# EXECUTIVE PERSPECTIVES ON TOP RISKS

## 2024 & 2034

# Labour costs, economic conditions and talent lead risk concerns for healthcare leaders

*by Richard Williams*
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The analysis of risk insights from global executives for both 2024 and a decade out reveals several interrelated challenges that could result in disruptions significant enough to test an organisation's agility and resilience.
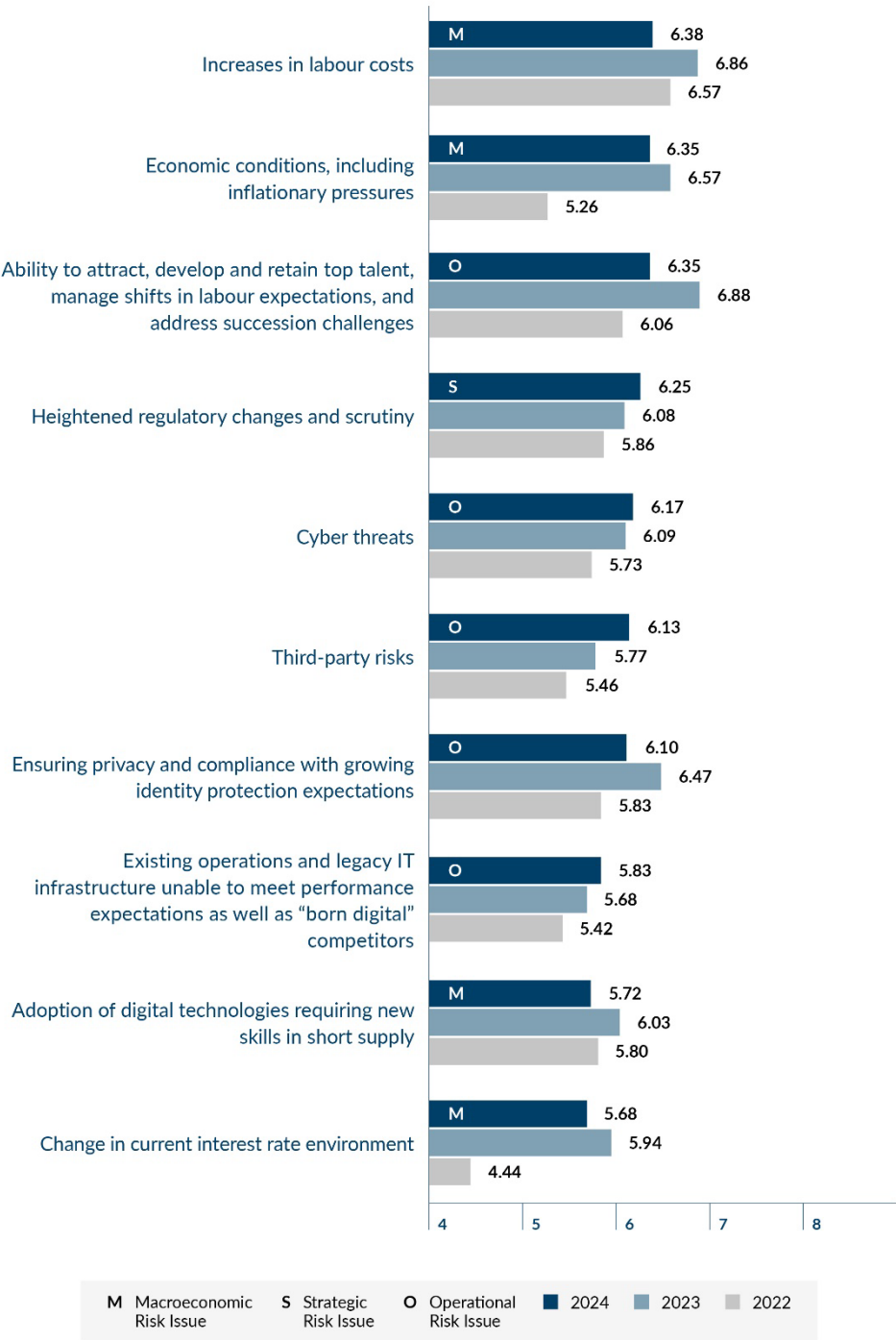
Changes in the profile of top risks from the prior year point to a number of shifting conditions that may disrupt markets, including events triggered by intensifying geopolitical conditions. Many of those shifts are expected to have long-lasting impacts on business models and the competitive balance in a nuanced global marketplace. Board members and C-suite leaders who recognise the increasing pace of change and address dynamic conditions through robust, enterprisewide risk analyses that are aligned with their business' strategy position their organisations to better navigate the rapidly evolving healthcare business landscape.

In this 12th annual survey report, Protiviti and NC State University's ERM Initiative share the top risks currently on the minds of board members and executives worldwide. The results of this global survey reflect their views on the extent to which a broad range of risks are likely to affect their organisations over the next year, 2024, and a decade later, 2034. Our respondent group, which includes 1,143 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.

