.) and identify early warnings signs showing potential risk factors.

3

Prioritise the needs of employees but also reduce the reliance on any one individual

Human capital is all about people. Taking care of employees within the work environment and supporting their wellbeing more generally, as well as motivating them through development and career opportunities is crucial to enhance the value of human capital. At the same time, reliance on any one individual can lead to an adverse impact on an organisation's competitive position. It is, therefore, critical that the right processes are put in place to share and codify any business-critical individual knowledge.

4

Horizon scan and be prepared to continuously adapt to change

Human capital will continually evolve as trends in the working world adapt and as societal norms change over time. It is therefore vital that organisations look to the future and ensure they consider not only how they can protect and enhance their human capital now, but how this might look in the future too. Organisations should be flexible and prepared to adapt to the future needs of their employees, as well as continually upskilling employees to ensure they are equipped to deliver in this fast paced world.

2 The growing importance of human capital



What is human capital?

Human capital can be described as the collective attributes possessed by employees, which drive value in organisations

People drive value in organisations. Employees ultimately produce the goods, services or ideas that create value for businesses.

There is growing awareness and recognition that people are the key source of sustainable competitive advantage, as technology itself can be replicated and cannot create advantage on its own.

Employers accordingly are investing significantly in their people. This investment spans a number of efforts to try and keep employees happy, healthy, and engaged – in order to maximise business performance. This explicit investment is also leading to expectations of returns on investment, which is difficult to measure, as businesses attempt to maximise the value of their human capital.

There is a distinction between human resource management – which encompasses the systems, processes and policies required to hire, train, and enable employees – and the growing field of human capital management – which aims to optimise the value of an organisation's workforce.

“Our people are
our greatest asset”

The shift from a traditional production economy to a modern knowledge economy highlights the role of people

Physical assets and resources can often be traded on the open market, whilst it is the intangible abilities and skills of an organisation's workforce which drives value for businesses in a knowledge based economy, which is particularly relevant for service industries.

Investing in people should improve productivity and profitability

Organisations recognise that investing in their workforce through upskilling, engagement, proactive culture management, and increasingly workplace (physical or remote) will attract and retain the best talent, thereby improving overall productivity and ultimately profitability.

The management of human capital goes beyond the HR function, and starts with the CEO

Whilst HR functions have an important role to play in managing the employee lifecycle, the management of employees is the responsibility of senior leaders within a business – who effectively set the organisational tone.

The pandemic has shifted the relationship between employees and their employers

In many instances, the change to working from home has accelerated a number of trends almost overnight

The vast majority of organisations have made significant changes to working arrangements almost overnight as countries went in to lockdown and employees could no longer access physical offices. For those organisations that have moved to remote working, a 'work from anywhere' model is now starting to be embedded in their organisational operations, and in some cases is preferred by employees to office based working. It is increasingly likely that these new norms are here to stay even after the pandemic.

This change is viewed as largely positive, as it has demonstrated confidence in effective delegation styles of management and trust as well as highlighting the importance of mental health and the overall physical and mental wellbeing of employees. There are however some concerns around the loss of social capital from the absence of incidental "tea break encounters" which often spur ideas and help build closer teamwork.

Longer term, this follows a larger trend towards greater employee empowerment, and understanding the optimal mix of how the workforce should be managed and where they need to be located. With increasing automation, the roles of people will fundamentally change, which will influence the nature of the work itself.

Key themes in the post pandemic relationship between employers and employees

*"If you want to run a workshop, collaborate or socialise, come in.
If you want to work from a desk, stay home!"*



Trust and empowerment

The switch to hybrid working, where relevant, has meant some employers have been forced to accept their workforce is capable of effectively working without close physical supervision. Although some organisations may wish to return to offices after the pandemic, continued hybrid working may be viewed as positive by employees due to increased flexibility.

Some employees still feel managers do not trust their ability to work at home, **34%** felt that their **supervisors "expressed a lack of confidence in their work skills"**



Focus on physical and mental wellbeing

There is an recognition that in many cases prolonged isolation or caring commitments have impacted upon wellbeing. Although these specific lockdown related challenges may not be as relevant following the pandemic, understanding the difficulties faced by many whilst working from home has placed a spotlight on the management of employee mental health.

A survey conducted by mental health charity Mind reported that **60% of adults** said their **mental health got worse during lockdown**



The role of physical workplaces

Many organisations are committed to adapting the role of physical offices now that extended home-working productivity is proven. This includes the use of physical locations as places of collaboration to concentrate on high-value activity.

UK employers expect the proportion of people **working from home regularly to increase to 37% from 18%** before the pandemic



Difficulty replacing social interaction

The loss of incidental social interaction has however meant the spontaneous connection of people and their ideas has been hindered, which may limit higher order output such as innovation. Consensus on this theme remains split, with some organisations proving to be effective in maintaining innovation in remote working.

The majority of employees, **65%**, said that **socialising is what they miss most** when working remotely

Human capital is one of the most significant assets any business possesses, and increasingly steps need to be taken to protect it

An organisation's human capital is an extremely valuable asset, and if it is not managed well it may have a number of detrimental consequences on the organisation

Human capital is an extremely valuable asset for all organisations as it drives competitive advantage and ultimately underpins the success of the organisation. However, it needs to be carefully managed to ensure its value to the organisation is not diminished.

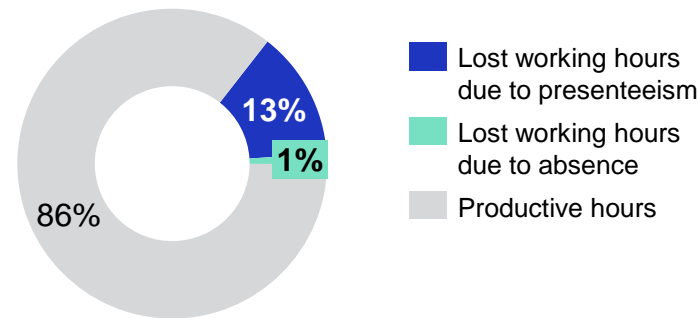
There are a number of clear risks to human capital value, such as loss of productivity and employee turnover, both of which can have a significant negative impact on organisations in terms of hindering business outcomes as well as increasing the cost base. The most effective way to manage these risks is to proactively drive the employee experience through culture, employee value proposition, leadership and working environment.

Covid-19 has exacerbated many negative human capital related trends, with employee wellbeing significantly impacted by nationwide lockdowns and the uncertainty that the pandemic brings. It is therefore more important than ever for organisations to prioritise managing their human capital, so that existing issues and risks are not further compounded by the long-term effects of the pandemic.

Maintaining employee productivity is a key challenge that employers need to address

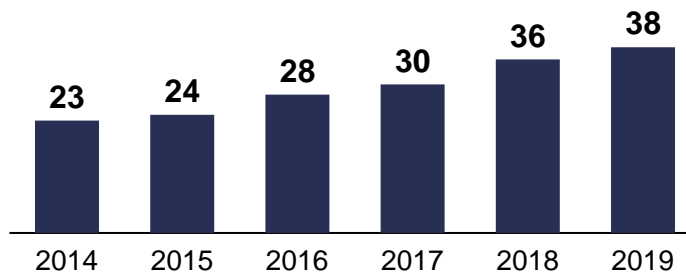
Presenteeism, or attending work whilst facing mental and physical health problems, contributes significantly to lost productivity...

Proportion of average productive annual working hours per employee lost due to presenteeism and absence



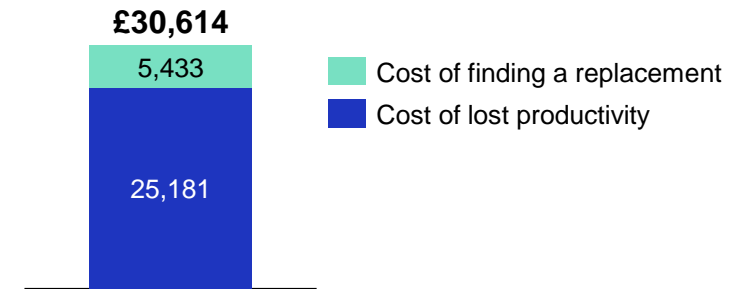
...with the average number of lost productive days per employee per year increasing steadily in recent years

Average lost productive days per employee per year, 2014-2019



Employee turnover presents significant costs for organisations

Average cost of turnover per employee (£)



COVID-19 will have a lasting impact on the ways in which organisations need to support their employees in order to protect their human capital value

According to CIPD's Good Work Index:



43% of employees said their general mental health has worsened since the pandemic, with this figure rising to **52%** for those who had an **existing mental health issue**



44% of employees are anxious about returning to their workplace, with this figure rising to **62%** for those who had an **existing underlying health condition**



31% of respondents felt anxious about their commute to work, rising to **52%** for those working in **London**

Maximising the value of human capital

In order to maximise the value of employees, consideration must be paid to individuals as well as the organisations they operate in

From an employer's perspective:

Person (individual)

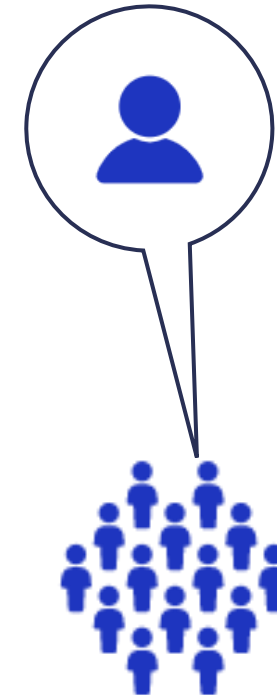
Key considerations include:

- How to maximise productivity / output
- What level of responsibility is appropriate
- How to provide motivation / incentive
- How should they be supervised

Organisation-level

Key considerations include:

- How to create ideal team environment
- What is the right structure / team make-up
- What is the right mix of personalities



Employers looking to maximise the value of their human capital need to consider human capital both from an individual and team perspective.

