EXECUTIVE PERSPECTIVES ON TOP RISKS

Rapid change, staffing shortages and intense regulations are top concerns for healthcare organisations in 2022 and 2031

Massive disruptions in the global supply chain. Challenges in attracting and retaining talent to address needs all across the enterprise. COVID-19 variants. Cyber attacks and ransomware. Wildfires and flooding. Geopolitical tensions in specific regions and shifts on issues related to climate change. Long-overdue shifts in expectations related to diversity, equity and inclusion. Political divisiveness and gridlock. Artificial intelligence (AI), automation and other rapidly developing digital technologies. More permanent shifts to hybrid and remote work environments. Shifting customer preferences and demographics. Big data analytics.

The global marketplace is dramatically impacted by these and a host of other notable risk drivers triggering significant levels of uncertainties that make it extremely difficult for an organisation's leaders to anticipate what risks may lie just over the horizon. Unanticipated events are unfolding at record pace, leading to massive challenges to identify the best next steps for organisations of all types and sizes, regardless of where they reside in the world. As no one is immune to uncertainty, C-suites and boards need to be vigilant in scanning the horizon for emerging issues. Because it is impossible to anticipate everything of significance that lies in the future, organisations must focus on building trust-based, resilient cultures that can pivot at the speed of change.

In this 10th annual **survey**, Protiviti and NC State University's ERM Initiative report on the top risks on the minds of global boards of directors and executives in 2022 and over the next 10 years, into 2031. Our respondent group, which includes 1,453 board members and C-suite executives from around the world, provided their perspectives about the potential impact over the next 12 months and next decade of 36 risk issues across these three dimensions:[1]

- **Macroeconomic risks** likely to affect their organisation's growth opportunities
- **Strategic risks** the organisation faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organisation in executing its strategy

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[1] Each respondent rated 36 individual risk issues using a 10-point scale, where a score of 1 reflects "No Impact at All" and a score of 10 reflects "Extensive Impact" to their organisation. For each of the 36 risk issues, we computed the average score reported by all respondents.

Top 10 Global Healthcare Risks

Healthcare – 2022

Government policies surrounding public health practices, social distancing, return-to-work, crowd limits, and other pandemic-related regulations and protocols may significantly impact the performance of our business

Anticipated increases in labour costs may affect our opportunity to meet profitability targets

Market conditions imposed by and in response to COVID-19 and emerging variants, including shifts in consumer behaviour to digital channels, may continue to impact customer demand for our core products and services

Our organisation's succession challenges and ability to attract and retain top talent in a tightening talent market may limit our ability to achieve operational targets

Regulatory changes and scrutiny may heighten, noticeably affecting the way our processes are designed and our products or services are produced or delivered

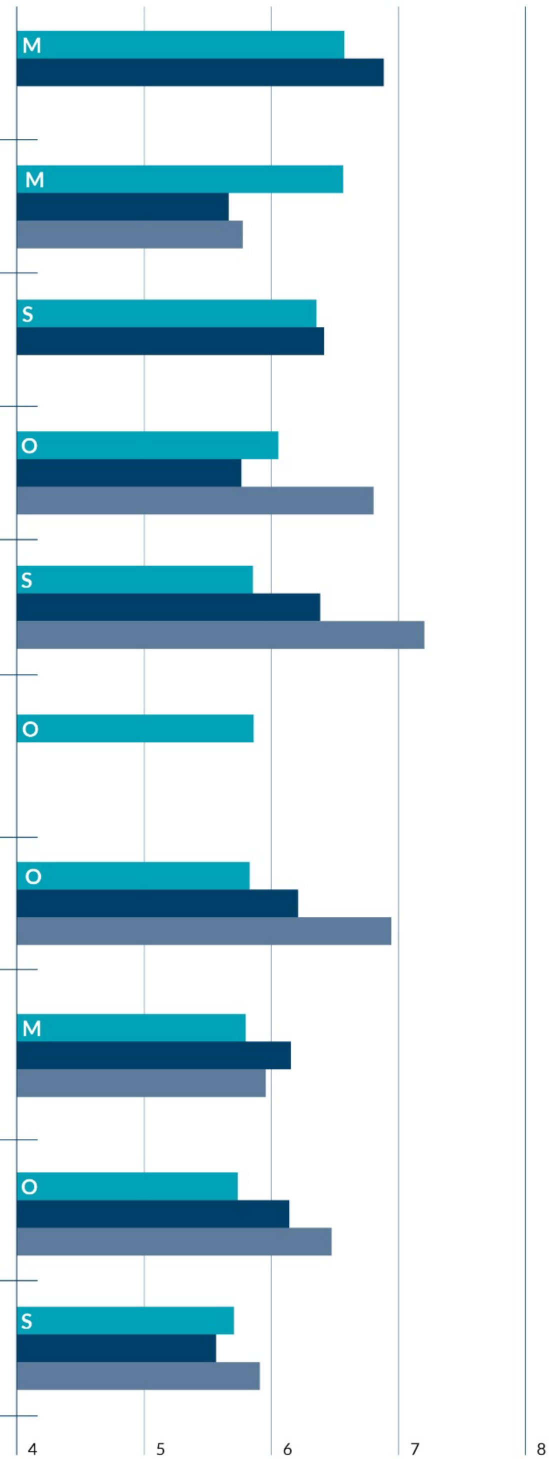
Changes in the overall work environment including shifts to hybrid work environments, evolving labour markets, expansion of digital labour, changes in the nature of work and who does that work, and M&A activities may lead to challenges to sustaining our organisation's culture and the way we do business (New for 2022)