# Healthcare — 2024

| Risk Issue | 2024 | 2023 | 2022 |
|---|---|---|---|
| Increases in labour costs | M 6.38 | 6.86 | 6.57 |
| Economic conditions, including inflationary pressures | M 6.35 | 6.57 | 5.26 |
| Ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges | O 6.35 | 6.88 | 6.06 |
| Heightened regulatory changes and scrutiny | S 6.25 | 6.08 | 5.86 |
| Cyber threats | O 6.17 | 6.09 | 5.73 |
| Third-party risks | O 6.13 | 5.77 | 5.46 |
| Ensuring privacy and compliance with growing identity protection expectations | O 6.10 | 6.47 | 5.83 |
| Existing operations and legacy IT infrastructure unable to meet performance expectations as well as "born digital" competitors | O 5.83 | 5.68 | 5.42 |
| Adoption of digital technologies requiring new skills in short supply | M 5.72 | 6.03 | 5.80 |
| Change in current interest rate environment | M 5.68 | 5.94 | 4.44 |

Axis: 4  5  6  7  8

**M** Macroeconomic Risk Issue  **S** Strategic Risk Issue  **O** Operational Risk Issue  ■ 2024  ■ 2023  ■ 2022

*Looking at the year ahead and even the next decade out, healthcare organisations continue to face familiar challenges. Rising labour costs and talent shortages, increasing inflationary pressures, including drug and supply costs, and continued changes in the regulatory environment are issues that are top of mind for healthcare leaders. Healthcare organisations must make long-term transformational changes to their existing business models if they are to keep up with these expenses and improve their operating models. Artificial intelligence and other emerging digital technologies are poised to transform the way healthcare delivery and operations are conducted over the next decade, but organisations must be acutely aware of and prepared for the risk of cyberattack and the need to safeguard patient/member data in an evolving threat landscape.*

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# Commentary – Healthcare Industry Group

Healthcare board members and C-suite executives continue to see a challenging risk landscape over the next 12 months, with familiar risks rising to the top. Executives across most industry groups believe the magnitude and severity of risks in the overall environment affecting their organisation, with respect to achieving performance goals, will decrease in 2024 from the 2023 levels, and healthcare is no exception. However, healthcare industry leaders rate the most risks at the "Significant Impact" level. Four out of seven risks rated as significant impact are operational in nature, addressing concerns related to talent shortages (most likely clinical healthcare workers, particularly nurses), cyber threats, third-party risks and data privacy.

Looking a decade out, many of these same risks continue to remain at the top of the list from 2024 to 2034. Notably, "economic conditions, including inflationary pressures," drops from number two in rank to number 10. Two risks not on the 2024 list make the top list of 2034 concerns, including the risk of "rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces," and "sustaining customer loyalty and retention," which ranks as a higher concern in 2034 than it has ranked in the past two surveys.

**Labour costs and the resulting margin erosion, as well as the ability to retain talent and address succession challenges, continue to challenge healthcare organisations.**

Healthcare organisations continue to face workforce-related risks in 2024, including a continued increase in labour costs and tightening of the talent market, as well as the need to address succession challenges.

The continued increase in labour costs ranks as the number one risk across the healthcare industry for the third straight year. The tightening of the healthcare labour market, exacerbated by the pandemic, has caused significant margin erosion, particularly on the

**Workforce-related risks for 2024**

#1 – Continued increases in labor costs are causing significant margin erosion

#3 – Ability to attract and retain talent and address succession challenges remains an issue

provider side. Hospital labour expenses, which account for half of hospitals' total budget on average, increased by 20.8% between 2019 and 2022. [2]

Since the onset of the pandemic, staffing models implemented as short-term solutions leveraged significant use of overtime and temporary staffing, both of which are extremely expensive. Contract labour expense increased by 258% between 2022 and 2019. [3]

With healthcare workers leaving the industry at high rates due to factors such as burnout and aging, it is imperative that the industry optimise and retain the labour that remains. The gap between staffing demand and supply has resulted in a 27% year-over-year increase in recruitment expenses. To improve engagement and retention, the recruitment processes must be tailored to improve the candidate experience and should extend well into onboarding processes that address the needs of the new hire, such as improving knowledge transfer and skills-based training, offering schedule flexibility, and being clear about roles and responsibilities. Additionally, healthcare has seen an increase in organised labour activity in 2023, with contract demands for wage increases and better staffing conditions. [4] The macroeconomic factors driving increases in anticipated labour costs include inflation, shortages of clinical and nonclinical workers, and continued fierce competition for healthcare workers with in-demand skills.

Unlike other industries, which have utilised advances in technology and process optimisation to reduce the cost of labour as a percentage of expense, the administration and delivery of healthcare is still very much a labour-intensive proposition. However, new opportunities arise with the ability to automate tasks associated with the enormous administrative burdens that exist within payer and provider operations.

Risk associated with increased labour costs are predicted well into the future and remain in the top five concerns in 2034, dropping only two positions in rank. The World Health Organisation (WHO) Global Health Observatory model predicts that global demand for health workers will rise to 80 million by 2030 – twice the current supply – while the number of available health workers will reach only 65 million, resulting in a worldwide shortage of 15 million workers. [5] There is little relief in sight; therefore, it will be essential to focus on worker productivity, establishing new ways of working by rethinking and redesigning jobs, and increasing the use of technology. The use of artificial intelligence (AI) will certainly propel healthcare forward and holds great promise for automating a multitude of manual administrative processes and improving clinical outcomes, while lowering costs using predictive modeling and clinical decision making.