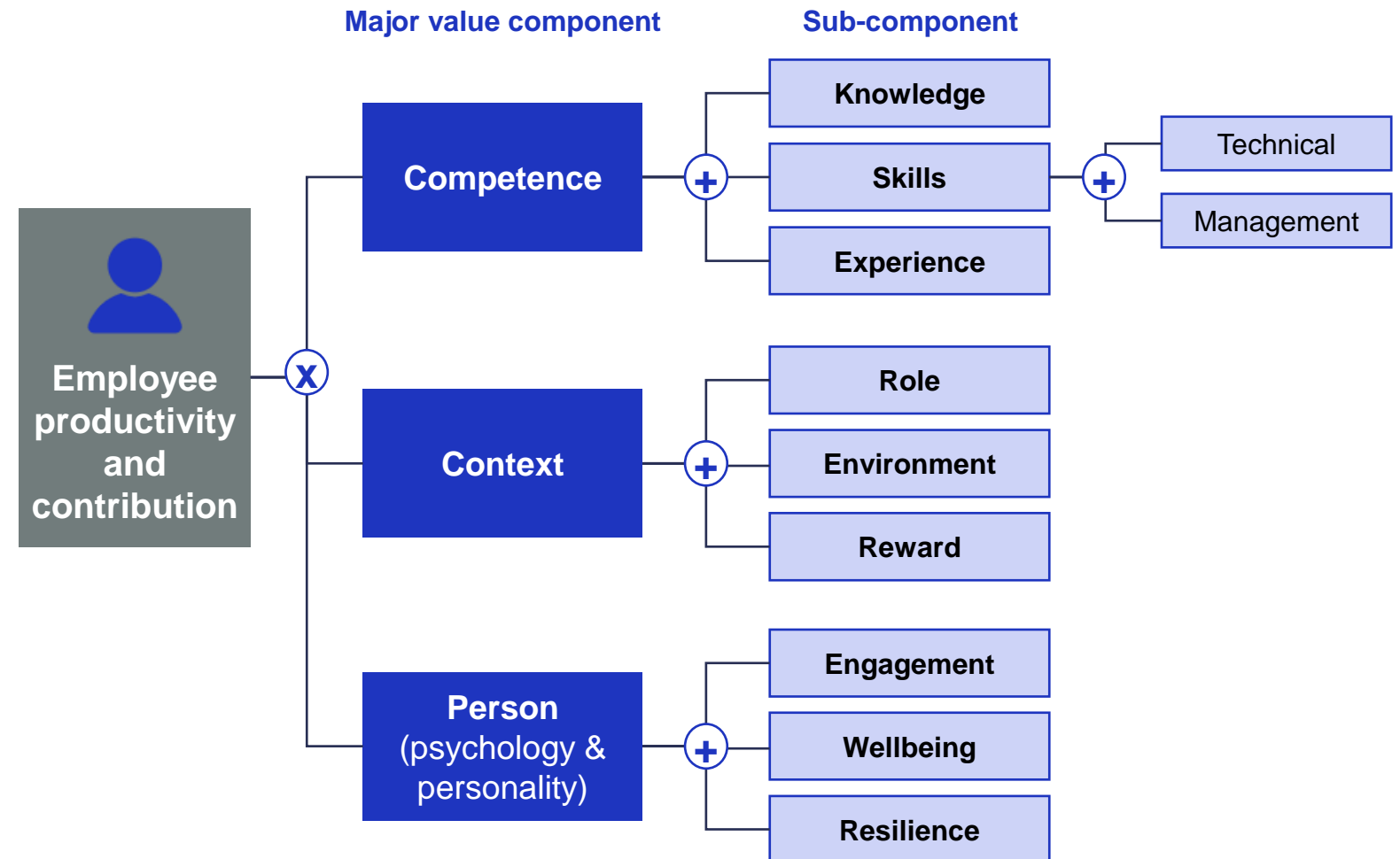
From a purely economic point of view, employers wish to maximise an individual's productivity and contribution. Rather than just hiring additional people, individual capabilities can be more effectively scaled to increase output.

As work itself has evolved to increase in specialism and specialist roles, co-operation between individuals is important in achieving desired business objectives. Creating teams to apply individual human capital is equally as important to organisations.

Understanding the value of an individual employee

The value associated with an individual employee is multi-dimensional and can be considered as being comprised of three key factors: Competence, Context, and Person

Illustrative framework for defining individual human capital value:



The value of an Individual employee is traditionally thought of as the combination of the specific **competence** they bring to the role. This is usually defined as their knowledge, skills and experience attained over their working career. Organisations will recruit based on competence profiles as they try to acquire capabilities which are needed for specific jobs.

This baseline level of **competence** can then be positively enhanced, or conversely, negatively destroyed depending on the individual's working **context** and **person**.

Increasingly, the working **context** – which spans the environment, resources and reward, is more relevant particularly in work from home situations. For example having a comfortable workstation with the right tools to complete your job will enable better productivity.

The **person**, which is the individual motivation, engagement, and resilience will also impact how productive an employee ultimately is. If a person lacks the overall morale to complete their tasks, their actual competence is of little relevance.

Understanding the value of human capital at the organisation level

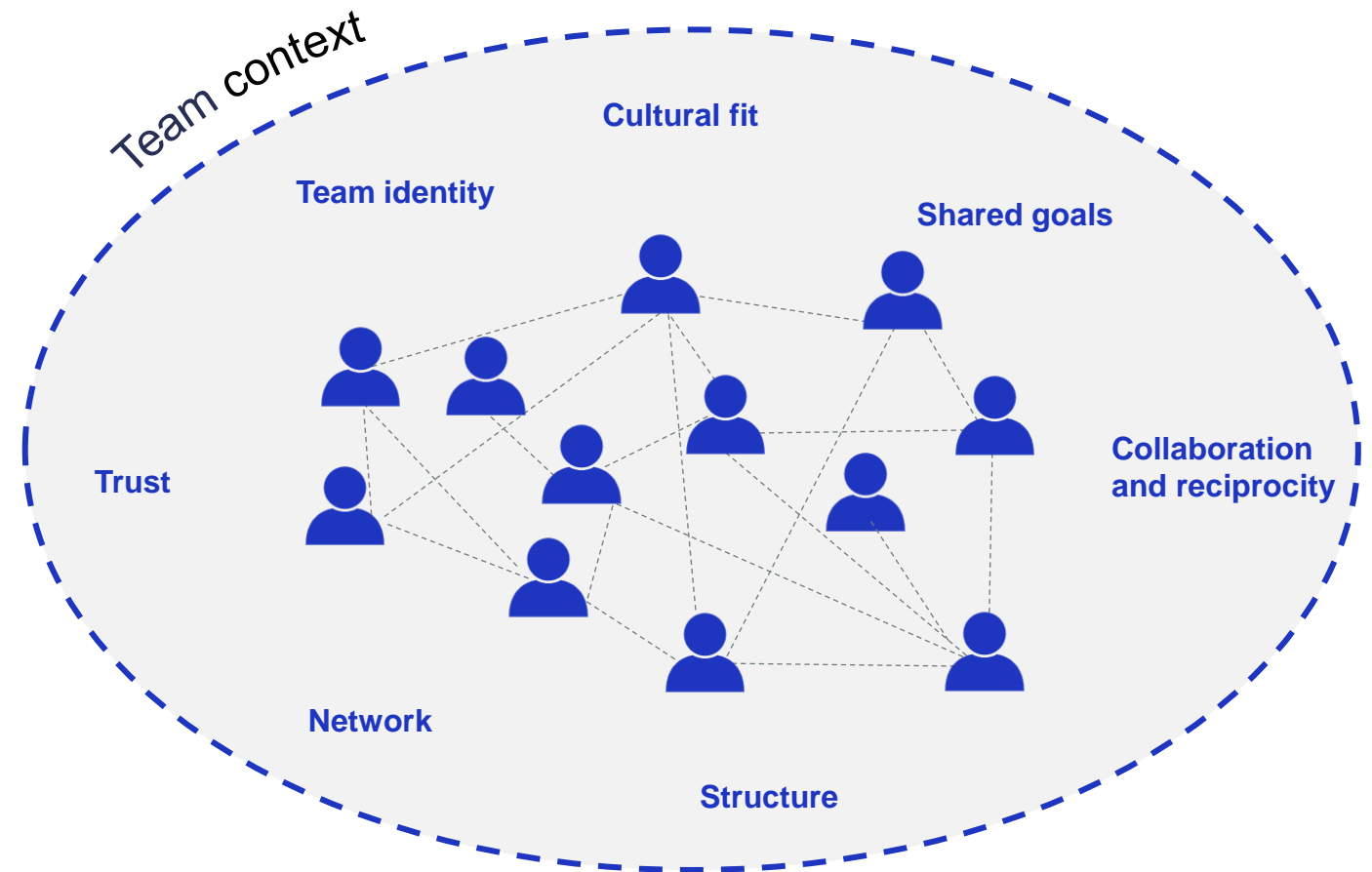
Teams are important as they collectively build the organisation-specific human capital, which is difficult to replicate elsewhere

Individuals rarely perform their roles completely on their own without support or interaction with others in an organisation. It is therefore important to recognise the team context in which people operate. Teams are not necessarily limited to a person's direct team within an organisational chart, but can be considered as the combination of people they interact with in order to achieve their goals.

The most motivated employee will be ineffective if not properly utilised or supported within a team context.

There are a range of contextual factors which drive team human capital value. Major themes which are well documented in high performing teams include the notion of trust among members, as well as a willingness to actively collaborate.

Employers also play a role by how they structure the organisation, and the way they set up processes around how teams interact with each other.



"High performing teams are centred on trust and have shared purpose, commitment, energy, and respect for each others' strengths"

3 Determining the value of human capital



Approaches to measuring the value of human capital

In practice, human capital value is often not measured by organisations, and therefore approaches to measurement remain largely theoretical

The typical approaches to measuring value:



Cost

- The fully loaded cost – which includes the salary as well as expenditure on healthcare, safety, mobility, and education
- Can include historical investment in training and development, particularly for highly specialised roles



Market value (replacement)

- Determine the market value of an individual based on their replacement cost for like-for-like competence
- As noted in the previous chapter, individual performance includes a range of drivers which are employer specific, and therefore not as easily comparable to outside the business



Value-added

- Determine the individual contribution to an organisation, using a metric or indicator (e.g. productivity, sales per employee, profit per employee)
- Difficulty in quantifying value at an individual level, as outcomes are usually team-based or heavily influenced by market context

The value of human capital for an organisation is ultimately its overall performance and financial results. Measuring the specific value of human capital is tricky, as linking results to people gets more complex the more granular it is (i.e. it may be easier to value an entire division or team, than specific individuals).

The difficulties in taking a value-based approach means that often a simple cost or market value measure is more straight-forward to understand. However applying a cost-based approach encounters the same issue with regard to other “assets” in that it does not recognise the true value of what it contributes to an organisation.