Ensuring data privacy and compliance with growing identity protection expectations and regulations may require alterations demanding significant resources to restructure how we collect, store, share and use data to run our business

The adoption of digital technologies (e.g., artificial intelligence, automation in all of its forms, natural language processing, visual recognition software, virtual reality simulations) in the marketplace and in our organisation may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill our existing employees

Our organisation may not be sufficiently prepared to manage cyber threats such as ransomware and other attacks that have the potential to significantly disrupt core operations and/or damage our brand

Ease of entrance of new competitors into the industry and marketplace or other significant changes in the competitive environment (such as major market concentrations due to M&A activity) may threaten our market share



Legend

M Macroeconomic Risk Issue | S Strategic Risk Issue | O Operational Risk Issue | 2022 | 2021 | 2020

"As the healthcare industry continues to adapt to the tremendous waves of change brought about by COVID-19 — and prepares for the virus to become endemic — industry leaders are also readying their organisations to navigate a rapidly evolving regulatory environment, which includes new federal price transparency rules in the U.S. that carry stiff penalties for noncompliance. Meeting these and other challenges in both the near term and over the coming decade will be daunting for many healthcare organisations, as talent shortages and rising labour costs are likely to work against their efforts to deliver quality patient care, drive innovation, transform digitally to modernise and meet the changing needs of customers, operate more sustainably, and increase profitability."

Richard Williams, Managing Director, Healthcare Industry Leader, Protiviti

Commentary – Healthcare Industry Group

Rapid change, staffing shortages and intense regulations are top-of-mind concerns for most healthcare organisations going into 2022 as they continue to grapple with the impacts of the COVID-19 pandemic and prepare for challenges that will follow the crisis. These organisations are facing difficult decisions about how to manage key risks — and in the current environment, where any adverse incident can negatively impact a business's operations, reputation and earnings, there is little room for error.

Two risk areas for healthcare organisations that made significant jumps into the top five list for 2022 are "anticipated increases in labour costs" and "succession challenges and the ability to attract and retain top talent." These risks ranked ninth and eleventh, respectively, in 2021, but place second and fourth in our current survey. Notably, they also rank among the top five key risks for healthcare organisations in 2031 — but didn't register in the top five for the 2030 list in last year's survey.

The Pandemic Continues to Affect Operations

1. **Government policies surrounding public health practices, social distancing, return-to-work, crowd limits, and other pandemic-related regulations and protocols may significantly impact the performance of our business.**

"Government policies and other pandemic-related regulations" tops the list of key risks for healthcare organisations in this year's survey; this risk also held the top spot in 2021. Ever-changing policies, regulations, mandates, protocols, requirements and recommendations (i.e., guidance) will require healthcare organisations to rethink workplace practices continually to help prevent and reduce COVID-19 transmission among employees, while also maintaining healthy business operations. Organisations must also monitor federal, state and local public health emergency (PHE) communications and mandates and ensure employees have access to up-to-date information. Recent changes, as of January 21,2022, include:

- The U.S. Department of Health & Human Services (HHS) has extended the PHE through April 16, 2022.
- The Supreme Court ruled to allow the CMS vaccine mandate to go into effect and also to block the OSHA vaccine requirement. CMS expects all providers' and suppliers' staff to have received the appropriate number of doses by February 28, March 15 or TBD for Texas, depending on the state, unless exempted as required by law, or delayed as recommended by the CDC. Noncompliance will not necessarily lead to termination, and facilities will be given opportunities to return to compliance. Other federal guidance

continues to support telework if it is available and feasible. Limiting the number of people returning to the workplace to maintain social distancing practices is another common recommendation.

- Various other regulations, including the Executive Order 14042 Requirements for COVID-19 Vaccination of Federal Contractors, are still under review.