In addition to rising labour costs, the ability to attract and retain top talent in a continually tightening labour market continues to be a concern for healthcare organisations. This issue remains in the top five risks for healthcare organisations for the third consecutive year, ranking third for 2024. The crisis in human resources in healthcare has been described as one of the most pressing global health issues of our time, as the WHO estimates a global shortage of almost 10 million healthcare professionals by 2030. [6] Workforce planning, talent marketing, recruitment, succession planning and retention are essential competencies.

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[2] "New AHA Report Finds Financial Challenges Mount for Hospitals & Health Systems Putting Access to Care at Risk," American Hospital Association: www.aha.org. https://www.aha.org/press-releases/2023-04-20-new-aha-report-finds-financial-challenges-mount-hospitals-health-systems-putting-access-care-risk.

[3] Ibid.

[4] "Healthcare labor union activity gains steam: The consequences for hospitals and health systems," Healthcare Financial Management Association: https://www.hfma.org/finance-and-business-strategy/healthcare-business-trends/healthcare-labor-union-activity-gains-steam-the-consequences-for-hospitals-and-health-systems/.

[5] "Global Health Workforce Labor Market Projections for 2030," Liu, Jenny X., Yevgeniy Goryakin, Akiko Maeda, Tim Bruckner, and Richard Scheffler, Human Resources for Health 15 (1), 2017: https://doi.org/10.1186/s12960-017-0187-2.

[6] "Health Workforce," World Health Organization, August 7, 2019: https://www.who.int/health-topics/health-workforce#tab=tab_1.

Job fatigue has impacted every area in healthcare. Almost one in three healthcare workers are considering leaving the industry due to burnout, job dissatisfaction and heavy demands for productivity and efficiency.[7] Throughout the industry, the largest staffing concern and resulting pain point over the last few years has been clinical staff retention. The RN vacancy rate remains critical and is 15.7% nationally. The RN Recruitment Difficulty Index jumped an extra eight days to an average of 95 days. In essence, it takes over three months to recruit an experienced RN, with medical/surgical positions presenting the greatest challenge.[8] This increased turnover is a result of burnout, competition, retirements, career change, and consolidation. This troubling trend impacts not just the bottom line – it also can diminish accessibility and quality of patient care. Innovative strategies are needed to meet current and future staffing demand through different approaches to attract, hire, train, retain, support and transform the workforce.

Healthcare organisations view this risk as a long-term concern, ranking it the fourth-highest anticipated risk for 2034. There will continue to be a massive gap in talent, skills, and people. Unfortunately, recruitment alone will not solve the problem. Transforming the workforce through a combination of job redesign, improved automation, and reskilling or upskilling workers will create new career pathways critical to engaging and retaining workers. Artificial intelligence (AI) and emerging digital technologies will continue to transform how healthcare is delivered over the next decade. Tools that support clinical decision making, predictive analytics and remote/hybrid work are expected to enable a shift from people-driven to technology-supported models of care.

Organisations should anticipate continued labour shortages and hiring difficulties. As companies navigate this challenging environment, it is important they remember that, compared to previous generations, many younger job candidates place as much importance on an organisation's mission, values and culture as on salary.[9] By emphasising employment brand and reputation and delivering a positive candidate and employee experience, organisations can put themselves in a stronger position when competing for workers.

## Economic conditions, including inflationary pressures and changes in the current interest rate environment, continue to challenge organisations and erode margins.

Globally, healthcare organisations continued to confront challenging economic conditions in 2023. The wake of the pandemic continued to create or exacerbate challenges on both macro- and micro-economic levels. Rising healthcare costs, inflation, labour shortages and COVID-endemic recovery contribute to below-average operating margins for most healthcare enterprises, although there is improvement from pandemic lows.

Healthcare provider margins are improving at a much slower rate compared to government and commercial payers. The healthcare provider services market grew at a Compound Annual Growth Rate (CAGR) of 6.3% between 2022 and 2023 (with an anticipated CAGR of 5.3% by 2027), while the healthcare payer services market has an anticipated CAGR of 7.71% by

> **Economic-related risks for 2024**
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> #2 – Economic conditions, including inflationary pressures, may significantly restrict growth opportunities, impact margins or require new skill sets for the organisation
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> #10 – Changes in current interest rate environment may have a significant effect on the organisation's capital costs and operations

[7] "The Association of Work Overload with Burnout and Intent to Leave the Job Across the Healthcare Workforce During COVID-19," Rotenstein, Lisa S., Roger Brown, Christine Sinsky, and Mark Linzer, 2023: *Journal of General Internal Medicine* 38 (8): https://doi.org/10.1007/s11606-023-08153-z.

[8] "2023 NSI National Health Care Retention & RN Staffing Report," NSI Nursing Solutions, Inc. 2023: https://www.nsinursingsolutions.com/Documents/Library/NSI_National_Health_Care_Retention_Report.pdf

[9] "What Do Newer Generations of Employees Want, And Can Your Business Adjust?," Kislik, Liz, *Forbes,* Jan 28 2022: https://www.forbes.com/sites/lizkislik/2022/01/28/what-do-newer-generations-of-employees-want-and-can-your-business-adjust/?sh=119354252ee0.

2027.[10] Median margin data indicate that half of U.S. hospital and health systems continue to operate at a financial loss, with many just covering their costs in 2023.[11] This is understandable as hospitals' total costs increased 17.5% during the pandemic, with labour being the biggest driver. Additionally, many Medicare Advantage plans are evaluating the financial impact of the Inflation Reduction Act on changes in the risk adjustment model and Star measures, which could create additional downward pressure on operating margins.