Other relevant measures

There are numerous studies which demonstrate a link between employee engagement scores and higher productivity, and these indicators can be useful in measuring human capital

There are a range of other measures which can provide an indication of the ebb and flow of human capital value. As discussed in the last chapter, there are many circumstantial factors which can increase or decrease the value of an organisation's human capital. Some of these factors, such as employee engagement, can quickly change from positive to negative, and vice versa.

There are a number of existing useful checks available to employers in the form of various surveys. These are utilised in a range different ways but often not recognised in the context of human capital and its relationship with organisational value.

Employee advocacy provides a quick measure in which companies can determine workforce loyalty, and hence the drive to provide positive outcomes for its customers.

Organisational culture assessments provide a level of detail in illustrating how far apart the intended and actual company culture might be. This can be useful as culture is a key driver of both individual and team value.

Employee Net Promoter Score (eNPS)

- Used to measure employee engagement and loyalty, using a similar customer NPS advocacy methodology
- Based on a 0-10 point survey score – for example *“How likely would you recommend this company as a place to work?”*



- The noted benefits of this approach include its simplicity and ease of calculation, and the natural link between loyal employees and how they are willing to go above and beyond for their customers
- Suggested limitations around the use of eNPS relate to its narrow scope, as the wording of the question best relates to recruitment rather than internally improving existing human capital

Culture score / surveys

- Understand what employees think about the their workplace culture – across the organisational values, norms and behaviours
- Also indicates what employees want the company culture to become
- Understanding culture often highlights the trade-offs a company makes in determining its values (e.g. prioritising customer focus over internal professional courtesy)
- A number of different methodologies are well established and can provide a consistent and frequent measure of organisational culture

HR metrics and new analytical tools

There are a range of other metrics available (200+), and these are more commonly being automated using the latest available HR tools

Common HR metrics available to employers:

Turnover / employee churn

- Traditionally useful measure of value, as the value of an employee usually improves with tenure, as they grow more familiar with their role and organisation
- However some new employment models recognise an ideal churn rate to maximise the initial positive productivity of new employees

Absenteeism

- Changes to baseline absenteeism is often a good lead indicator to wider organisational issues, both positive and negative
- Stress and lack of motivation are common causes of absenteeism and these impact the value of a company's human capital

Training effectiveness

- Learning and development costs are easy to track, however measuring the effectiveness of training is more complex
- More reliable measurement requires clear KPIs to determine pre and post training outcomes

Applying new analytical tools and leveraging available big data in organisations (illustrative example):

Measuring culture using internal comms

- Use of natural language processing and analytics in email or instant messages to gauge culture and employee sentiment
- Ethical concerns around confidentiality could be addressed by only monitoring internal comms at an organisational level, and not targeting specific individuals or groups

People analytics are increasingly being used to measure the performance, well-being, and productivity of a workforce. The lack of insight in to how specific initiatives impact upon organisational performance has driven investment in this area. Companies would like to understand what the ultimate return on their investment is.

Traditional HR metrics can prove useful in gauging the direction of human capital value, such as how turnover or absenteeism has varied over time. Similarly, there is greater focus around measuring how effective learning and development programs are due to the investment cost associated with training.

The amount of data collected by organisations is ever expanding, and this includes data generated by employees. Analytical methods can be applied to this data to provide insight which cannot be masked through traditional surveys. Ethical issues exist around the use of these techniques and therefore they should be used at the organisation-wide level for general insight rather than to target specific individuals or teams.

4 How to manage the value of human capital



Market quote:
“Employee experience: why I work for you is much wider than my interaction with HR tools.”

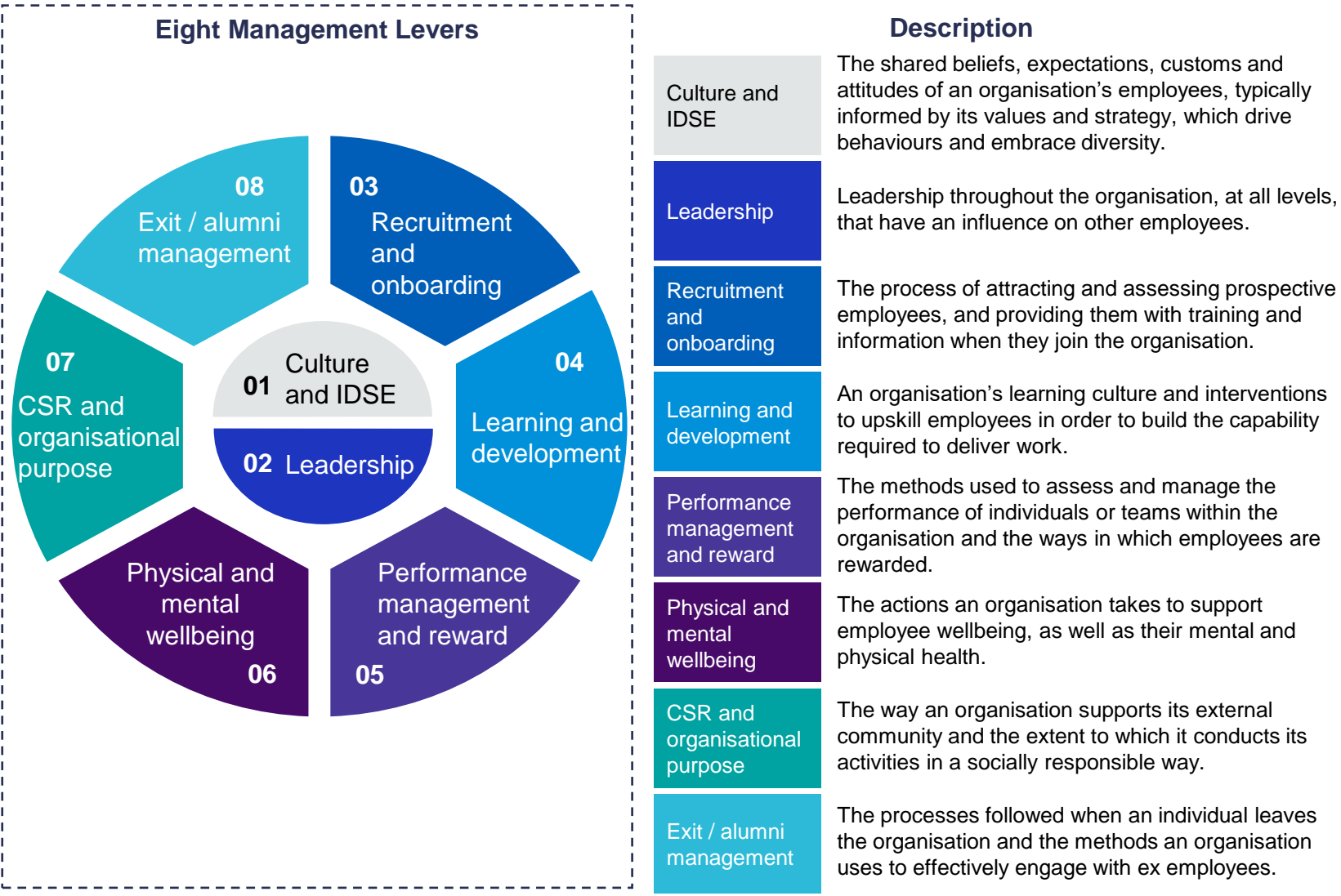
Human capital has clear tangible value to organisations and carefully managing it can help to ensure that organisations do not inadvertently diminish its value.

Steps can also be taken by organisations to enhance the value of their human capital, including investing in the right people, supporting their development and ensuring that the environment in which they work is conducive to maximum effectiveness.

Organisations can view the key stages at which human capital should be managed as a series of eight interconnected levers, each with specific potential risks to be mitigated and best practice actions that can be taken to manage human capital.

Eight key management levers of an organisation contribute to its human capital value

There are 8 key components which contribute to organisational human capital value; these components can be represented as a series of interlinked levers which management can use to protect and enhance their organisation’s human capital value



Organisations should consider the best practice actions that can be taken to protect their human capital

Management should use the 8 interconnected levers to help consider specific actions that can be taken in order safeguard and even enhance the value of their human capital

Each of the eight management levers represents a stage at which human capital should be actively managed by an organisation in order to protect or enhance its value.

There are specific risks that an organisation should be aware of at each of these eight stages, along with recommended best practice considerations for ensuring human capital is protected.

Some of these best practice actions may seem like obvious steps that all organisations should be aiming to take, however, it is important that management teams are not complacent about protecting their human capital. They should take decisive and deliberate action to ensure that their direction and approach manifests as intended and protects the value of their human capital in practice.

Management lever	Why is it important?	What is best practice management?
Culture and IDSE	46% of job seekers feel that company culture is very important when choosing where to apply	<ul style="list-style-type: none"> Ensure employees feel valued Align behaviour drivers to culture Review culture regularly
Leadership	63% increase in job satisfaction amongst employees who felt their leaders treated them with respect	<ul style="list-style-type: none"> Communicate clearly and openly Support leaders to be authentic and accessible Trust and empower your team
Recruitment and onboarding	82% improvement in new hire retention observed by organisations with a strong onboarding process	<ul style="list-style-type: none"> Align processes with firm-wide goals Assess talent effectively Ensure thorough local onboarding
Learning and development	70% of employees report that they have not mastered the skills required to perform their jobs	<ul style="list-style-type: none"> Codify training programmes Develop a learning culture Align upskilling to future capability requirements
Performance management and reward	69% of employees say they would work harder if they felt their efforts were better recognised by their employers	<ul style="list-style-type: none"> Ensure processes are transparent Ensure processes drive the right behaviours Continuous review through meaningful conversations
Physical and mental wellbeing	17.9 million working days were lost due to work-related stress, depression or anxiety in 2019/20 in the UK	<ul style="list-style-type: none"> Identify key health needs Establish formal policies Support from the top down
CSR and organisational purpose	64% of millennials said they would not take a job if a company does not have strong corporate social responsibility values	<ul style="list-style-type: none"> Set authentic organisational purpose Encourage two way conversations Empower employees to support
Exit / alumni management	40% of the Fortune 500 companies that conduct exit interviews consider the practice as successful	<ul style="list-style-type: none"> Use feedback to improve End things on a positive note Establish an alumni network

Sources: (1) Jobvite '2018 Job Seeker Nation Study'; (2) 'the human era @ work – Findings from The Energy Project and Harvard Business Review', 2014, 8 March 2018; (3) Brandon Hall Group 'The True Cost of a Bad Hire', August 2015; (4) Harvard Business Review 'Where companies go wrong with learning and development', 2 October 2019; (5) OfficeVibe 'Statistics on the importance on employee feedback', 7 October 2014; (6) Health & Safety Executive 'Work-related stress, anxiety or depression statistics in Great Britain, 2020'; (7) 2016 Cone Communications Millennial Employee Engagement Study; (8) HRAcuity 'The importance of exit interview [10 reasons to conduct them]', 16 March 2020

Market quote:

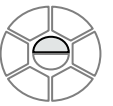
"Culture and values drive how people behave. If there isn't a clear definition of culture, then there are no rules about behaviour"

Organisational culture is comprised of the shared characteristics among people working within an organisation. It influences the ways in which individuals behave, react and perform their roles and underpins the functioning of the entire organisation.