State and local governmental PHE policies, guidance and mandates may address workforce training, vaccination requirements, self-isolation subsequent to exposure and office environment workspace configuration. However, PHE guidance varies widely by state, county and city. Cultivating a culture of awareness and safety around PHE guidance includes employees understanding their rights to a safe and healthful work environment, who to contact with questions or concerns about workplace safety and health and prohibitions against retaliation for raising their concerns.

Resuming normal or phased activities presents an opportunity for healthcare organisations to update their emergency preparedness, response and control plans by incorporating lessons learned into relevant policies and strengthening current policies for Emerging Infectious Diseases (EIDs) and Surge plans. All employers should implement or update their plans to address specific state, county and city regulations for each workplace location; identify all areas and job tasks with potential heightened exposure to COVID-19; and specify control measures that eliminate or reduce such exposures.

Rising Labour Costs Threaten Profitability Targets

2. Anticipated increases in labour costs may affect our opportunity to meet profitability targets.

Labour costs already account for a significant portion of most healthcare organisations' operating expenses — about 40-60% depending on an organisation's size and complexity. And given the fixed reimbursement payment models most organisations have with government and private payers, plus the fact that payment changes are almost exclusively negotiated based on considerations other than projected future costs, there is limited opportunity for healthcare organisations to recover increasing labour costs, at least in the short term.

Rising labour costs and relatively inelastic reimbursement are likely to create downward pressure on operating margins — and disappointment for healthcare organisations trying to achieve their profitability targets. We anticipate this pressure could be compounded in 2022 as the large stimulus payments received in 2020 and 2021 from federal coronavirus relief legislation are expiring, and currently there is not a lot of legislative action to provide for an additional wave of healthcare provider coronavirus relief funding. Returning to labour costs, the macroeconomic factors driving increases in anticipated labour costs include inflation, shortages of clinical and nonclinical workers, and the unprecedented competition for healthcare workers with in-demand skills. As a point of reference, the Social Security Cost of Living Adjustment Consumer Price Index for Urban Wage Earners and Clerical Workers for 2022 will be 5.9%, compared with 1.3% and 1.6% for 2021 and 2020, respectively.[2]

Concerns exist that many of the short-term strategies for meeting the staffing needs of the pandemic are not sustainable for long-duration periods. The ability to continue to use overtime and temporary staffing, both having increased labour cost implications, is generally viewed as limited. Issues such as burn-out, decreased job satisfaction and refusal to comply with COVID vaccination mandates are also negatively impacting the supply of clinical staff through higher turnover levels. High demand and lower supply are almost always a driver for higher wage cost.

[2] "Cost-of-Living Adjustments," Social Security Administration website, accessed November 2021: **www.ssa.gov/oact/cola/colaseries.html**.

Unlike other industries that have been successful in utilising advances in technology and process optimisation to reduce the cost of labour as a percentage of expense, inpatient and outpatient clinical care is still very much a labour-intensive service activity. This is further compounded by the trends like increased numbers of retiring nurses (pre-pandemic) and a leveling off of the number of graduating registered nurses (RN). Given the lead time for expanding class sizes of RN programmes and the current shortage of nursing instructors, the wage pressure may not be a short-term event.

In addition to traditional labour costs (i.e., wages and benefits), employers in the healthcare industry should anticipate that their workers will seek expanded benefits, including healthcare, insurance, and tuition reimbursement, for less than full-time work, and more generous shift, overtime or coverage pay. These benefits are now being offered in many non-healthcare industries and are often viewed by workers as employer differentiators. Although strong tools for recruitment and retention, these all result in increases in labour costs.

Market Conditions Continue to Have an Impact

3. **Market conditions imposed by and in response to COVID-19 and emerging variants, including shifts in consumer behaviour to digital channels, may continue to impact customer demand for our core products and services.**

“Market conditions imposed by and in response to COVID-19 and emerging variants” once again places among the top five risks for healthcare organisations but drops from the second spot in 2021 to third in our current survey. The response to COVID-19 and emerging variants has ensured that virtual services are here to stay — and are also value-based and designed to improve patient outcomes. Disruptive innovation has fueled the changes from in-person to virtual visits and from inpatient acute care to acute care in the home. Increasing access to virtual disease management and behavioural health services is a positive outcome from the pandemic and a positive change in the care delivery for consumers.

The rapid growth in healthcare technology to support the new delivery models includes remote patient monitoring and telehealth services, which have emerged as viable clinical services now reimbursable for healthcare organisations. Providers now have greater flexibility to use telehealth modalities to treat patients safely, and reimbursement for these services has improved significantly. The CMS and commercial payers have significantly expanded the number of reimbursable services that healthcare organisations can provide via telehealth and increased the reimbursement rates for these services considerably. However, many emergency policies were enacted by HHS to increase telehealth access during the pandemic, but they will expire with the PHE unless state legislatures and Congress act.