Outside of reimbursement rate hikes and growth in market share, healthcare organisations must look to cost-cutting measures and improvements in productivity and performance to improve their margins. Better-performing organisations are examining how they can manage their businesses across the care continuum, aligning financial and clinical objectives to meet both the organisation's needs and those of the consumers they serve. These organisations sought improvement opportunities with a focus on productivity, streamlining processes to gain efficiencies; enhanced care coordination, access and quality; data optimisation; consumer experience; and overall improved performance in both the financial and operational functions. Improvement initiatives have included implementing flexible staffing models and strategic outsourcing partnerships, leveraging automation, and increasing visibility into and reporting of productivity and performance. For instance, one provider created a partnership in which their imaging equipment supplier is paid based on the volume of scans. The supplier also finances the cost of the equipment upfront in their newly established freestanding imaging centers. This keeps capital investments (and debt burden) lower for the provider.[12]

Transformational change will be required to maintain or return organisations to positive operating margins as the global population continues to grow and age, and value-based care models continue to be adopted and evolve.

Looking towards 2034, care delivery will continue to become more digital, and the model of care will focus on the consumer (not necessarily where the consumer is located). Population health efforts will guide patients to the most appropriate care setting more efficiently and with greater care coordination. Utilising digital capabilities for population health goals will provide for a higher quality of care at a much greater value, and the efficiencies gained will return a positive operating margin, all the while satisfying the needs of the consumer.

Healthcare organisations are facing distinct challenges created by the current volatility of interest rates, driven by macroeconomic conditions. Funding sources for key operational and capital priorities are becoming more limited due to declining investment returns in certain security classes, including fixed income, and increased borrowing costs in debt markets. Healthcare organisations increasingly are reexamining strategic plans and operational priorities to help ensure both the best allocation of capital for return on investment and appropriate funding for critical services to meet customer demand. This includes further scrutinising financial performance and initiating operational plans to enhance liquidity and margins. Accretive improvements in margins serve as an additional funding source and a hedge to offset interest rate challenges. Credit rating agencies have increased their collective negative outlook on the healthcare industry and have issued credit downgrades to health systems. Health systems with stronger financial positions benefit from lower borrowing costs compared to their more financially challenged peers.

The interest rate environment remains fluid and demands that healthcare organisations be agile and responsive. Healthcare enterprises should continue to monitor several factors that influence changes to interest rates and have scenario plans in place to respond when opportunities present to protect and/or enhance their financial

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[10] "Healthcare Services Global Market Report 2022." https://www.reportlinker.com/p06229152/Healthcare-Services-Global-Market-Report.html?utm_source=GNW.

[11] "Costs of Caring," American Hospital Association, 2023, April 2023. www.aha.org/costsofcaring.

[12] "10 Takeaways From Our Cost Management Intensive," Gelbaugh, Colin, *Advisory Board,* January 25 2023: https://www.advisory.com/blog/2023/01/cost-management.

position. These responses may include refinancing outstanding debt, reallocating investment positions, and modifying funding allocations to operational service lines to meet long-term strategic objectives.

While not in the top ten risks for 2024, healthcare organisations see securing customer loyalty and retention as a long-term risk, ranking it ninth for 2034. Securing loyalty in the healthcare sector proves challenging, as the majority of consumers don't align themselves with any particular healthcare brand. Nevertheless, a notable shift in consumer behavior has emerged, as consumers increasingly exercise their right to explore different healthcare options by perusing reviews and comparing costs and outcomes. This shift empowers consumers to make informed decisions about where and with whom they prefer to seek care. As we look toward the future, it becomes imperative for healthcare organisations to formulate and execute a robust loyalty strategy. The creation of a more tailored customer experience has the potential not only to enhance financial returns for healthcare entities but also, more significantly, to elevate the quality of care.

## Heightened regulatory changes, third-party risks and readiness around patient protection and data privacy are causing healthcare organisations to rethink and restructure processes and resource use.

Maintaining and managing compliance with heightened regulatory changes and scrutiny ranks as the fourth highest challenge for healthcare organisations in 2024, up from number eight in 2023. The U.S. federal budget contains greater funding than in prior years for enforcement, especially related to healthcare fraud and investigative efforts. Priority areas include, but are not limited to:

- Price and drug cost transparency

- Access to quality care

- Cybersecurity

- Privacy (with a potential new HIPAA regulation)

- Clinical research

- Mental health

- Medicare Advantage changes (including new utilisation management requirements, changes due to the Inflation Reduction Act, and continued OIG oversight of risk adjustment)

> **Compliance- and privacy-related risks for 2024**
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> #4 – Regulatory changes and scrutiny may heighten, noticeably affecting the way our processes are designed and our products or services are produced or delivered
>
> #6 – Third-party risks may prevent us from meeting organisational targets or impact our brand image
>
> #7 – Ensuring privacy and compliance with growing identity protection expectations and regulations may demand significant resources to restructure processes and resource use

The budget also includes resources to strengthen nursing home oversight with provisions to protect seniors, such as identifying and penalising nursing homes that commit fraud, endanger patient safety or prescribe unnecessary drugs.[13] Compliance with regulatory requirements related to nursing homes and most (if not all) post-acute care services will be a focus area for government enforcement efforts.