Organisational culture therefore has a significant impact on employee experiences and perceptions and by its nature has a considerable bearing on an organisation's human capital value.

A good culture can help motivate and empower employees which can in turn improve their performance. This will also help to build trust and loyalty within the organisation.

Conversely a poor culture can have a detrimental impact on employee performance and satisfaction and can ultimately drive individuals to leave an organisation, directly impacting its human capital value.



01

Managing Culture and IDSE

Organisational culture has a direct impact on the mindsets and sentiments of employees, which can have a lasting impact on the value of a company's human capital

What could go wrong?

A poor culture can cause morale issues which spread quickly and lead to reduced productivity and discontentment.

Example:

In 2012 a well known American retailer had consistently been ranked as one of the worst companies to work for in the US. Employees filed lawsuits claiming they were regularly forced to remain in the stores through their breaks and after shifts without overtime pay so that managers could search their bags for stolen products.

Best practice human capital management



Ensure employees feel valued

Organisations should aim to create an inclusive culture and working environment in which all employees feel valued, listened to and engaged. In this environment employees will be more likely to take on personal ownership for the culture and begin to embody the company's values.



Align behaviour drivers to culture

Integrating the organisation's culture into formalised working practices, such as performance reviews and hiring and promotion, will help drive desired behaviours and ensure that the culture is embedded. It will also help incentivise employees to align their own personal development goals with those of the organisation as a whole.



Review culture regularly

Reviewing and assessing the culture at regular intervals will help to identify what is working well and highlight any additional initiatives that may be required to keep the culture on track.

Best practice case study

American online shoe and clothing retailer

Company approach:

- The company holds a cultural fit interview for all prospective employees, the outcome of which carries half the weight of the decision to offer the candidate a position
- Once employed, ten core values are instilled into each employee and a portion of the company's budget is dedicated to team building and promoting culture

Impact:

- Considering cultural fit when making hiring decisions means that new employees should integrate easily and are more likely to be content working in the organisation
- Highlighting the core cultural values to each employee clearly establishes the company's culture and can help align employees to a common goal

Market quote:

"Leadership – the single most influential tool in the organisational toolbox"

Leadership are responsible for setting a company's vision and values as well as ensuring the organisation can achieve its goals. Human capital considerations should be front of mind for leadership, as ensuring employees are effective, satisfied and aligned with the organisation's goals are key to successfully being able to deliver any strategy.

Individuals in leadership positions play an important role representing the organisation both internally and externally. An effective leader will be trusted and supported by their employees, and their leadership style should positively contribute to employee motivation.

Poor leadership could potentially damage the company and its human capital in a number of different ways. For example, certain leadership styles, such as autocratic or transactional styles, may have a detrimental impact on employee experience and motivation if too much pressure is exerted on employees or results are prioritised over wellbeing. Additionally, specific issues or controversies relating to individual leadership figures in the public eye could have a damaging effect on recruitment and employee retention.



02

Managing Leadership

Individuals and teams at all levels in leadership positions are responsible for setting the tone of the organisation both culturally and in terms of the strategic direction. Strong, well respected leaders can be a key pull factor in attracting and retaining the best talent

What could go wrong?

Out of touch leadership who do not communicate clearly can alienate employees, leading to a lack of trust.

Example:

In 2016 employee reviews of a large US department store chain showed an average CEO approval rating of only 19%. Employees complained about low wages and likely lacked trust in leadership as the company had posted net losses of over \$1bn every year since the CEO took over in 2013.

Best practice human capital management



Communicate clearly and openly

Clear communication of the organisation's vision and goals is vital to ensure all employees are aligned and working towards common outcomes. Strategic plans should be communicated clearly and understood at all levels of the organisation.



Support leaders to be authentic and accessible

Leaders who are approachable, authentic and proactively engage with employees of all levels are more likely to engender trust. Leadership should ensure they are aware of general employee sentiment by seeking out and taking on board feedback.



Trust and empower your team

Good leaders should ideally be able to empower and inspire their teams. The ability to do so will help ensure that employees feel motivated to perform and understand that their contributions are noticed and valued.

Best practice case study

Multinational chain of warehouse clubs

Company approach:

- The CEO and management team are perceived to be excellent leaders who put their employees first
- Management firmly believes in paying a fair wage, and the company is known for paying frontline workers well above the minimum wage
- The CEO has been quoted as saying "If you treat employees with respect, good things are going to happen to you". One of his key goals is to ensure his employees are happy, which means listening to them and valuing their opinions

Impact:

- Employees feel valued and have been quoted as saying 'management always lets you know your importance'
- The company is regularly ranked highly for employee satisfaction

Market quote:

"Buying in the right diverse mix of talent can exert a huge positive influence on the existing organisation"

Recruitment is generally the stage at which a prospective employee would first interact with a company. Therefore it is crucial that the recruitment process is as effective as possible, in order to attract and select the best candidate for the role, and leave a positive impression on future employees.

Recruitment is the main channel through which new talent can be acquired, directly enhancing an organisation's human capital. Recruitment processes need to be closely aligned to a business's strategy and values as well as ensuring that they are effective in attracting a diverse range of talent. Processes also need to be able to adapt based on internal and external feedback.

Onboarding is also a key process as it presents an opportunity to ensure new employees settle in to the company feeling welcomed and motivated. Effective onboarding should ensure that new employees receive the correct training and support to begin undertaking their new role effectively.



03

Managing Recruitment and Onboarding

Recruitment and onboarding are crucial opportunities for an organisation to increase its human capital value by identifying, hiring and embedding new and diverse talent into the business

What could go wrong?

Organisations may struggle to attract the right talent and ineffective onboarding can mean new employees are not adequately prepared for their role.

Example:

Following a well publicised scandal in 2018 a global social media company struggled to attract talent. Offer acceptance rates for full-time positions fell from 85% to between 35-55% with candidates asking tougher questions about the company's approach.

Best practice human capital management



Align processes with firm-wide goals

Ensuring that role profiles and competence requirements accurately reflect required skills and that recruitment processes reflect the organisation's diversity goals is vital in identifying the most suitable candidate. Cultural fit should also be considered.



Assess talent effectively

When reviewing applicants, ensuring that the assessment techniques used are effective in measuring and quantifying their performance against role requirements is key. This could be by undertaking psychometric tests and comparing results to an ideal score for the role or more qualitatively by comparing interview responses to fit with company values.



Ensure thorough local onboarding

A thorough, formalised local onboarding process should be followed for new employees to ensure they receive all of the relevant information to perform the role effectively and to ensure consistency across the business.

Best practice case study

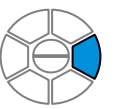
American video games developer

Company approach:

- The company will pay unhappy employees 10% of their annual salary, up to \$25,000, to quit their jobs regardless of how long they have worked at the company
- The aim is to avoid retaining staff who are a poor cultural fit
- The company stated in a blog post "Rather than allow mismatches to fester, we want to resolve them quickly. This is good for the company, and good for the professional."

Impact:

- Incentivising those who are unhappy and not aligned with the company's values to leave means the company can preserve its desired culture
- The scheme also enables those who do not fit with the company to move on in a positive and constructive way

**Market quote:**

"Lifelong learning is increasingly important. With fast changing client demands and digitisation, we will all have many different roles in our careers."

Effective learning and development can have a number of clear benefits for employees individually and organisations as a whole. It is a key mechanism through which employers can ensure that their business remains agile to change and up to date with any market developments.

Formalised learning programmes provide opportunities for individuals to acquire new knowledge and skills, enabling them to improve their technical efficiency and effectiveness and achieve personal goals. Offering employees opportunities for personal development of technical and soft skills can help them to feel fulfilled and motivated in their role.

The best learning programmes will be regularly reviewed and updated with new content and bespoke materials created to address specifically identified skills gaps within the organisation. Organisations should also ensure they offer sufficient opportunities for personal development of soft skills both as part of on the job learning and through more formal training. Management should prioritise learning and development when looking to safeguard their human capital as they will need to ensure the organisation has the right level and range of skills to operate as effectively as possible.

04

Managing Learning and Development

Learning and development should be ongoing considerations for all businesses as it is core to sustaining and developing new skills within the organisation and enhancing human capital value

What could go wrong?

Lack of support for learning will negatively impact employee experience and performance, and presents a risk if those with key knowledge leave.

Example:

A budget airline faced backlash in 2013 over training costs faced by employees. Staff were required to undertake a six-week training course prior to employment, with the cost deducted from their salary and those who do not pass probation pursued for remaining costs.

Best practice human capital management



Codify training programmes

Creating a codified set of training materials will help to ensure that knowledge can be retained and shared easily. Setting out learning pathways tailored to individual roles and addressing identified skills gaps will also help to ensure employees keep their knowledge up to date and address areas of potential weakness.



Develop a learning culture

Employees should view training and development as core to their role, and actively encouraged by leadership. There should be an equal focus on development of soft skills, such as management and problem solving, as on technical skills.



Align upskilling to future capability requirements

Regularly reviewing the learning strategy in terms of content and approach can help ensure that employee development keeps pace with changing organisational requirements, enabling organisations to future proof their internal capabilities.

Best practice case study

American online advertising and reviews company

Company approach:

- The company invests heavily in learning and development, placing emphasis on personal growth and encouraging employees to undertake stretch roles
- The importance of learning is supported from the top down with managers keenly aware of opportunities and executives taking part in mentoring employees
- The company provides regular opportunities for learning, such as through hackathons, lunch and learns and coaching, and regular staff surveys are conducted to continue to improve the offering

Impact:

- The company utilises learning and development to keep employees engaged and satisfied, and executives consider it as a key factor in their ability to attract top talent

**Market quote:**

"No-one is ever satisfied with their rating other than a '1': a 2 thinks they should have been a 1, a 3 thinks they're underperforming; a 4 knows they're underperforming; and a 5 is on their way out the door."

Performance management and reward are the main methods available to an organisation to incentivise its employees to develop and perform to the best of their ability.