As these new services become more mainstream, it’s important to evaluate the potential organisational risks associated with incorrect deployment and operation of virtual care services, including remote patient monitoring and hospital care at home, as well as tactics to audit and monitor these functions as they are deployed and operate sustainably across the care continuum.

With the change in venue for a visit from in-person to virtual, providers must understand the documentation required to demonstrate that the service billed for was indeed provided. Providers should properly document virtual visits within the electronic health record the same as in-person visits, including concepts like medical decision-making. Providers must ensure clinical workflows are effective and efficient, and they must audit for accurate documentation and coding. They also need to evaluate how telehealth technology can create a seamless provider and patient interface. Written workflows and scripts should be implemented for staff to engage with patients fully and consistently. Staff and providers should be trained to conduct a virtual visit, focusing on improving the patient’s experience and reinforcing the importance of patient satisfaction. Reporting and approval mechanisms should be established and identified in all policies, procedures and medical practices that include document approval from both administrative and medical staff. Routine medical staff oversight should keep triage and clinical protocols up to date with evidence-based practices and in compliance with CDC guidelines, including specific behavioural health protocols for suicide prevention. Successful implementation of digital health programmes with well-designed processes can ensure better patient outcomes and financial stability for healthcare providers.

The pandemic has affected healthcare market conditions in other ways, including the utilisation of medical services that continues to vary due to COVID-19, but is getting closer to returning to pre-pandemic levels. As a result, risk adjustment factors are being carefully evaluated to drive premium payment adjustments. In addition, the pandemic has highlighted the impact of social determinants of health, and the effects racial and ethnic disparities in healthcare delivery have on public health overall. Population health programmes that cover public health for a geographical area should include the collection and analysis of social data to design programmes and services, such as virtual services, which can reinforce healthy behaviours and improve outcomes for people in that area.

Workforce Challenges Are a Growing Concern

4. Our organisation's succession challenges and ability to attract and retain top talent in a tightening talent market may limit our ability to achieve operational targets.

Workforce challenges aren't a new issue for healthcare organisations, but the industry is in crisis mode as perennial healthcare workforce shortages have been significantly exacerbated by COVID-19 and related trends, including employee burnout and vaccination mandates. Employees in the healthcare industry, especially clinicians, are overworked and exhausted, physically and emotionally, facing harsh working conditions and long hours. Provider organisations can't keep facilities appropriately staffed, let alone attract and retain "top talent."

Healthcare organisations are dealing with material increases in job vacancies and turnover rates — and the corresponding stress on their bottom line. Consider that the annual rate of turnover in key departments such as emergency, intensive care and nursing has increased from 18% to 30% since the start of the PHE, according to PINC AI data.

Staffing shortages have also led to a subsequent increase in wages, creating significant financial impacts for many healthcare organisations. Research shows hospital and healthcare systems across the United States are paying $24 billion more per year for qualified clinical labour than they did before the pandemic. Healthcare organisations are increasing salaries in key departments, like the intensive care unit (ICU), where base salaries have increased 5.5% from the fourth quarter of 2019 to the third quarter of 2020.[3] The wage increases haven't been enough to address the staffing shortages sufficiently, so hospitals are using overtime and agency and temporary labour; this has resulted in hourly wages almost doubling. Cost increases for qualified labour are likely to persist in the coming years. Healthcare organisations will need to address the impact rising labour costs will have on their future and their operational targets, including quality of care and overall cost containment.

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[3] "PINC AI™ Data: High Turnover Leads to Record Wages in Clinical Positions," November 17, 2021: **www.premierinc.com/newsroom/blog/pinc-ai-data-high-turnover-leads-to-record-wages-in-clinical-positions**.

Succession planning also poses a challenge. Historically, healthcare organisations haven't handled succession planning well — nor have they needed to, since leadership and staff tended to stay with organisations for a long time. However, with the onset of the pandemic, and the increase in employee burnout and turnover rates, healthcare organisations are seeing an increase in the number of leaders deciding to retire without a named successor in place. According to Modern Healthcare, before the pandemic, most U.S. healthcare industry leaders — including nearly half of the nation's hospital boards — said their organisations didn't have a formal succession plan.[4]

Now more than ever, it's essential for healthcare organisations to take a strategic approach to recruiting and retaining top talent and positioning these professionals for succession. Frequent turnover increases organisational costs and increases the strain on the resources responsible for recruiting and onboarding — not to mention those tasked with filling gaps in addition to their standard duties.