Cross-agency collaubouration will likely continue to rise, especially as data analytics become more sophisticated. In 2023, the U.S. Department of Justice, together with federal and state law enforcement partners, brought charges against 78 defendants for their alleged participation in fraud and opioid abuse schemes, which included over $2.5 billion in alleged fraud.[14]

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[13] "Fact Sheet: Biden-Harris Administration Takes Steps to Crack Down on Nursing Homes That Endanger Resident Safety." *The White House*, The United States Government, 1 Sept. 2023, www.whitehouse.gov/briefing-room/statements-releases/2023/09/01/fact-sheet-biden-harris-administration-takes-steps-to-crack-down-on-nursing-homes-that-endanger-resident-safety/.

[14] "National Enforcement Action Results in 78 Individuals Charged for $2.5B in Health Care Fraud," U.S. Department of Justice, June 28, 2023: https://www.justice.gov/opa/pr/national-enforcement-action-results-78-individuals-charged-25b-health-care-fraud.

In November 2023, the U.S. Department of Health and Human Services Office of Inspector General (HHS-OIG) published new General Compliance Program Guidance for the healthcare industry, addressing topics such as federal fraud and abuse laws, compliance program basics, and operating effective compliance programs. Additional segment-specific guidance is anticipated, addressing topics including compliance risk areas, compliance program best practices, and common pitfalls.[15] This is another indicator that the government is becoming more serious about healthcare organisations having effective compliance programs.

Changes in the regulatory environment, including requirements around the use of technology, will be a constant for the healthcare industry well into 2034, heightening focus on data security and privacy. Regulations and enforcement surrounding access to care and patient protections will also remain at the forefront, including protections to facilitate health equity. Data analytics, automation and AI will continue to mature and play a key role in fraud and abuse crackdowns across the industry.

As big data continues to increasingly contribute to improving patient outcomes across the continuum of care, protecting that data will be at the forefront of hopefully a more uniform approach to data protection laws and regulations.

Reliance on third-party vendors continues to be an emerging long-term issue for healthcare organisations. Third-party suppliers (vendors) increasingly provide critical operational and support services to the healthcare industry. Many of these third-party vendors are unfamiliar with the current healthcare regulatory environment and may be unaware that they are subject to intricate regulations, especially if they partner with Medicare Advantage plans. Because of these complex third-party ecosystems, rising customer demands, disruptions in the supply chain and ever-looming cybersecurity threats, healthcare companies must practice continuous diligence to stay ahead of the many risks posed by partnering with third parties.

Vendor risk management (VRM) is the practice of evaluating third parties before a business relationship is established, monitoring vendors over the duration of a contract, and ensuring appropriate protections are in place upon contract termination. This requires high collabouration across multiple stakeholders including, but not limited to compliance, IT, legal, procurement and business owners. Over the last decade plus, VRM has advanced from an annual checklist exercise to a critical routine function. Medicare Advantage (MA) compliance program requirements and OIG guidance that have evolved and been pushed down to vendors are good examples of increased expectations of vendor oversight. Managing third-party risks may be challenging but can be critical to an organisation's success. In fact, many organisations report that they have recently experienced a security incident and/or a data breach originating from a third party. Many experienced this first-hand when Kronos, a workforce management company that supports over 40 million people in over 100 countries, was compromised by a recent ransomware attack.

Reliance on third-party vendors is anticipated to be an emerging long-term issue for healthcare organisations, ranking as the fifth-highest risk for 2034. As healthcare organisations struggle to keep up with emerging technologies and margin pressures, failure to manage vendor risks can leave them exposed to regulatory action, business outages, financial losses, litigation and reputational damage, and can impair the organisation's ability to gain new or service existing customers. Evolving regulatory requirements and increased risk of noncompliance will continue to drive the need for a comprehensive third-party risk management strategy.

Ensuring privacy and compliance with growing identity protection expectations continues to be a concern for healthcare organisations. And while this risk dropped in rank from last year's survey (ranked #5 for 2023 and #1 for 2032), it remains a top-of-mind concern. Regulatory enforcement, especially by the Office for Civil Rights

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[15] "Modernization of Compliance Program Guidance Documents," U.S. Office of Inspector General, November 2023: https://oig.hhs.gov/documents/compliance-guidance/1114/GCPG-ICPG-Federal-Register-Notice.pdf.

(OCR) and the Federal Trade Commission (FTC), continues to be a focus on the data-privacy front for all types of healthcare organisations. States are continuing to pass and implement new data privacy laws and regulations, while proposed federal HIPAA Privacy Rules aimed at improving care coordination await finalisation and Congress continues to explore the possibilities of new, sweeping privacy protections.

Healthcare organisations often face challenges keeping up with the myriad of data collected from consumers and monitoring how that data is being used internally and externally. As healthcare organisations expand delivery capabilities and undergo further mergers and acquisitions, they collect and are responsible for vast quantities of legally protected data.

