ESG Research

# ESG Materiality Map
# Health Care Services

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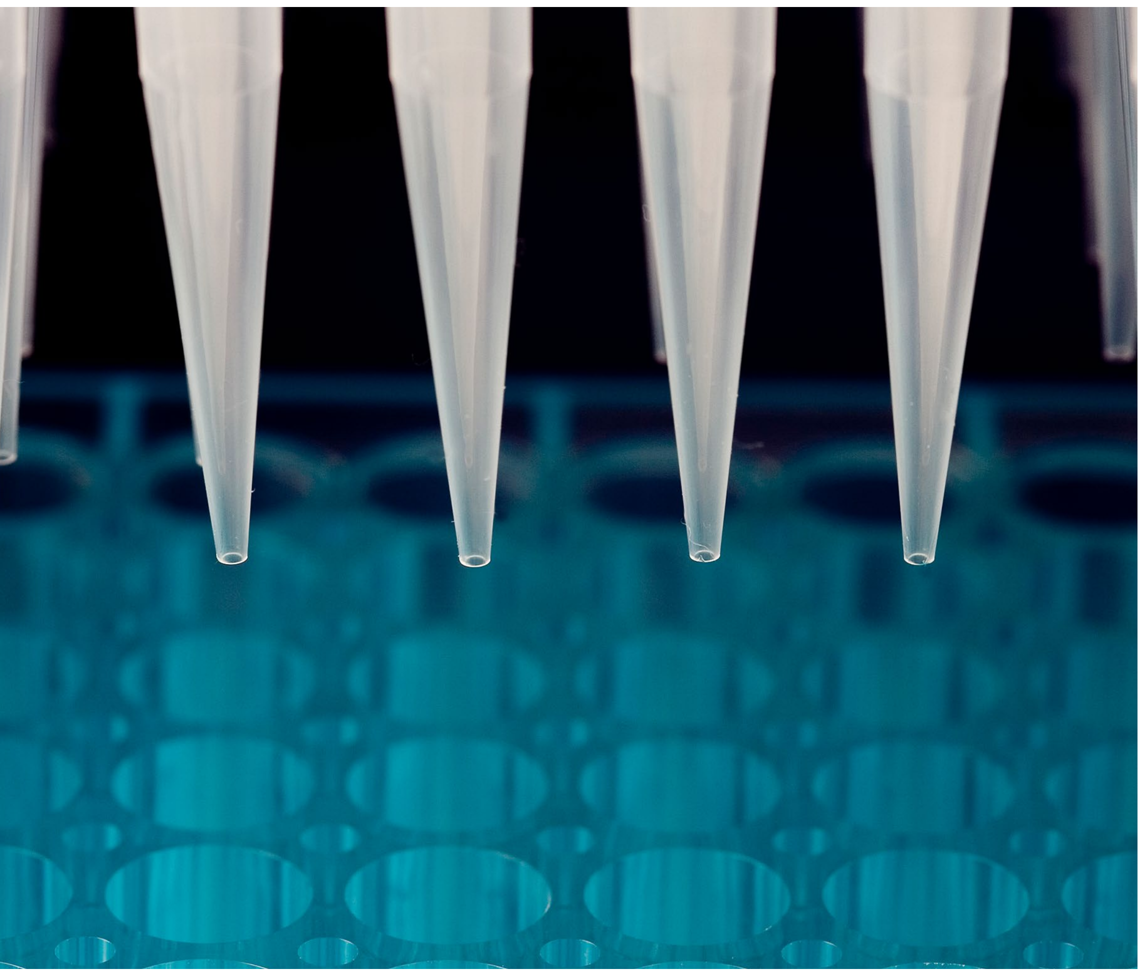
Social factors, such as customer health and safety, access and affordability, and employment practices, are more material than environmental factors in this industry. Physical climate risk is among the most material environmental factors.

*This report does not constitute a rating action*

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# ESG Materiality Map
# Health Care Services

In line with the research report "Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors," published on May 18, 2022, S&P Global Ratings is publishing research on the ESG materiality map for the health care services sector. We provide an illustration of our current view of the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. The materiality map does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis.

