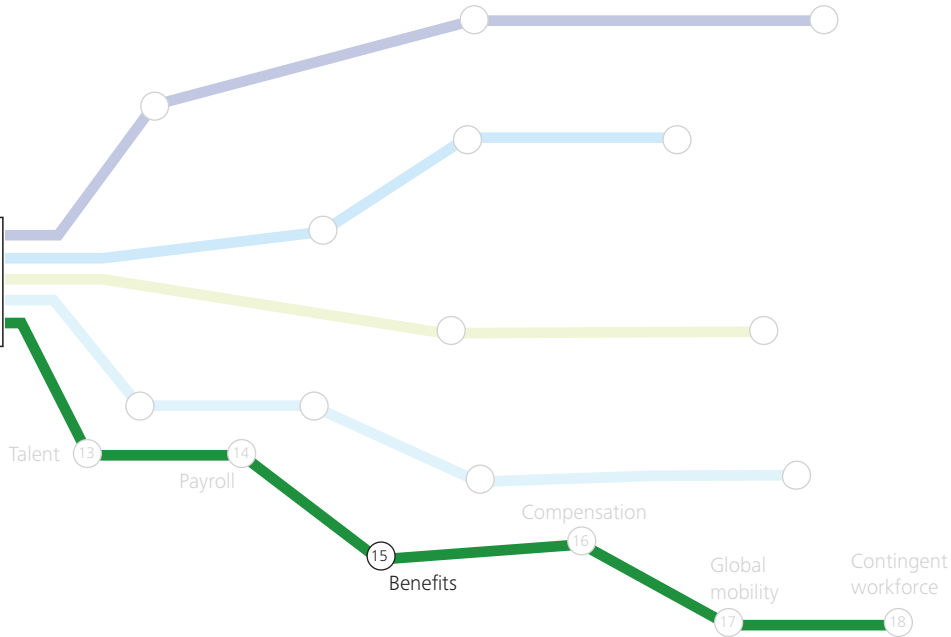


HR functional perspectives

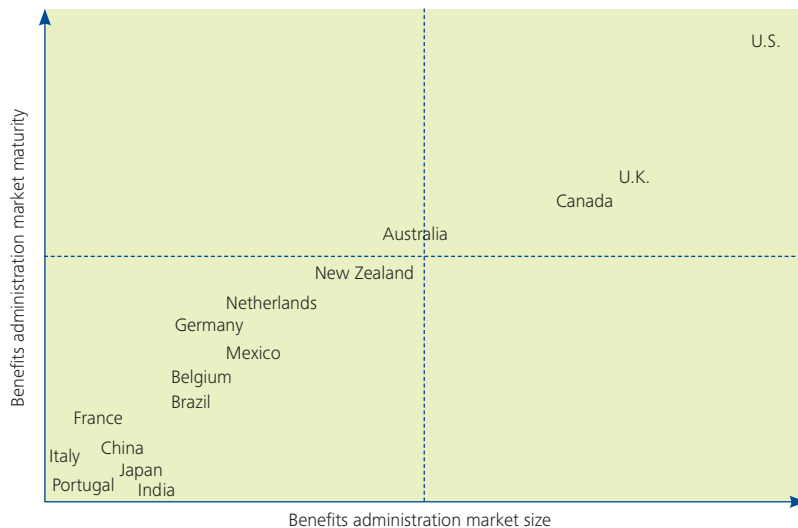


15 Benefits

They always say time changes things, but you actually have to change them yourself.

— Andy Warhol

United States market for benefits administration most mature, with both United Kingdom and Australia's maturity on the increase



Source: 2010 Nelson Hall

Administering benefits on a world-wide basis

Is global benefit administration possible?

Global benefits administration has historically been focused on single process transactional services specific to one country or geography (e.g., Europe, the Middle East, and Africa (EMEA), AsiaPac) with the United States being the single largest geographic marketplace. Companies have developed transaction service solutions primarily for savings and pension administration since those programs are most analogous around the globe. And, while health & welfare program administration is expected to be one of the fastest growing segments of the benefits administration marketplace, that growth is concentrated to the US given the vast diversity of programs and prevalence of government sponsored health related benefits across the globe.