Oversight of data-privacy risk management continues to be a priority for healthcare organisations' compliance functions. Additionally, technology continues to advance at a rapid pace, with many organisations sharing information with vendors and third parties to improve operational efficiency and patient outcomes. Implementing and operating an effective compliance program in alignment with the updated OIG guidance will be critical to navigating the evolving data protection laws and regulations across the globe. Operationalising sound data governance practices such as data-use-and-retention controls, as well as enhancing collabouration with Information Security personnel across the enterprise, will be essential to effective data protection efforts. Finally, as organisations embark on their respective digital transformation journeys, determining how disparate data protection laws and regulations apply to the current state will likely be as important as evaluating the potential impacts of new technologies on future state operations.

The continued introduction of rapidly evolving technologies into the operating environments of healthcare organisations will persist well into 2034. Patient advocacy groups will continue to call for increased data privacy protections and heightened regulatory scrutiny. As big data continues to play a significant role in all aspects of care delivery, protecting data will be paramount and a uniform approach to keeping up and facilitating compliance with data protection laws and regulations will help best protect it.

### Escalated cybersecurity risks, continued data privacy concerns and identity protection expectations are significant issues for healthcare leaders, who must safeguard their organisations and protect the information they collect, process, store and manage from unintentional exposure.

Cybersecurity remains a paramount concern for healthcare leaders and their boards. Ransomware incidents are particularly perilous, as they can disrupt critical healthcare systems, putting patient safety and organisational revenue, compliance and reputation at risk.

The central question is, how can healthcare entities consistently realign their efforts to effectively combat the most pressing risks within their budget constraints? Cyber attackers primarily employ two strategies. They either demand ransoms for the safe return of sensitive data or resort to extortion, threatening to

> **Technology- and cybersecurity-related risks for 2024**
>
> #5 – Our organisation may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt core operations and/or damage our brand.
>
> #8 – Our existing operations and legacy IT infrastructure may be unable to meet performance expectations as well as "born digital" competitors.

disclose compromised information to the public. The quest for the biggest ransoms leads attackers to target organisations with more to lose, making healthcare providers and payers prime targets. The inherent complexity of data environments within healthcare, with numerous entry and exit points, further exacerbates the challenge of protecting patients and their data. Additionally, the altruistic nature of many healthcare professionals makes them especially susceptible to social-engineering tactics. Outdated technology systems prevalent in healthcare further compound the problem by introducing technical vulnerabilities, particularly if they lack regular security updates.

Other technological factors, including the rise of AI, the potential pervasiveness of quantum computing, the expansion of the Internet of Things (IoT), and the unceasing wave of digitisation further add to the complexity of the challenge. The continuing need to foster better interoperability in the healthcare ecosystem only intensifies the need for robust cybersecurity measures. Healthcare organisations must diligently plan for and invest in an enduring cybersecurity enhancement program.

For 2034, cyber threats are expected to be the number one risk for healthcare organisations, as they continue to be challenged with recruiting and retaining a specialised workforce capable of staying ahead of cyber adversaries. Staying ahead will require deep technical data security skills and the ability to understand the complicated environments in which healthcare payers and providers operate.

Cybersecurity must be an ongoing journey in which investment, vigilance, adaptation and innovation are perennial companions, questing to safeguard the integrity and well-being of healthcare systems, their patients and their patients' data. Information security programs require unwavering investment, meticulous staffing, cutting-edge tooling, continuous enhancement, rigorous assessment, relentless testing and comprehensive training across the vast tapestry of a healthcare organisation's internal practices, partnerships and vendor relationships.

In addition to concerns about cyber threats, healthcare organisations also are challenged with the limitations of legacy infrastructure and potential competitive limitations it may create as organisations compete with nimbler, "born digital" competitors.

Conventional healthcare institutions typically maintain an extensive array of applications and associated traditional IT infrastructure, including physical data centers with server racks and storage arrays. Managing this existing equipment, along with the necessary support and maintenance for the applications, imposes a substantial burden on IT departments to sustain daily operations. In contrast, emerging, digital-native competitors in the healthcare sector can concentrate on specific niches within the industry and develop agile technology solutions using the latest platforms, such as those offered by cloud hosting providers like Microsoft Azure, Amazon Web Services and Google Cloud.

Digital-native companies enjoy a technological edge, enabling them to swiftly scale computing power, expand storage capacity, replicate environments, establish seamless system backups and easily duplicate data. These capabilities allow them to meet customer demands promptly. Cloud platforms empower these entities to deploy high-availability computing solutions that exhibit greater resilience to disruptions compared to on-premises servers in traditional data centers.

While traditional healthcare organisations are actively formulating their cloud strategies to enhance resilience and agility, legacy systems often necessitate additional attention and resources to ensure continued functionality. Healthcare institutions grapple with an abundance of specialised, department-specific software, contributing to a bloated application inventory that demands ongoing maintenance and expenditures.

As a result, many traditional organisations struggle to respond promptly to emerging healthcare trends with new and agile technology. As a result, many traditional organisations struggle to respond promptly to emerging healthcare trends with new and agile technology. A prime example is direct-to-consumer healthcare, which includes industry disrupters such as Hims & Hers Health, LetsGetChecked, and PillPack.

Healthcare entities must proactively craft a technology modernisation strategy. This involves evaluating opportunities for the swift deployment of agile solutions, such as cloud computing, to promptly meet evolving requirements. Additionally, organisations should assess their methods used to enable agile capabilities, facilitating the rapid piloting and deployment of innovative solutions that align with customer preferences. This

strategic approach is essential to compete effectively with the emerging direct-to-consumer offerings that continue to grow their market share.