Organisations should proactively employ programmes to ensure competitive benefits and pay. Focusing on the employee experience, including the digital strategy (i.e., the plan for capitalising on the business benefits of data assets and technology initiatives and the interrelation with employee experience), can help define the significant moments in an employee's journey and design a process that highlights and incorporates these moments throughout the employee's career. Healthcare organisations should consider taking a strategic approach to recruitment, retention and succession planning to help achieve success in the tight labour market.

Regulatory Challenges Remain a Significant Uncertainty

5. **Regulatory changes and scrutiny may heighten, noticeably affecting the way our processes are designed and our products or services are produced or delivered.**

Rounding out the top five risks for healthcare organisations in 2022 is "regulatory changes and scrutiny" — dropping from third place in 2021 to fifth place in our current survey.

To illustrate in the United States, with the pandemic seemingly under more control and the Biden administration continuing to push forward with new regulations, the question of enforcement is top of mind.

The U.S. government took aggressive actions and exercised regulatory flexibilities (i.e., waivers) to help healthcare providers manage the impacts of the COVID-19 pandemic. With these waivers came a relaxation in certain audit, investigative and enforcement activities. Many healthcare organisations are worried about being unprepared when the waivers end and regulatory scrutiny ramps back up. We're already seeing an increase in programme integrity enforcement around telehealth, COVID-19 funding and billing, and opioid prescription fraud.

Further, we expect 2022 to bring an increase in collaborative investigations and audits involving multiple federal agencies. That includes the Medicare Fraud Strike Force, which will use combined resources coupled with data analytics, social media, corporate business intelligence and other information to quickly identify potential targets for fraud investigations.

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[4] "Next Up Podcast: What's going to happen tomorrow? Succession planning during emergencies — Transcript," March 5, 2021: **www.modernhealthcare.com/governance/next-up-podcast-whats-going-happen-tomorrow-succession-planning-during-emergencies-0**.

As baby boomers continue to drive up the number of retirement-age healthcare consumers, the demand for post-acute care services has never been greater. Post-acute care providers will likely continue to face heavy enforcement under the Biden administration. The U.S. Department of Justice has been vocal about its National Nursing Home Initiative and using the False Claims Act as a tool to fight unnecessary or substandard care. We also saw one of the largest overpayment allegations from the Office of Inspector General this past year related to inpatient rehabilitation. Long-term care providers now must have a compliance plan as a Medicare condition of participation. In 2022, we may see guidance for surveyors on how to assess whether a compliance and ethics programme meets the regulations (42 CFR 483.85).

In the latter half of 2021, we saw the U.S. government continuing to provide additional details about the vaccination mandates that apply to employers. Once the confusion and controversy subside, we'll likely hear more from OSHA, the CMS, and state and local governments about enforcement.

Ultimately, with many across the healthcare industry under the impression that the government needs to make up for lost time, we anticipate greater enforcement on hot-button areas such as privacy right of access, emergency management, employee safety, price transparency, utilisation management, surprise billing and provider arrangements. Also, accreditation bodies have resumed unannounced surveys and are focusing on medical devices, infection control, emergency management and business continuity. Further, we expect to see a rise in Corporate Integrity Agreements. In the end, self-auditing, regulatory readiness and maintaining effective compliance programmes will be paramount and prove invaluable when (not if) the government comes knocking. Healthcare organisations that continue to use innovative approaches around digitisation, analytics, artificial intelligence (AI) and automation for compliance efficiencies will be ahead of the game.

The Work Environment Is Evolving Rapidly

6. **Changes in the overall work environment including shifts to hybrid work environments, evolving labour markets, expansion of digital labour, changes in the nature of work and who does that work, and M&A activities may lead to challenges to sustaining our organisation's culture and the way we do business.**

Office environments and the overall view of remote work will never be the same. Work environments will not return to "pre-pandemic normal" for most workers. The COVID-19 pandemic forced companies to rethink their work environments in efforts to preserve the health and safety of their employees and accommodate their personal needs. Many employers shifted to remote work, and others moved to hybrid work models, while few nonclinical personnel stayed in the office. Some employers are still determining how their long-term work environment will look. These work environment changes require organisational adaptation to policies, expectations and operational "norms" to protect the company culture and the workforce. Proactive managerial actions to address environmental changes will lead to more success in adapting to these cultural work shifts.

The evolution of the work environment has always been something for management to address, and how effectively they do so determines whether it becomes an opportunity for growth or failure. As new technologies emerge, management must determine whether and how each technology can benefit the organisation. For example, many technologies have been released during the pandemic to assist companies with remote and hybrid work environments, including teaming software and videoconferencing platforms. That has allowed companies to respond to workforce needs by strengthening software abilities and accelerating the development of other new technologies to support large remote workforces.