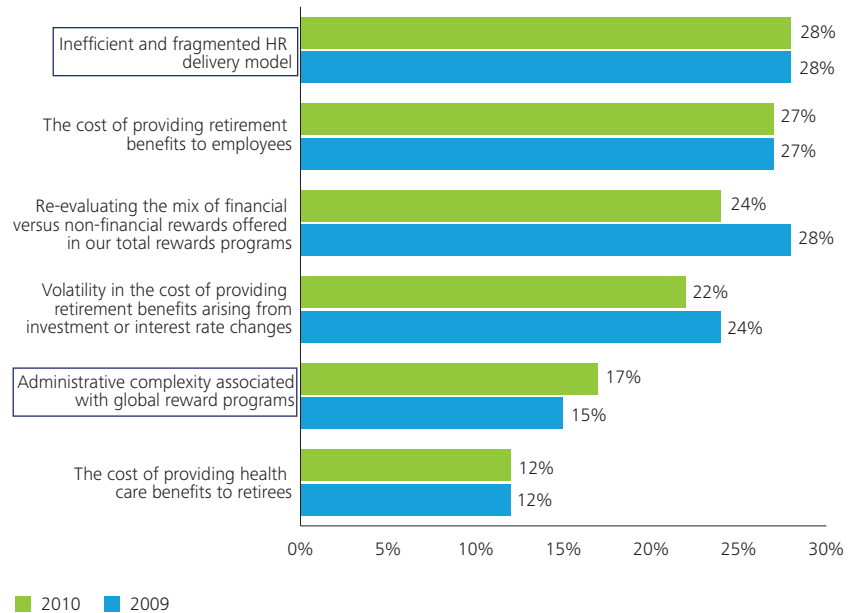
According to data in the October, 2010 Nelson Hall report entitled Targeting Benefits Administration, North America, and specifically the US, is the dominate force in the outsourcing market with the rest of the world a great distance back with that dominance.

Benefits

The solution providers have been narrowly focused by domain (savings, pension, health & welfare, leaves) or location with very few Global Total Benefit Administration (“GTBA”) solutions available. Multinational companies have looked for GTBA solutions for over a decade. Yet, despite the long-awaited administration nirvana, the market has been slow to develop solutions that allow companies with global operations to efficiently manage their delivery of employee benefits in an integrated way. In the gap, employers have been forced to use patchwork approaches that are becoming less acceptable in light of mounting pressures to control cost and manage risk while maintaining scalable and flexible delivery solutions that meet the ever-changing needs of the workforce and the business.

The patchwork quilt of solutions that employers are using spans internal benefit operations and/or shared services (including on-shore or off-shore) to date enabled by ERP or point solutions to total outsourcing and many combinations in between. And while certain aspects of the delivery solutions have evolved, such as the emergence of SaaS, there has been a shocking lack of disruptive innovation.

The increasing costs of benefits continue to gain the attention of employers, financial markets, and regulators. In fact, according to a recent study, six of the top thirteen benefits related challenges identified by a large cross-section of employers are related to the costs of benefits. The other key benefit related top-of-mind issues for employers include talent attraction and retention and aligning benefit programs with the strategy of the business. More telling, however, is the increasing focus on the benefit service delivery model as inefficient, fragmented, and with high levels of administratively complexity resulting from global benefit programs.



Percent of companies ranking each among their top 5 challenges

Source: Deloitte 2010 Top 5 Total Rewards Survey

Simultaneous to the evolving needs of employers, the benefit administrative solutions marketplace is going through a transformation. The maturation of the savings and pension administration solutions has resulted in commoditized services and shrinking margins. Given the difficulty to differentiate, solution providers have found it necessary to continue to invest in new products and services. These market conditions have resulted in companies exiting the market and numerous mergers amongst solution providers in every market segment (ERP, SaaS, Point Solutions, Outsourcers). As a result, what had been a buyers’ market over the past decade has swiftly shifted to a sellers’ market with increasing costs and less flexible solutions.

Benefits

While improving margins for solution providers may result in the short-run, the clear view for the long-term is that GTBA solutions are the next growth opportunity for solutions providers and demand from employers is increasing. The prevailing perspective, however, is that solution providers must build GTBA solutions differently than traditional local market solutions. Global solutions are less likely to be one-size-fits-all solutions and will require cooperation (cooperation amongst competitors) to occur in many areas to create a hub and spoke model.

Some solution providers are beginning to view GTBA to mean in-country voice for call center menus, representatives, single client-specific HR branded portal with multiple supported languages, global data warehouse and analytics, and onsite support where appropriate. This model addresses the direct employee facing needs most employers have while creating the flexibility that may be needed to use a variety of delivery solutions that are determined on a country-by-country basis.