Employees will want to understand what they need to do to maintain or improve their performance, and are likely to feel disillusioned if they do not have visibility over the way in which they are being assessed. Linking performance with reward level can also help incentivise employees to strive for improvement.

The method of performance management used within an organisation should be carefully considered. There are many different ways to assess and manage performance and the most appropriate will depend on the specific organisation. It is important to avoid performance management being viewed a tick box exercise or becoming too administratively burdensome, as this is unlikely to enable constructive conversations and feedback.

Reward should also be carefully considered to ensure it enables to company to attract and retain the appropriate level of talent and experience.

05

Managing Performance Management and Reward

Performance management and reward present opportunities for organisations to incentivise and motivate their employees and encourage development

What could go wrong?

Reward may not be sufficient to attract and retain talent, and ineffective performance management can prevent progression and encourage poor behaviours.

Example:

In 2012 a multinational technology company removed its 'stack' performance management system which meant regardless of performance each employee was ranked from top to poor. Executives reported that it stifled team work and innovation.

Best practice human capital management



Ensure processes are transparent

Processes for performance management should be open and transparent. Employees will want to understand the criteria and metrics that need to be met for different levels of performance, as well as how they will be assessed and how they can improve.



Ensure processes drive the right behaviours

Organisations are increasingly moving away from rating personal performance, and towards assessing team performance, meaning individuals can focus on their strengths in the context of contribution to the team. Performance management processes should align with the organisation's values and encourage the desired behaviours.



Continuous review through meaningful conversations

Performance review should be an ongoing consideration, not just an annual tick box exercise. Employees should be supported to strive for improvement and given feedback and advice in meaningful conversations.

Best practice case study

Multinational software company

Company approach:

- The company estimated that managers were spending ~80,000 hours per year on prescriptive performance reviews which employees found demoralising
- A new system was introduced that trained managers to check in more regularly with appraisees and provide targeted actionable guidance
- Managers were given flexibility over how to structure reviews and employees were contacted regularly to complete 'pulse surveys' so leadership could ensure the system was effective

Impact:

- The company saw a 30% cut in voluntary employee turnover, but involuntary departures rose by 50% as the system means tough conversations cannot be put off until the next performance review cycle

Market quote:

"I want them to really care about me, not just send me a wellbeing link!"

Mental and physical wellbeing have been brought into sharp focus for employers over the past year due to the ongoing coronavirus pandemic. It is now more than ever vital that employees feel that their employers take their health and wellbeing seriously.

The best organisations should aim to take a preventative approach to supporting wellbeing, by ensuring that employees have access to tools and resources on an ongoing basis and not just when something goes wrong.

There are a number of practical steps that organisations can take to ensure their workforce feel supported and able to perform to the best of their ability. These include adapting policies to help address key employee needs, providing access to resources and information and in some cases providing employees with access to professional external medical and wellbeing services.

Supporting employee health and wellbeing is key to building resilience, morale and motivation, and can also help reduce the risk of disruption to business activities over the long term.



06

Managing Physical and Mental Wellbeing

Increasingly employers are considering how best they can support and manage the mental and physical wellbeing of their employees to ensure they can perform effectively

What could go wrong?

Employees may be unproductive, take more time off or even resign if their wellbeing is under strain.

Example:

During the coronavirus pandemic a UK retailer faced complaints from warehouse employees who felt unsafe due to poorly maintained social distancing practices. A leaked email sent to warehouse staff stated that workers should take unpaid leave or use holiday days if they did not feel comfortable coming in to work.

Best practice human capital management



Identify key health needs

Use existing organisational data and conduct surveys to understand the key health needs within the organisation. This can help focus management efforts on implementing changes that will have the biggest impact for employees.



Establish formal policies

Organisations should build health and wellbeing considerations into formalised policies which address the identified needs. This will help ensure practices are embedded in the culture and taken seriously.



Support from the top down

Support for health and wellbeing should be evident from the highest levels of the organisation. Employees will feel more empowered to make use of support and resources available to them if they feel confident it is encouraged by management.

Best practice case study

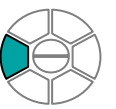
UK based soft drinks company

Company approach:

- The company puts real emphasis on ensuring its employees have adequate support for their general wellbeing and mental health
- They offer a range of policies which indirectly ease pressure on staff including flexible working, free breakfasts and free gym memberships
- They also offer mental health resources to all staff, including a confidential assistance programme as well as running training courses to promote better understanding of mental wellbeing

Impact:

- The company has a strong reputation for being a good employer and having a wide range of flexible policies and benefits to support staff

**Market quote:**

"We have sponsored a number of remote apprenticeships during the lockdown – all in places we don't have offices, but are steeped in poverty. The response has been amazing."

Organisational purpose and corporate social responsibility (CSR) are extremely important topics which organisations should be proactive in addressing. Just meeting minimum levels of CSR is no longer enough. A wide range of stakeholders including the general public, employees, suppliers, clients and customers expect companies to commit to making a positive impact and limiting any potential damage associated with their operations.

One of the most significant ways that CSR can impact human capital value, is the potential detrimental effect a company's lack of social responsibility could have on their ability to attract and retain talent.

Many individuals will consider how socially responsible an organisation is when making decisions about which companies to apply to or which job offers to accept. Having a strong reputation for community engagement can help enhance an organisation's human capital value.

07

Managing CSR and Organisational Purpose

By having a clear purpose and CSR goals a company can build its reputation, helping to attract new talent. Furthermore, providing opportunities for employees to contribute to socially responsible causes can help increase employee satisfaction and support retention

What could go wrong?

Lack of commitment to social responsibility can negatively impact reputation amongst employees and in the wider market.

Example:

In 2020 three employees at a multinational technology company were fired for violating internal policies after they were outspoken in criticising the company's labour practices, particularly relating to safety during the pandemic, as well as its climate stance.

Best practice human capital management



Set authentic organisational purpose

Establishing an organisational purpose and CSR goals which identify a clear commitment to supporting the social causes that really matter to the organisation can help ensure social responsibility is at the core of business operations.



Encourage two way conversations

Strategic partnerships with charities or other organisations committed to supporting the community can be an effective way to achieve maximum impact and they also present an opportunity for both parties to gain valuable expertise and feedback.



Empower employees to support

Employees should feel encouraged to take the time to support social causes which align with the company's purpose. Allowing employees to set aside time to contribute to such initiatives will help ensure the organisation is taking genuine measurable actions to promote and support their causes.

Best practice case study

Toy Production Company

Company approach:

- The company is dedicated to social responsibility and runs a number of initiatives including providing grants to support children to learn through play and donating toys to underprivileged children
- The company has partnerships with a number of charitable organisations and has committed to becoming carbon zero by 2030
- Environmentally friendly materials and production processes are used
- Employees are encouraged to participate in volunteering activities which the company supports and helps to organise

Impact:

- The company is well respected for making public commitments to social causes and has been ranked highly for social responsibility by leading Reputation Indices

Market quote:

"You never know when you'll meet these people again: it's a small world!"

Successfully managing the exit of employees and engaging with alumni following their departure can help organisations indirectly build their brand, and also retain access to a pool of talent for the future.

Getting honest feedback from those leaving the firm can provide useful insights to help inform improvements to the way in which the company operates which will benefit future employees.

A straightforward exit process which is a positive experience for the individual leaving will help ensure the formal relationship ends on good terms, meaning the individual will be more likely to speak positively of the company and be open to staying in touch as an alumnus.

Alumni are increasingly being viewed as a valuable resource, with many organisations actively managing large global networks. Alumni can continue to support organisations in their new roles as clients or business partners, by speaking positively of the company as brand ambassadors or even eventually by returning to the company as rehires.



08

Managing Exit / Alumni Management

Managing the process of employees leaving the firm well offers an opportunity to gather useful insights and feedback on improvement areas. Maintaining good relations with alumni also offers a multitude of benefits

What could go wrong?

A poorly managed exit process can impact culture and productivity as well as meaning useful alumni relationships are lost.

Example:

A global streaming platform is known for quickly firing employees that managers would not fight to retain if they were hypothetically going to leave. Some employees feel this contributes to a culture of fear, described as 'ruthless, demoralizing and transparent to the point of dysfunctional.'

Best practice human capital management



Use feedback to improve

The offboarding process provides a useful opportunity to collect information that can help improve the experiences of future employees. Exit interviews which ask specific targeted questions can offer a rich source of feedback.



End things on a positive note

A positive offboarding experience can help ensure alumni continue to speak positively about the company following their departure. Making the individual feel appreciated for their efforts and commitment to the firm and ensuring that offboarding is as straightforward as possible can help reinforce positive sentiment.



Establish an alumni network

Establish a network and method for proactively staying in touch with previous employees. Offering opportunities for them to actively engage with the company such as through targeted events can often work well.

Best practice case study

Management Consulting Firm

Company approach:

- The company has established an alumni network which can be accessed via LinkedIn and used to stay up to date with firm news, job opportunities, thought leadership and newsletters
- A number of alumni engagement strategies are employed, including hosting over 70 alumni events per year which range from drinks events, to conferences to charity auctions
- Each office location has an alumni partner who is responsible for planning activities and supporting alumni engagement

Impact:

- The company has developed a large and wide ranging alumni base of over 11,000 individuals, enabling it to retain access to a significant potential talent pool and useful connections

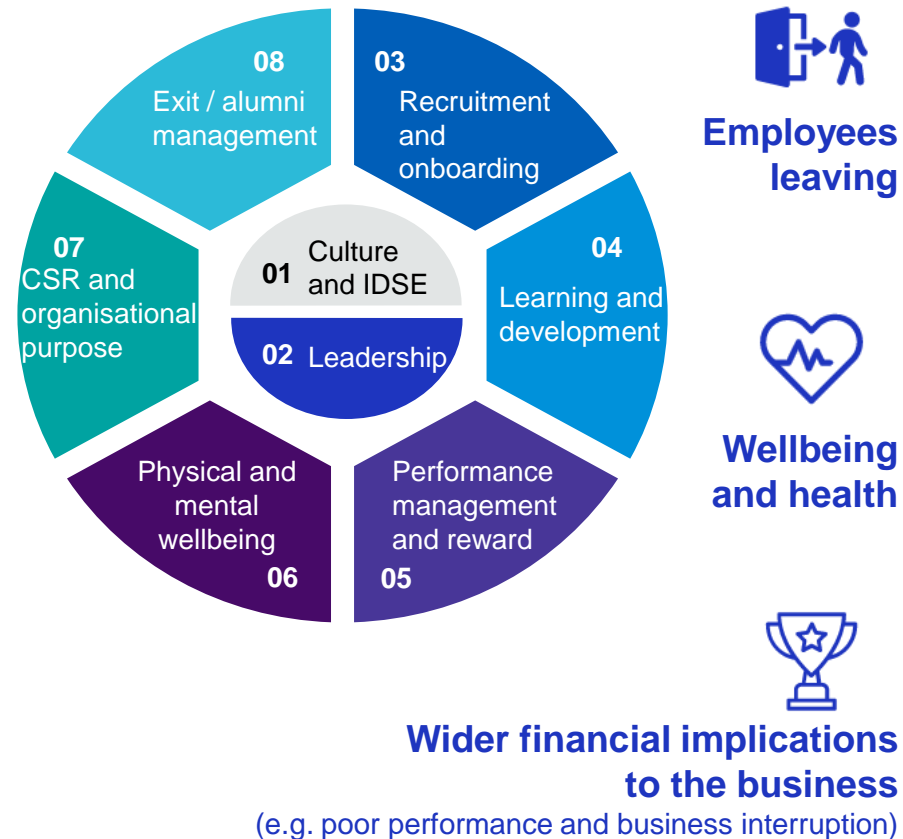
5 How insurance can help if things go wrong