While not in the top ten risks for 2024, healthcare organisations see rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces as a long-term risk, ranking it at number eight for 2034. As we gaze into the future of healthcare over the next decade, we anticipate that disruptive innovations will revolutionise the entire industry, impacting everyone from primary care physicians to large integrated health systems and payers. The advent of advanced technologies, exemplified by powerful language models like ChatGPT, has prompted stakeholders to reassess their daily practices. Understanding when and how to integrate AI solutions is just one example of the new competencies that will be required to compete in the coming years.

For healthcare organisations, the challenges include keeping pace with emerging solutions, harnessing big data, discerning the most meaningful applications, and adapting business models to fully leverage these innovations. The evolving landscape requires a strategic approach to stay informed about market trends and make informed decisions on the optimal utilisation of emerging technologies.

## The adoption of digital technologies in the marketplace may require skills that are in short supply in the market, as well as significant efforts to upskill and reskill existing employees to fully utilise the new capabilities.

Developing fluency in digital technologies will continue to be important for both the payer and provider segments of the healthcare ecosystem for the foreseeable future. This fluency is not just applicable to the digital technologies in place today. Skills also must be developed in the implementation and use of emerging technologies (e.g., generative AI). It is important to build organisational capabilities around these technologies, but perhaps more important is to become proficient in understanding how they apply to business processes. Reimagining business processes in a way that considers both what could be more effectively automated (e.g., claims processing) and how to leverage technologies to streamline those processes can prove exceedingly challenging.

There are multiple risks associated with the failure to adopt these new technologies timely and strategically. These risks include the migration of talent to new companies due to work becoming either outdated or more difficult, and the inability to attract technology talent

> **Innovation- and transformation-related risks for 2024**
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> #9 – Adoption of digital technologies in the marketplace and in our organisation may require significant efforts to upskill and reskill existing employees to fully utilise the new capabilities.

required to streamline businesses processes. Additionally, there are real costs (e.g., lost productivity, rework, downtime, etc.) incurred when these risks are realised. Finally, failure to innovate risks customer dissatisfaction and suboptimal outcomes due to the inability to take advantage of the benefits of new technologies.

The overall talent shortage also implies that the healthcare industry should become very deliberate in terms of which digital and innovation projects are prioritised. Innovation efforts need to be even more aligned to strategic business imperatives and focused on bridging the gap between digital technology capability and the experiences that industry-leading technology implementations can create for customers and employees. The lack of available talent with expertise in these areas suggests that organisations need to ensure decision-making processes identity the most valuable and viable opportunities so the technological talent they do have is deployed efficiently.

To help mitigate the risk of talent shortage, healthcare industry leaders need to be proactive in either developing training programs internally or partnering with universities or other "bootcamp" organisations that are specifically focused on developing skills in the more critical areas of capability.  New platforms are also emerging in the

microlearning space, which provide employees the ability to complete microlessons to develop skills for those who may not be able to step away for the long periods of time associated with more traditional trainings.

While this risk moves up only two positions on the list over the ten-year period (2034), we anticipate it will likely continue moving up over time. As business processes are reimagined, digital technology will increasingly become part of the day-to-day lives of employees in the healthcare industry. While the normalisation of technology could mitigate this risk to an extent, we should expect the technology landscape to continually evolve, the war for top talent to stay very competitive, and innovation in healthcare to continue accelerating.
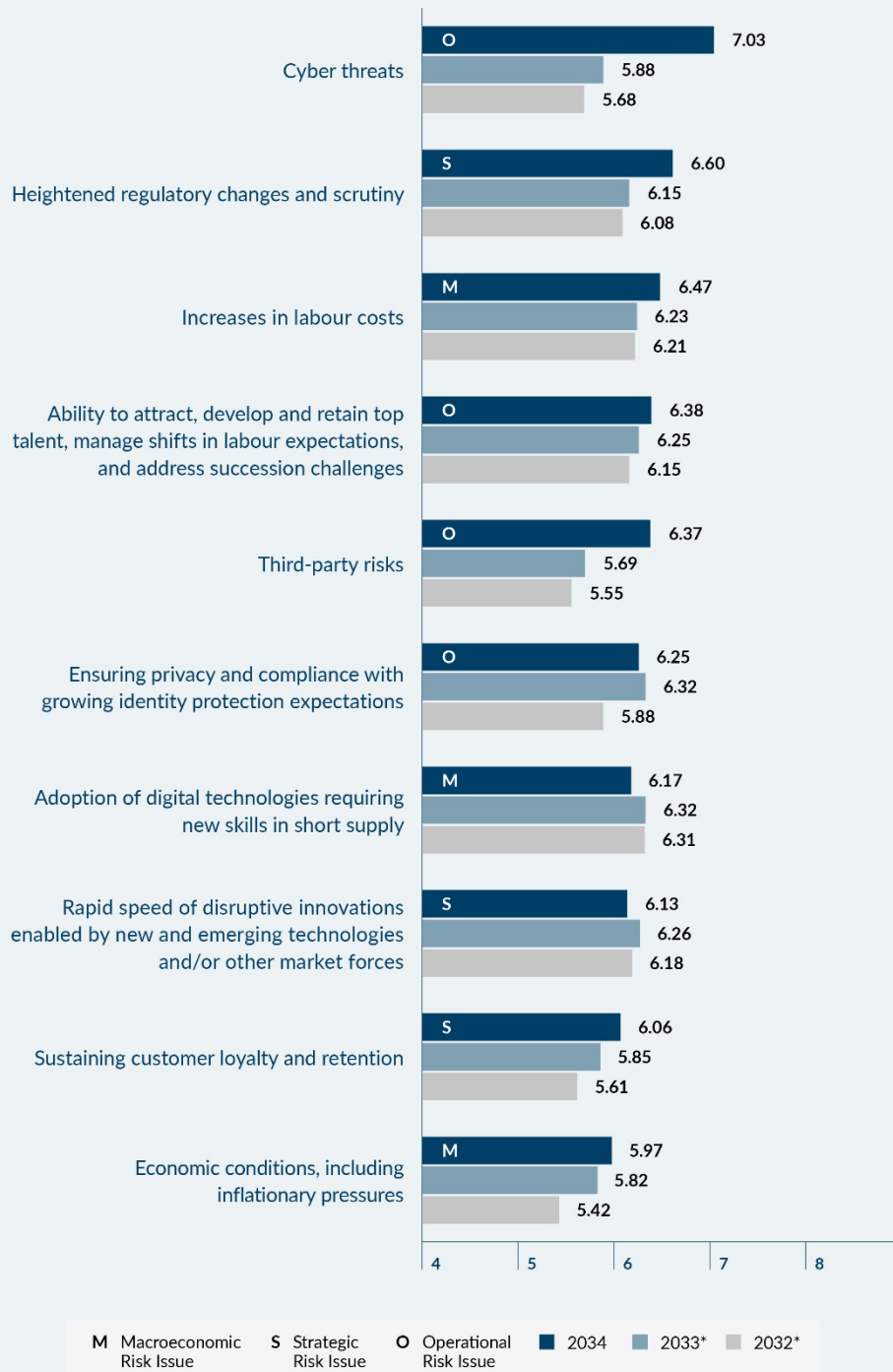
To maintain a competitive edge, we recommend healthcare organisations increase their efforts to engage with talent early, partnering with colleges and universities in specific areas to help shape future employees or early-stage professionals into the workforce that healthcare needs. The combination of building fluency in both digital technologies and their applications, along with improved training and talent acquisition strategies, will best position healthcare companies to thrive in the future.