Additionally, new solutions have traditionally been developed for the largest customers and then those solutions worked their way down-market to mid and smaller sized organizations. For GTBA to evolve, global solutions will have to start small (i.e., single domain across multiple geographies or multiple domains within a single geography) as a proof of concept and then move up-market.

With this background in mind, what are employers with workforces across multiple countries to do? There are four ways that employers can continue to drive to more efficient GTBA:

1. Recognize the limitations of creating a single global solution and create a global framework, or governance model, for all countries

The process, technology, talent and regulatory requirements for the administration of benefits are extensive. Making the most of benefits service delivery involves challenges including scarcity of internal resources, a maze of third-party vendor contracts and the need for effective change management within HR and the broader organization. Blink and a regulatory change or merger can make the situation even more complex.

To build a sustainable benefits delivery model that rolls with the punches, enhances employee satisfaction and minimizes the cost of the delivery, balance needs to be found across three critical areas:

Efficiency. Organizations can realize significant savings through program and vendor management, self-service solutions, vendor contracts and reduced technology customizations.

Flexibility and scalability. Benefit service delivery models are dynamic. Business and regulatory changes drive the need for administrative changes — and program design must respond to current needs and anticipate new ones.

Compliance. In today's continually changing regulatory environment, it is important to develop controls and performance metrics to assess compliance risk, identify opportunities for improvement and act on them.

2. Redefine what makes a global solution truly integrated — start at the bottom with a Global Data Warehouse

As multinational companies work to address the challenges of global benefit delivery, an area of increasing interest is the promise of efficient benefits administration on a global scale. In theory, it is not hard to envision that the optimization of an organization's benefit offerings around the world would yield extraordinary opportunities — substantial third-party cost-savings, reduced internal overhead for program and vendor management, and leveraged buying power are three clear outcomes to expect from an effective global benefits program.

One of the key issues in benefit administration is data — quality, ease of access, ability to update and maintain, use for reporting purposes, etc. Since one of the biggest drivers of benefit administrative costs, as well as one of the biggest business risks associated with benefit administration, is data, focusing efforts and resources to build a Global Data Warehouse that is the single source of data truth can deliver even greater value for companies along their path to effective global administration than attempts to achieve a single GTBA solution.

Employers both need and want to be able to inventory and run analytics across their global enterprises. Solution providers are beginning to architect Global Data Warehouse solutions that allow clients to have real time analytics that can be executed by country, region, and globally regardless of who provides the administration or technology platforms.

3. Redefine global — US, UK, and one or two other countries under a single solution with spot solutions in all other countries

While the focus on globalization of employer benefit service delivery is resuming, companies are not showing a preference for a single global benefits provider. Rather, there seems to be a preference for the right administration partners in key markets. "One size fits all" does not resonate as clearly as "we know this market", creating a new mantra in the global benefit administration arena is "Govern globally but serve locally."

4. Embrace/create disruptive innovations - Disruptive innovations such as SaaS combined with cloud computing, applications of social media, and direct to consumer models, and others

Creativity is the name of the game when it comes to addressing the needs of such a dynamic area. Without the application of new approaches, technologies, and delivery models, benefits administration would still be managed on mainframe computers with paper forms.

SaaS in the Cloud ("SITC") will begin to gain momentum at the expense of ERPs. SITC is likely to take off in the mid-market due to its speed and lower price points than ERPs and the success of SITC in the mid-market will be critical before large and jumbo companies are going to trust the model. New SITC entities are building with global solutions in mind and will be more nimble outside of the US once they stabilize.

Benefits

While companies continue to look at ways to gain consistent, efficient and cost-effective benefit administration solutions across the globe, the challenges associated with the delivery of US H&W benefits are expected to continue to consume a great deal of employers' time and resources. Additionally, there are generally less mature administration solutions in the marketplace for this area of benefit delivery so employers frequently find that the options available for the administration of these types of benefits are sub-optimal. There is an opportunity for disruptive innovation in this area and the market should expect that the coming few years will bring new solutions.

In summary

Optimizing benefit service delivery can provide significant cost, service and business flexibility advantages to employers, including:

- Potential 15 percent to 25 percent cost reduction through program and vendor consolidation, leveraged buying power, favorable contracts and savings through technology and process customization
- Reduced risk through operational assessments and improved governance
- Improved service through simplified administration, intuitive employee and manager self-service solutions and competitive service level agreements with fees at risk
- Improved business flexibility through configurable technology platforms, adjustable vendor resources and a focus on maintaining core competencies during periods of business transition
- Efficient operations for combined or new HR functions resulting from mergers or spin-offs