How value might be lost and negatively impact organisational performance

The accrued value and investment in employees should be protected as much as possible, as value can easily be lost in a number of ways

Human Capital can be lost throughout the 8 management levers, and would often lead to three adverse conditions



- Loss of knowledge from turnover, without sharing with others/ formal codification within organisation.
- Includes personal networks and relationships.
- Motivation to remain ingrained in role and highlight “perceived value”.

- Ill health which prevents employees from fulfilling their role, short or long term sickness and absenteeism.
- Drop in morale due to misalignment of values, lack of faith in leadership, insufficient recognition/ reward, or inefficient internal processes.

- Typically a result of the other two conditions, leading to organisational disruption and need for role cover. This also leads to capacity constraints and the associated increased working hours (and negative impact on morale for the remaining staff).
- Increased recruitment costs.

Organisations significantly invest in people and want to maximise their employees’ potential. However it is inevitable that the value of its human capital can be lost under a number of common scenarios. These scenarios should be well recognised by employers, with a number of typical mitigation and risk transfer solutions in place.

Among the greatest concerns around the loss of human capital is employee turnover. This can impact businesses where there no formal codification of a person’s knowledge in to the organisation, so that knowledge leaves with the employee.

Absenteeism from health-related causes or external accidents can be risk managed effectively by understanding the range of underlying environmental factors. Employee morale as a concept is straightforward to understand and easy to measure using surveys. It is however not as easy to manage and respond to, particularly if managers are ignorant to the causes of poor morale.

All these factors can lead to poor business performance and potential interruption.

As noted throughout this report, human capital covers a broad range of factors and risks, and the approach to managing it will depend on the individual organisation in question, as well as its culture and the key risks it faces.

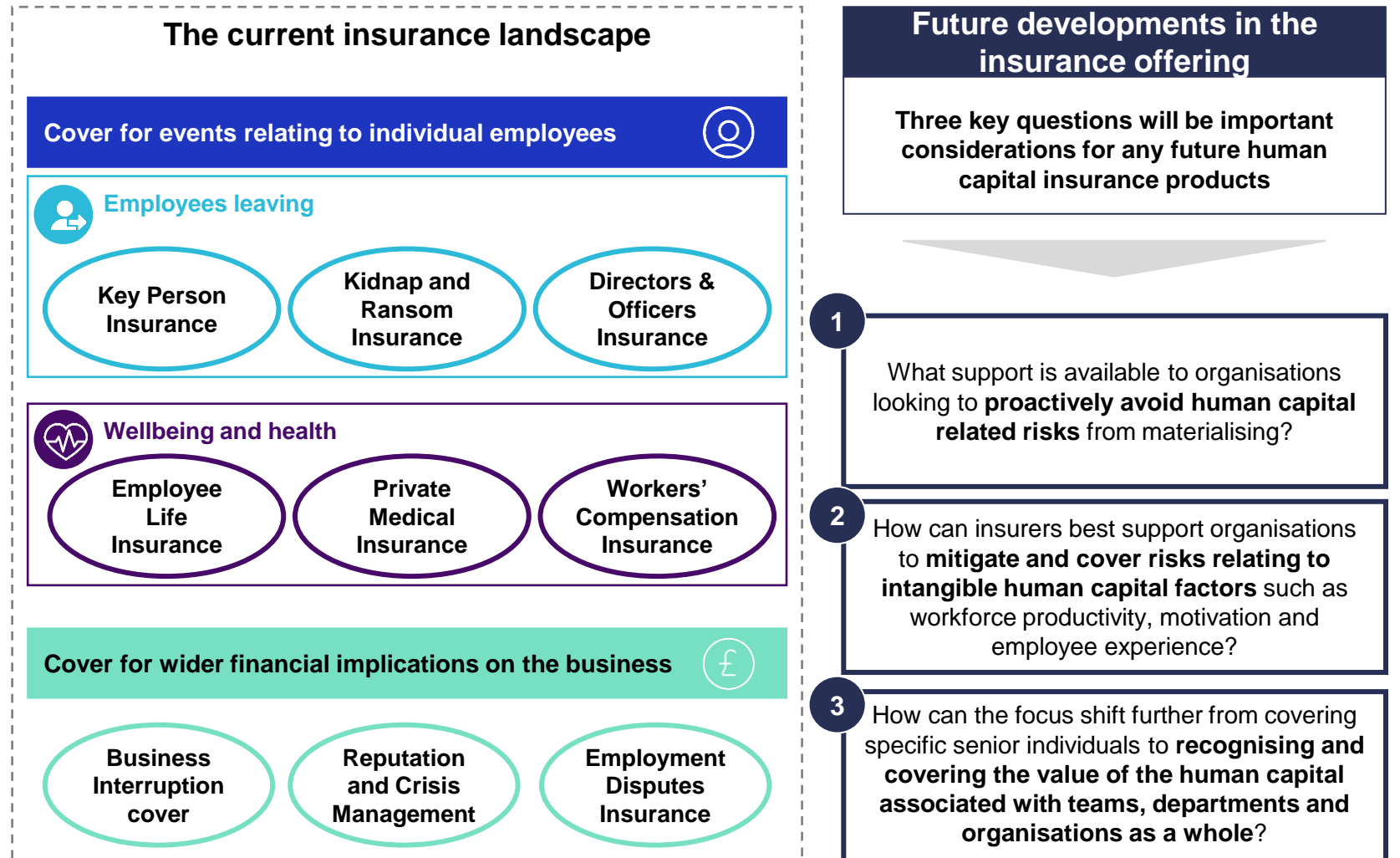
The current insurance landscape largely focusses on protecting organisations and employees from certain events which result in specific roles within the organisation not being fulfilled. Organisations can also purchase cover to protect themselves financially and reputationally from the wider implications of risks relating to their employees.

There are some evident gaps in the current landscape as much of the product offering focusses on human capital risks associated with key individuals, rather than the organisation as a whole, and existing products are largely reactive rather than preventative.

Insurers should consider how these gaps can be addressed by designing and encouraging wider use of more innovative, preventative solutions, which address risks across all of the 8 management levers.

The current insurance landscape has a number of safeguarding solutions

Insurers currently offer a range of products which provide protection for specific risks primarily relating to management levers 6 and 8, employee wellbeing and health and exit management; however, there are some gaps in the current offering and no solution for addressing risks across all eight management levers exists



Insurtech companies are offering innovative solutions which focus on helping organisations to manage employee wellbeing risks

Insurtechs are looking at ways of reshaping the traditional life insurance and employee benefits offering to focus on supporting employers to improve employee wellbeing and prevent risks to wellbeing from occurring

Insurtech companies are at the forefront of innovative solutions to managing employee health and wellbeing. Many of the insurtech solutions available combine traditional indemnity cover for specific events with additional support for employers to help them take a preventative approach to managing employee wellbeing risks.

Additional services offered vary by provider, but tend to have a strong focus on directly supporting employee mental and physical health by providing tips to managing wellbeing as well as access to a network of healthcare professionals.

The use of data and insights generated through these innovative solutions is also key in helping organisations to understand their employee needs and identify key changes in employee wellbeing that may require intervention.

Solutions such as these are likely to play an important role as part of the future human capital insurance landscape.

Case study

London based insurance start-up focussing on transforming life insurance solutions by offering products that 'inspire life and reward living'

Three core insurance products, underwritten by global insurance company

- | | | |
|---|-----------------------------|--|
| 1 | Group life insurance | <ul style="list-style-type: none"> Tax free lump sum pay out to employees' families in the event of their death Flexibility over structure of pay out e.g. salary multiple or fixed lump sum |
|---|-----------------------------|--|

- | | | |
|---|--------------------------------|--|
| 2 | Group income protection | <ul style="list-style-type: none"> Monthly pay outs to the company to provide salary replacement for an employee if they are unable to work due to ill health Flexibility over the level of cover and criteria for different employee groups |
|---|--------------------------------|--|

- | | | |
|---|-------------------------------------|---|
| 3 | Group critical illness cover | <ul style="list-style-type: none"> Tax free lump sum pay out if an employee, their child or partner (if covered) is diagnosed with any of the serious illnesses included in the policy |
|---|-------------------------------------|---|

Additional preventative offering targeted at supporting employee wellbeing



Employee App

- App for employees which rewards and measures simple steps towards a healthier life, aiming to improve employee wellbeing
- Gamified experience to engage and inspire employees to take steps to manage their wellbeing



Employee Rewards

- Employees using the app to demonstrate healthy behaviour are rewarded with access to a range of rewards such as air miles, fitness passes or gift cards



Employee Assistance

- A range of employee support options available in partnership with a leading employee wellbeing solutions firm. Benefits include access to mental health support, financial advisors, legal advice or career coaching



Virtual GP

- Access to 24/7 virtual health care, provided through the insurtech's underwriter, available to eligible employees and immediate family
- Unlimited access to a range of health and wellbeing services



HR Insights

- Employer dashboard to manage employees, track engagement and changes in mental and physical wellbeing
- Reports on behaviour metrics to help flag concerns around anxiety, stress and performance

A future human capital insurance solutions could offer a range of support services and risk transfer options, underpinned by analytics

Three core elements are likely to be fundamental to any future human capital insurance solutions, these being the use of HR and employee data analytics, risk prevention services and post event indemnity and support

A future human capital insurance solution could be comprised of three key elements which would aim to provide a holistic and innovative approach to protecting human capital:

1) The first of which being HR analytics, which will be fundamental to properly identify and understand the human capital risks faced by organisations.