## Health Care Services Sector

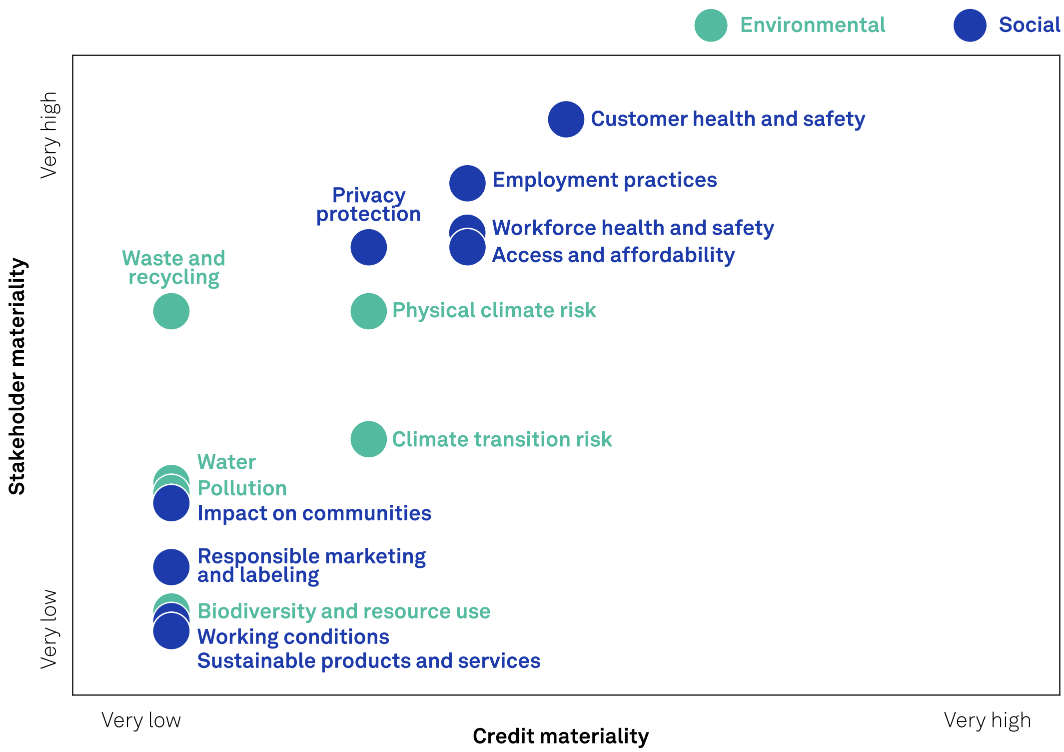
Health care services include hospitals, physician practices, health care facilities, behavioral health, dental care, laboratory and diagnostic services, health care staffing companies, and other human health care services.

### Key Takeaways

- Customer health and safety is material from stakeholder and credit perspectives since maintaining patient health is the core mission of providers and poor-quality care can affect human health. Ensuring access and affordability of these services is essential, but expanding access and affordability can have mixed financial implications.
- Workforce health and safety issues contribute to pressure on employment practices in this sector and have been exacerbated by the COVID-19 pandemic, as health care providers struggle to retain skilled labor. Difficulties in attracting and retaining staff in a highly demanding environment may increasingly contribute to credit deterioration.
- Privacy protection of sensitive medical information is very important to stakeholders and while it has had a limited credit materiality to date, could become an increasing credit risk because of fines or litigation with more frequent cyberattacks.

See materiality map on the following page.

## ESG Materiality Map For The Health Care Services Sector




The materiality map provides an illustration at a point in time, of our findings on the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. It does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG Criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis. Source: S&P Global Ratings.

## How To Read The ESG Materiality Map

The stakeholder materiality (Y axis) reflects our assessment of the relative level of impacts and dependencies of the sector on the environment, society, and economy.

The credit materiality (X axis) reflects our assessment of the relative level of potential and actual credit impact for the sector. The credit implications for the factors positioned on the left side to the middle of the X-axis would be more limited and absorbable. On the right side, there is higher potential for these implications to be more disruptive. We assess credit implications for an entity based on its individual characteristics.

Assessing E&S factors' materiality: We consider both the likelihood of the impact from a given factor, as well as the magnitude of the impact. The materiality of the factors varies depending on the perspective (stakeholder or credit) as well as the evolving and dynamic interactions between these two dimensions.

The main areas of the map:

- The upper-right quadrant displays the most material, on a relative basis, E&S factors identified for the sector from both a stakeholder and credit perspective.
- The upper-left quadrant presents factors that are more material from a stakeholder than credit perspective. These factors have the potential to become more material from a credit perspective.
- The bottom-left quadrant shows factors that are less material for both stakeholders and credit. Their materiality may evolve over time and this dynamic may not be linear.

## Examples Of Material Factors

Below we provide the rationale of some of the material factors to illustrate the above findings.

### Customer health and safety

Customer health and safety is the most material for both stakeholders and credit. Health care is considered an essential service, which exists to provide positive outcomes for patients. The impacts associated with the quality of care a provider delivers are borne by a wide variety of stakeholders, starting with the patients themselves. Poor quality of care can result in death, injury, as well as permanent and rapid declines in health and quality of life for the patients. Improving or maintaining patient health and safety is a core mission of health care providers. In competitive markets, patients may choose providers that have a reputation of providing quality care. Credit materiality is lower than for stakeholder because while injury and death can result from the practice of medicine, malpractice insurance mitigates the risk of litigation. There are efforts to more directly tie revenue to quality metrics, for example, moving to value-based care or rewarding providers that provide measurably better-quality care at a lower cost, rather than a fee-for-service model, which could make this factor become more material from a credit standpoint.