Merger and acquisition activity (M&A) also affects workplace culture. Many companies focus on the growth potential of M&A while overlooking the risks to their culture. If not properly addressed upfront, M&As can pose significant risks for employers, including culture clash, insecurity due to lack of communication and transparency, and inadequate preparation for the inclusion and retention of core staffing and top talent. When cultures clash, employees feel isolated and unsupported — unsure about their future with the company. Employers need to anticipate these risks and plan for M&A deals to be successful. That includes providing a clear direction to ensure a successful merger of company climates and culture.

Employees and workplace environments will continue to evolve. Technology will continue to advance. Viruses will continue to mutate. Employers must focus on communication strategies, and management must be strategic and proactive in defining and realising company culture to maintain positive work environments and healthy cultural climates.

Complex Data Privacy and Compliance Considerations Are Priorities

7. **Ensuring data privacy and compliance with growing identity protection expectations and regulations may require alterations demanding significant resources to restructure how we collect, store, share and use data to run our business.**

Data privacy programmes will become even more complex as more states establish privacy rights for their residents, the federal government keeps expanding its focus on privacy requirements, and international regulations continue to evolve. For healthcare organisations that deal with patient data across numerous states and even international borders, there's an ever-growing need to stay on top of expanding data privacy requirements. That includes having a solid understanding of how those requirements may impact the organisation's business processes, such as the operational use of data elements.

Data governance will be a critical component to establishing how organisations classify information elements by assigning key flags on what needs to be restricted, determining what can be used, and how and what can be shared. With the expanding use of larger datasets in data repositories, such as complex data warehouses and data lakes, the ability to define and apply metadata tags will be critical for tracking the use and disclosure of information.

A historical problem in healthcare information management has been the lack of a primary and universal identifier for patients. As a result, many healthcare organisations still deal with duplicate patient records that must be identified, assessed and cleaned. Bringing in additional data elements can increase the accuracy of the patient identification verification processes. However, if not done methodically and securely, it can introduce additional risk and privacy concerns. The accurate identification of patients and their associated data (e.g., geographic location, estimated income level, credit score, shopping trends) will remain an important aspect of data management.

Many healthcare organisations have yet to consider the many privacy and information security implications that accompany the use of these more pervasive data repositories, including the operational challenges and overall risk they present. Data can drive better care. However, it's vital to understand that as more patient data is collected, the value of each patient record increases, making data repositories that house these records even more enticing targets for attack, snooping or other forms of misuse. The ability to monitor a user's activity will need to improve to identify potential snooping and abuse of access to new data in potentially new environments. Keeping patient data safe and secure should remain a priority for healthcare organisations for many years to come and will likely require continued investment.

Keeping Up With Technological Innovations Necessitates Investments in Talent

8. **The adoption of digital technologies (e.g., artificial intelligence, automation in all of its forms, natural language processing, visual recognition software, virtual reality simulations) in the marketplace and in our organisation may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill our existing employees.**

Digital technologies such as AI, machine learning, robotic process automation, natural language processing, and visual recognition software continue to promise to transform healthcare industry practices. However, the industry's adoption of these emerging technologies has been slower than many expected.

There are a few reasons for this trend, but one of the key causes is the lack of adequately skilled personnel dedicated to applying these technologies. Specialised skills and knowledge are required to use these technologies to solve very distinct problems within healthcare processes. Another factor for the industry's slow adoption of emerging technologies is the high level of care and attention required when considering these technologies, as many use cases have direct patient safety impacts.

The "born digital" companies of the world, like Facebook, Google and Apple, have been able to influence their users' behaviour by predicting their interests and motivations and using those insights to generate revenue. Healthcare is ripe for new thoughts and insights, but it's long been "set in its ways" and slow to embrace change as an industry. The result is that healthcare personnel often struggle to see new ways to solve problems. Meanwhile, startup organisations may struggle to disrupt the healthcare industry due to their lack of understanding of or experience in dealing with the complexities of the industry and the revenue models that support it. It takes an uncommon skill set to understand the healthcare industry, how to bring about meaningful change, what technologies are available to support that change, how to deploy those technologies, how to change the behaviours of those who may be affected, and, most importantly, how to create and increase revenues or margins and enhance care.

Healthcare organisations, to innovate successfully, need to identify, attract, recruit, develop and retain top talent with the applicable skill sets, or find partnerships that allow them to leverage these skill sets. Organisations will also need to invest in the infrastructure and technologies with which these resources can work. Individuals who can help enable digital technologies are already becoming scarce, and the competition for their services is increasing across industries. Organisations that want to maximise the potential of technological innovations will need partners who can evaluate which technological solutions best align with the organisation's strategy and have the existing IT infrastructure to deploy those solutions with high effectiveness and minimal disruption.