2) Based on the outcomes of the HR data analytics conducted, insurers could offer bespoke risk management solutions and services which are designed to help organisations prevent risks to their human capital from materialising.

3) Although human capital is difficult to quantify making it challenging to fully transfer the associated risk, there are existing and potential new products which can help minimise the damage if an adverse human capital related event does occur.

Human capital insurer of the future



HR analytics

- 1 Understanding value drivers**
Performing analytical techniques on organisational data to determine the key metrics driving human capital value in the organisation (e.g. analysing culture surveys, performing natural language processing or measuring productivity levels).
- 2 Highlighting key risks**
Conducting further analysis to highlight the key risks to the organisation's specific value drivers and forecast the likelihood of such risks occurring.



Risk prevention

- 3 Securing foundations for safeguarding**
Offering guidance and training on the fundamental factors that need to be in place to underpin any further action to protect human capital value e.g. culture, employee wellbeing.
- 4 Recommending specific mitigating actions**
Using outcomes of analytics to advise on and provide support for undertaking targeted mitigating actions to address the organisation's unique risks.



Post event cover

- 5 Crisis response**
Offering indemnity and crisis management services to support the organisation with damage limitation in the immediate aftermath of a human capital event.
- 6 Return to BAU**
Supporting the organisation to reassess its position after an event and take action to return to business as usual operations, ensuring any potential negative impact on human capital is addressed swiftly.

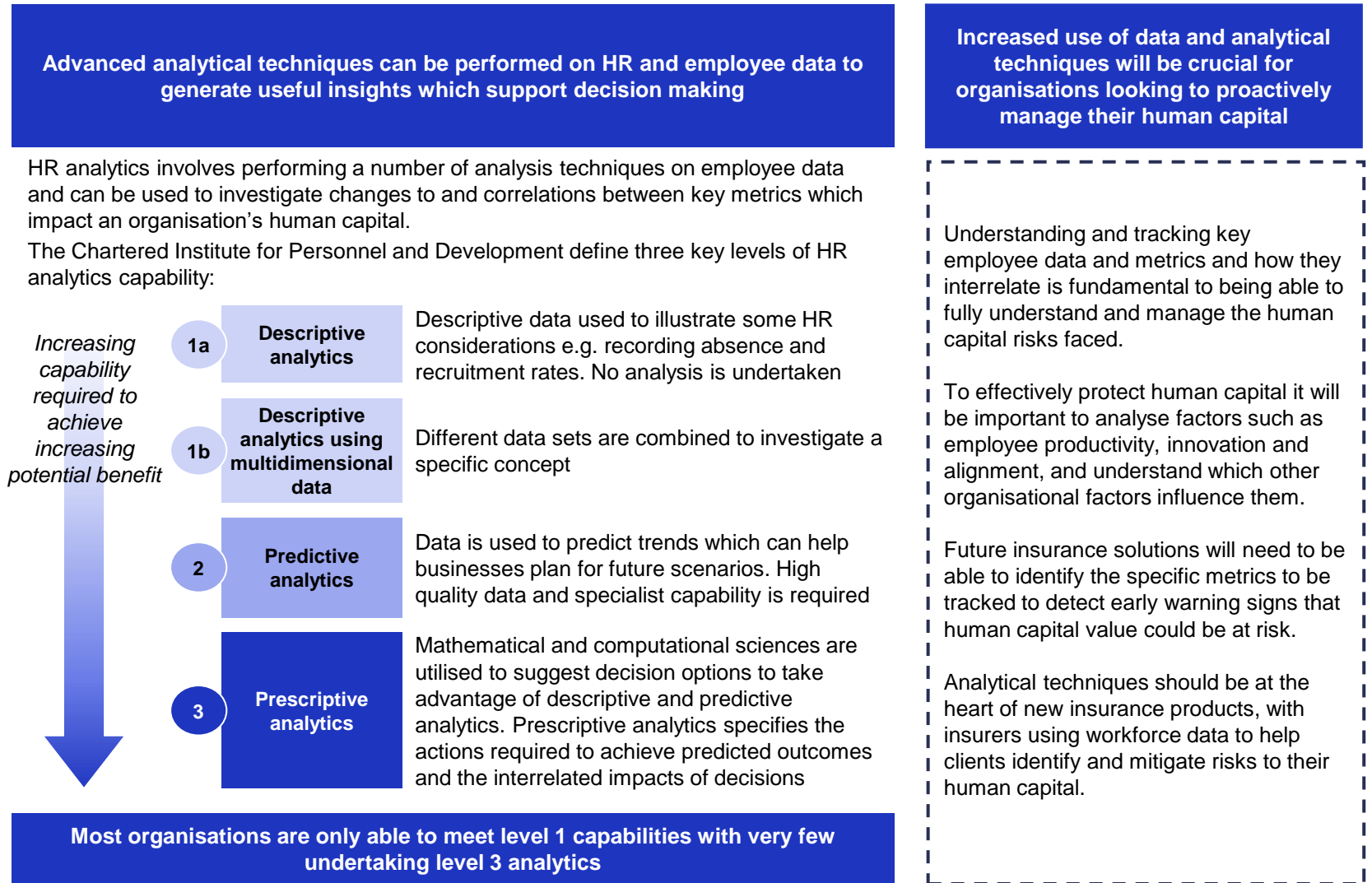
HR data and analytics will need to underpin future insurance solutions, to identify the unique risks faced by different organisations

HR analytics could play an important role in potential new insurance solutions which aim to help companies to effectively understand, track and mitigate key risks to their human capital

Technology will need to play a significant role in future human capital insurance solutions. Tracking and analysing internal workforce data is one of the best ways insurers can gain rich insights into the specific risks facing an organisation's human capital, as well as what the risk triggers are and how the risks interrelate.

Currently most organisations have limited capabilities in gathering and analysing in-depth employee data. Therefore insurers will need to be able provide this capability as part of future insurance solutions.

The most effective future human capital insurance solutions are likely to have a significant focus on workforce data analytics. Insurers can use these insights to better model risks and support organisations in taking a preventative approach to managing their human capital.



Future solutions will need to place significant emphasis on preventative action to safeguard against the identified risks

Insurers can utilise insights from HR analytics to offer organisations targeted and bespoke prevention solutions to address the most significant risks to their human capital

Indicative prevention offering

Prevention



Training and Guidance

Arranging, funding or providing training for organisations to ensure they are following best practice in managing their human capital



Employee Support

Providing individual employees with access to support and advice to enhance their employee experience and protect their health and wellbeing



Consultancy and Advice

Providing independent consultancy services and bespoke advice to organisations on how best to mitigate specific human capital risks

Preventative action can take many forms and the specific actions undertaken by an organisation will depend on the unique set of risks it faces.

There are however a set of fundamental best practice actions that all organisations should take as a foundation for further human capital safeguarding, such as ensuring that a strong positive culture is in place and supporting employee health and wellbeing.

Future insurance products could offer support by providing funding for or organising training to ensure organisations are following best practice human capital management. Insurers should also recommend and support with implementation of any further specific mitigating actions which address the identified risks.

Prevention will be an extremely important part of the future human capital insurance landscape, as this is likely to be the most effective means of supporting organisations to protect their human capital, particularly as providing indemnity cover for intangible human capital triggers is likely to be complex.

Insurers are well positioned to play a role in helping organisations to understand the importance and value of their human capital and provide advice on how best they can protect it. Insurers should consider how they can use their position to offer new services which support organisations to manage their human capital on an ongoing basis.

Future prevention solutions could cover a range of different services and will be most effective if they are tailored to the key risks faced by the organisation, identified through HR analytics.

Indemnity and post event support services will also play a role in protecting human capital value if preventative action fails

Insurers can offer traditional indemnity cover and crisis response services to organisations in the event that any human capital risks do materialise

Indicative post event cover offering

Post event cover



Financial Cover

Providing financial support to address issues following human capital related events, such as reimbursing lost revenue or covering the cost of replacing key staff



Access to Networks

Providing rapid access to broad networks of experts that can offer specific support, such as access to a pool of potential employees to quickly replace those that have left the organisation



Additional Services

Providing additional services on an ad hoc basis to address broader issues arising from human capital risks, such as reputation management and other crisis response support

Insurers can play an important role in supporting organisations following an adverse event by providing a combination of financial support and additional services to help organisations to address any wider damage caused by the event.

The implications of human capital events can be varied and far reaching, and insurers are well positioned to support clients in navigating related risks which may materialise as a result of human capital events, such as reputational damage.

HR analytics will help inform the post event services offered as the metrics and drivers of human capital identified, such as culture scores or productivity levels, could be used as policy triggers.

Despite mitigating action being taken to safeguard human capital, there will always remain a certain level of risk that an adverse event could occur. If and when such events do occur, insurers can play a key role in supporting organisations with damage limitation and recovery.

Traditional indemnity cover could be provided to support organisations financially when certain defined human capital related triggers are met.

Insurers could also play a role in providing a broader suite of services to support organisations in managing the wider implications of a human capital event, such as reputational impacts, and supporting them in returning back to business as usual activity as quickly as possible.

New insurance solutions should help protect human capital value by supporting with risk prevention and post event response whilst being underpinned by data and analytics. The specific triggers and risks that new products cover should help to answer the three key questions which are not fully addressed by the existing insurance offering.

New insurance solutions will need to consider how different metrics and indices can be used to measure aspects of human capital value and how they can be incorporated into policies. Parametric solutions are likely to be key due to the difficulty associated with directly quantifying and measuring human capital related risks and their impact on value.

There may also be opportunities for insurers to offer solutions which address risks relating to the regulatory and reporting requirements associated with human capital. For example, by offering policies which pay out in the event that organisations do not meet mandatory inclusion and diversity reporting requirements, or if organisations fail to properly complete right to work checks.

What might future insurance products to protect human capital value look like?