## Notable changes in global risk perception

Our 2024 survey results indicate noteworthy shifts in risk priorities from 2023, which includes some risks dropping out of the top ten. Specifically, risks associated with pandemic-related government policies and regulations; challenges in sustaining culture due to changes in overall work environment; rapid speed of disruptive innovations and emerging technologies; and managing demands and expectations of a hybrid environment all fell in rank from the previous year's survey results.

Healthcare organisations have benefited from the real-time experience of dealing with the pandemic and have revisited and updated their business continuity scenarios. There likely will be a better sense of confidence and preparedness when the next public health emergency occurs, including effectively meeting government requirements related to stimulus funding programs. Additionally, many work environments have become more stabilised and mature, with employers and employees finding the right balance for their new hybrid work environments, which has led to a positive impact on workplace culture. Finally, the rapid speed of adoption of emerging technologies and innovations, while not a top ten risk in 2024, is ranked as the eighth-highest risk in 2034 and will continue to be a high priority. It is clear the speed of adoption will accelerate quickly in the years to come, and healthcare organisations will need to be prepared.

## Healthcare — 2034

| Risk Issue | 2034 | 2033* | 2032* |
|---|---|---|---|
| Cyber threats (O) | 7.03 | 5.88 | 5.68 |
| Heightened regulatory changes and scrutiny (S) | 6.60 | 6.15 | 6.08 |
| Increases in labour costs (M) | 6.47 | 6.23 | 6.21 |
| Ability to attract, develop and retain top talent, manage shifts in labour expectations, and address succession challenges (O) | 6.38 | 6.25 | 6.15 |
| Third-party risks (O) | 6.37 | 5.69 | 5.55 |
| Ensuring privacy and compliance with growing identity protection expectations (O) | 6.25 | 6.32 | 5.88 |
| Adoption of digital technologies requiring new skills in short supply (M) | 6.17 | 6.32 | 6.31 |
| Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces (S) | 6.13 | 6.26 | 6.18 |
| Sustaining customer loyalty and retention (S) | 6.06 | 5.85 | 5.61 |
| Economic conditions, including inflationary pressures (M) | 5.97 | 5.82 | 5.42 |

**M** Macroeconomic Risk Issue  **S** Strategic Risk Issue  **O** Operational Risk Issue  ■ 2034  ■ 2033*  ■ 2032*

\* This data was reported as 2032 and 2031 results, respectively, in our prior year reports. We have shifted our terminology to reflect a decade out, thus have revised these year references in the interests of clarity.

## About the Executive Perspectives on Top Risks Survey

We surveyed 1,143 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 36 unique risks on their organisation over the next 12 months and over the next decade. Our survey was conducted in September and October 2023. Respondents rated the impact of each risk on their organisation using a 10-point scale, where 1 reflects "No Impact at All" and 10 reflects "Extensive Impact." For each of the 36 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact.

Read our *Executive Perspectives on Top Risks Survey* executive summary and full report at www.protiviti.com/toprisks or http://erm.ncsu.edu.

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