Cyber Threats Can Have Far-Reaching Consequences

9. **Our organisation may not be sufficiently prepared to manage cyber threats such as ransomware and other attacks that have the potential to significantly disrupt core operations and/or damage our brand.**

Cyber threats continue to be one of the key topics that healthcare leadership and boards ask about as these threats continue to proliferate. The concern that an extended outage may result in significant financial impacts and even patient safety issues is warranted in today's environment. In 2021, the healthcare industry witnessed the first death directly attributed to a ransomware attack. The vital care technologies needed for the safe delivery of an infant were rendered unavailable during the attack, causing the care team to miss a key risk indicator. Additionally, ransomware continues to drive significant outages and impacts across the country, including an extended outage of a notable healthcare system for nearly a month with an estimated revenue impact of well over $100 million. Boards and management are well justified in keeping this risk top of mind. Continued investments in technologies and skills are needed to keep up with the changing threat landscape.

Information security governance is another big area where healthcare organisations need to give the proper oversight and direction to security decisions that may affect multiple entities, departments, processes and other areas to ensure decisions can be made and enforced across the organisation.

Additionally, as organisations become more complex, with acquisitions, partnerships, joint ventures, integrations, outsourcing, or the reselling of services and technologies to other healthcare organisations, their risk profiles and exposures change. Information security teams will need to be made aware of these changes to enable the timely assessment of new potential risks and associated recommendations of critical controls needed to protect the organisation from new potential attack vectors.

Healthcare organisations continue to perform regular technical security assessments, testing their ability to identify, protect, detect, respond to and recover from real-world scenarios through various testing techniques. Leading organisations are looking to perform these kinds of tests as frequently as quarterly, in addition to their weekly networkwide vulnerability scans and patch management cycles. These technical security assessments can become increasingly customised to test specific attack scenarios and determine where the organisation may be vulnerable.

While the perceived risk of cyber threats has dropped in ranking over each of the last two years, that perception may simply be a product of a risk that has been around for many iterations and known as a key item of focus but is nevertheless being overshadowed by some of the more recent changes to the industry. Indicators show that security continues to be a critical area of focus, investment and concern for healthcare organisations worldwide.

Competitive Environment May Impact Long-Term Sustainability

10. Ease of entrance of new competitors into the industry and marketplace or other significant changes in the competitive environment (such as major market concentrations due to M&A activity) may threaten our market share.

Hospitals remain under pressure to sustain healthy margins while responding to market share threats from nontraditional care delivery, such as the vertical integration of payers, technology advances supporting care anywhere, and squeezed capacity and capabilities from staffing and critical skills shortages. An increasingly popular strategy by hospitals and payers to decrease the use and cost of acute care settings and increase patient satisfaction is to support more flexible business models by investing in ambulatory, virtual care and post-acute services. Strategic partnerships are emerging between large, acute care providers and payers, physician groups and other players in complementary healthcare sectors. Partnerships often avoid the initial capital cost and value capture challenges typically associated with M&A. Also, increasing local and geographic market share is still a strategic play based on recent data showing that through the third quarter of 2021, hospitals continued a more traditional horizontal growth strategy by acquiring other hospitals. In 2021, these deals were fewer in number, but larger in size than in recent years.[5]

[5] The average deal size was almost double that of any of the past five years, according to KaufmanHall's *M&A Quarterly Activity Report: Q3 2021*: **www.kaufmanhall.com/insights/research-report/ma-quarterly-activity-report-q3-2021**.

Many providers are also acquiring health plans or entering into joint ventures to form value-based care models and drive better outcomes for consumers and patients (e.g., lower premiums, increased access to care, increased reimbursement). However, value-based care models may require access to data points, analytic capabilities, streamlined care delivery, consumer and patient insights, and an understanding of chronic condition management that are currently immature or not well connected with existing care delivery and management capabilities and incentives (financial and nonfinancial). Conversely, payers are purchasing large physician groups and ambulatory care capabilities to create tighter networks, control costs, spread financial risk, maintain required Medical Loss Ratios (MLR) and increase market share. Both providers and payers are entering uncharted territory to protect their long-term sustainability.