New insurance solutions should address the three key questions identified as being important for protecting organisational human capital; holistic solutions will involve offering a suite of new services, underpinned by analytics, to support organisations in risk prevention and following an adverse event

Question to Address	1	2	3
	What support is available to organisations looking to proactively avoid human capital related risks from materialising?	How can insurers best support organisations to mitigate and cover risks relating to intangible human capital factors such as workforce productivity, motivation and employee experience?	How can the focus shift further from covering specific senior individuals to recognising and covering the value of the human capital associated with teams, departments and organisations?
Trigger	Employee wellbeing is measured and tracked using a wellbeing index which is based on a combination of internal HR data and staff surveys. Wellbeing scores begin to fall , potentially signalling a risk to human capital	Employee productivity is measured on an ongoing basis using defined metrics tailored to the organisation's output. Measurements show productivity levels dropping , indicating employees may be disengaged or not adequately supported	A number of members of a specific team , which has specialist knowledge and performs highly skilled activities , hand in their resignation notices within a few weeks of each other
Potential Insurance Solution	Insurance company pays out if wellbeing scores fall below a predetermined level , with the intention that the organisation invests the funds in improving employee wellbeing to prevent the situation from worsening and human capital value becoming impaired	Insurance company pays out when productivity falls by a certain percentage . Using HR analytics the insurer can also identify the driver of falling productivity and advise on how the organisation can be proactive in improving productivity and safeguarding human capital	Insurance pays out in varying amounts depending on the number of individuals from the team leaving within a predetermined timeframe. Indemnity will help cover replacement costs and should factor in the lost human capital value associated with the team
Coverage Component	Risk prevention HR analytics	Risk prevention HR analytics	Post event cover

Organisations should look to implement a combination of preventative support and risk transfer solutions to manage their human capital

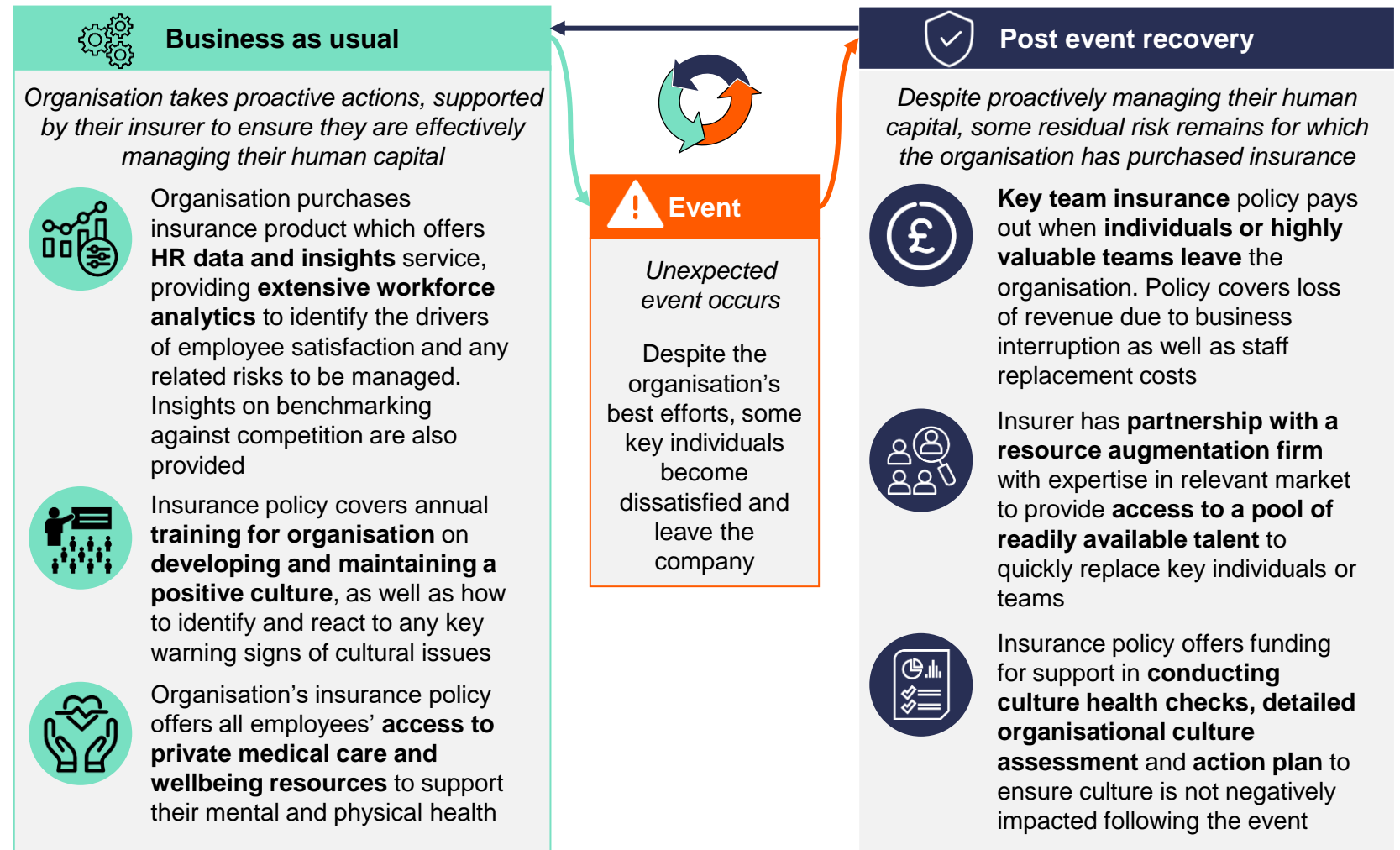
Following best practice human capital management as part of business as usual will help organisations to reduce the risk to their human capital. However, targeted post event insurance solutions will still be vital for limiting damage and returning to business as usual as quickly as possible following an adverse event

Organisations can take steps to ensure their business as usual operations allow for effective management of their human capital. For example, by following best practice human capital management and by taking advantage of insurance products which offer workforce data analytics services to provide insights which will enable targeted action to mitigate key risks.

However, even organisations that are extremely proactive in managing and protecting their human capital will face an element of residual risk relating to unexpected events.

In this case, risk transfer solutions will also be required to minimise the implications of the event. Solutions are likely to offer financial pay outs and support for a wide range of risks, such as recovery of lost income and services to help limit damage to culture and reputation and return to business as usual.

Example human capital risk management and transfer scenario



6 Moving forward



Moving forward – four considerations for risk owners

1

Ensure leadership champions a culture that truly empowers employees in hybrid working conditions

Strong leadership and a positive culture are two of the most fundamental factors driving an organisation's human capital. Leadership will require innovative use of technology to provide a clear sense of direction while also empowering and trusting their employees. This is particularly critical in a remote working setting, as the usual culture amplifier – the office – might not be present. New hires who have not lived the 'old ways of doing things' will often need to learn them via video calls.

2

Use data to hire and manage your employees

Strong data analytics will be critical to help organisations hire the most skilled, diverse and compatible employees, help manage their performance (including productivity, innovation, influence to internal networks, alignment with organisational culture etc.) and identify early warnings signs showing potential risk factors.

3

Prioritise the needs of employees but also reduce the reliance on any one individual

Human capital is all about people. Taking care of employees within the work environment and supporting their wellbeing more generally, as well as motivating them through development and career opportunities is crucial to enhance the value of human capital. At the same time, reliance on any one individual can lead to an adverse impact on an organisation's competitive position. It is, therefore, critical that the right processes are put in place to share and codify any business-critical individual knowledge.

4

Horizon scan and be prepared to continuously adapt to change

Human capital will continually evolve as trends in the working world adapt and as societal norms change over time. It is therefore vital that organisations look to the future and ensure they consider not only how they can protect and enhance their human capital now, but how this might look in the future too. Organisations should be flexible and prepared to adapt to the future needs of their employees, as well as continually upskilling employees to ensure they are equipped to deliver in this fast paced world.

Contacts

Lloyd's contacts

Dr. Trevor Maynard

Head of Innovation

Operations

Lloyd's of London

T: +44 (0) 20 7327 6141

E: Trevor.Maynard@Lloyds.com

KPMG contacts

Paul Merrey

Partner

KPMG in the UK

Global Strategy Group

T: +44 (0) 20 7694 5276

E: Paul.Merrey@kpmg.co.uk

Albert Lee

Manager

KPMG in the UK

Global Strategy Group

T: +44 (0) 20 7694 5635

E: Albert.Lee@kpmg.co.uk

Acknowledgements

The following people were consulted or commented on earlier drafts of the report; we would like to thank them all for their contributions:

Lloyd's broader team

- Ivan Spence, Research Associate, Innovation team
- Rosie Dennee, Thought Leadership and Product Development Manager

KPMG broader team

- Arturs Kokins, Associate Director, Strategy
- Rachel Jones, Senior Associate, Strategy
- Mel Newton, Partner, People Consulting

Other key inputs

- Claire Hewitt, Head of Learning Design, Executive Education, Henley Business School
- Professor Karen J. Jansen, Professor in Leadership and Change, Henley Business School
- Professor of Strategic Management, Paula Jarzabkowski, City, University of London/ University of Queensland
- Anabel Johnson, Senior Manager, Learning Transformation & Programme Delivery, Lloyd's
- Charlie Matheson, Global Product Head, Security Risks, AXA XL
- Patrick Corbett, Chief Underwriting Officer, Life, Accident & Health, AXA XL
- Matthew Greaves, Accident and Health Underwriter, Atrium

About Lloyd's

Lloyd's is the world's specialist insurance and reinsurance market. Under our globally trusted name, we act as the market's custodian. Backed by diverse global capital and excellent financial ratings, Lloyd's works with a global network to grow the insured world –building resilience of local communities and strengthening global economic growth.

With expertise earned over centuries, Lloyd's is the foundation of the insurance industry and the future of it. Led by expert underwriters and brokers who cover more than 200 territories, the Lloyd's market develops the essential, complex and critical insurance needed to underwrite human progress.

About KPMG

KPMG in the UK is one of the largest member firms of KPMG's global network of firms providing audit, tax and advisory services. In the UK we have 631 partners and 15,864 outstanding people working together to deliver value to our clients across our 22 offices. Our vision is to be the clear choice in professional services in the UK. For our clients, for our people and for the communities in which we work.

KPMG's core business is to help your organisation work smarter, evaluate risks and regulation and find efficiencies. We do this by providing deep insight into market issues, transparency in everything we do, and using innovative technology to tackle complex problems. We are focused on the issues that keep our clients awake at night and responding to them as One Firm. To do that, we strive to create a high performance culture, guided by our values, where our diverse talent feels included and excels.


Legal disclaimer

This report has been co-produced by Lloyd's and KPMG. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Lloyd's and KPMG accept no responsibility or liability for any loss or damage of any nature occasioned to any person as a result of acting or refraining from acting as a result of, or in reliance on, any statement, fact, figure or expression of opinion or belief contained in this report. This report does not constitute advice of any kind. The report was paid for by Lloyd's.

© 2021 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.



LLOYD'S

KPMG