Also, payers continue to see ongoing consolidation across all lines of business as population demographics shift, regulations change, and pricing pressures persist. At the national, state and local levels, the consolidation of market share becomes more pronounced the closer you look. From a macro perspective, the top 10 payers account for the most insured lives across the following lines of business as of May 2021: Medicare Advantage (80%), Medicaid (63%) and commercial (62%). The health insurance options become even more limited at a micro level as many payers dominate smaller state and local geographies. That creates challenges for providers and consumers.[6]

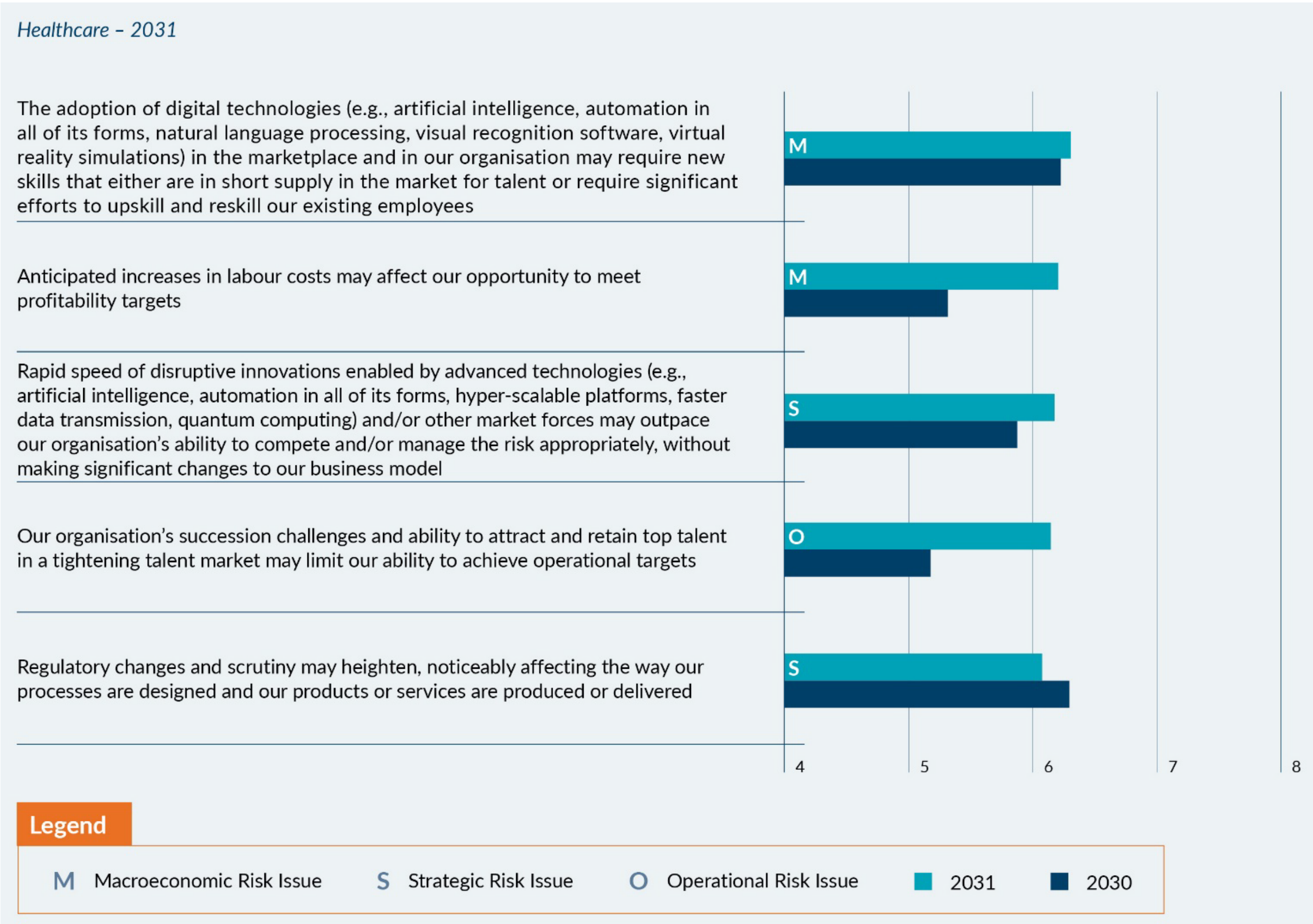
In summary, the U.S. healthcare landscape is rapidly changing and growing at a pace to reach an estimated $6.2 trillion in national healthcare expenditures by 2028.[7] From providers to payers and all the innovators, investors and other disrupters in between, new competitors are here to stay, and they're looking for their share of the healthcare market.

[6] See *Competition in Health Insurance*, American Medical Association, September 2021: **Competition in health insurance: A comprehensive study of U.S. markets, 2021 update (ama-assn.org)**.

[7] *See* **NHE Fact Sheet | CMS**.

Looking a Decade Ahead at Top 5 Global Healthcare Risks

Survey respondents identified the risks below as likely to be high long-term priorities.



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