### Employment practices

Employment practices is a highly material factor for stakeholders and is growing in prominence for credit. The health care sector is facing important challenges to hire and retain employees. It relies on having enough medical personnel and highly educated labor to address the medical need of patients, and even more so during exceptional circumstances such as the COVID-19 pandemic. Globally, there are forecasts of shortages of practitioners--general practitioners as well as specialists. In addition to this labor market dynamic, recurring issues such as employee health and safety concerns, potentially long hours, night shifts, and physically and emotionally draining labor, will continue to affect employees with potentially severe consequences (e.g., high mental stresses or increasing resignations). We expect these issues to be credit material should labor shortage trends continue to put pressures on companies in the sector. In addition, exceptional circumstances like the COVID-19 pandemic caused an increase in resignations. Short-term replacements could increase the cost of labor, and in some cases, may prove credit material. Further, understaffing, burnout, and fatigue could affect the quality of care, impacting the health outcomes of patients and potentially increasing reputational and litigation risk.

### Access and affordability

Access and affordability of health care services is highly material for stakeholders, including patients, their families, and governments, to support human well-being and a functioning civil society. Access and affordability vary widely among countries and is determined in large part by the local payor system, wealth and income disparities, and the presence of systemic inequities. While some countries recognize the rights of its citizens to health care, for many around the world, health care remains inaccessible, unaffordable, or both. This lack of access could result in forgone economic productivity and social cohesion. Governments, taxpayers, and payors are also important stakeholders, which often have to balance access to the public with rising costs. Access and affordability is also a material factor for credit, but with less downside risk, because increasing access to health care services could be financially beneficial to providers.

Governments may try to reduce revenue to providers, change incentives, or change regulations to reduce patient costs, which could hinder credit quality. However, at this time we do not expect dramatic changes or cuts, partially because doing so could reduce the public's access to health care services.

## Workforce health and safety

Workforce health and safety is highly material for stakeholders in the sector. Health care workers are exposed to infectious diseases and high mental stress. The COVID-19 pandemic accelerated pressure on the labor market, which had already been mounting as doctors, nurses, and other workers are facing burnout from long hours in stressful environments. The credit materiality is currently lower than for stakeholders. However, the dynamic described has led to a steep rise in resignations, lowering the supply of labor in the face of mounting demand for care and could affect credit by increasing labor costs for providers.

## Privacy protection

Privacy protection is more material for stakeholders than for credit. The health care sector gathers a large swath of confidential and private information and data about their patients. Commercialization of data without consent or unintentional (cyberattack related) loss of data can disclose many customers' confidential health information that could in turn be maliciously used, for example causing discrimination or harming reputations. A breach could damage providers' credit quality due to costs related to penalties, legal action, and remediation. To date, these events have been largely isolated and have had a limited impact on credit of the sector due to use of insurance and ability to absorb the related costs of the event. Providers are also mitigating the risk by investing in and localizing systems. Nevertheless, the increasing frequency and sophistication of cyberattacks that cause data leakage will require on-going investments and could increase the likelihood of credit impacts in the future.

## Physical climate risks

Physical climate risks are more material for stakeholders than for credit. Climate change is expected to bring greater incidence of heat-induced and respiratory illnesses as well as the spread of tropical/new diseases--particularly among more vulnerable population groups and more acutely in urban areas—that could stress health care systems. Meanwhile, the increasing frequency and severity of climate hazards--including acute risks like storms, floods, and wildfires--can increase operational costs for health care companies including from supply chain disruption (possibly leading to worsening credit conditions), as well as put strain on patient care resources during severe events.

## What is our approach to research on the ESG materiality map?

Referring to the research report "Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors," published on May 18, 2022, this research is built on the ESG materiality concept that considers ESG issues as material when they could affect stakeholders, potentially leading to material direct or indirect credit impact on entities. It considers that all businesses, through their activities and interactions, impact and depend, directly or indirectly, on stakeholders such as the environment (natural capital), society (human and social capital), and economy (financial capital). Using this ESG materiality concept, S&P Global Ratings has worked toward identifying a common, global, cross-sector set of E&S factors that we believe are material to stakeholders, and either are already, or have the potential to become, credit material for entities. The materiality map we propose provides an illustration at a point in time, of our findings on the relative materiality of those factors, from both the stakeholder and credit perspectives.

## How does the sector ESG materiality map relate to credit ratings or ESG evaluations?

The sector materiality map is a visual representation of the factors that we consider impactful to the sector from a stakeholder and credit perspective for the purposes of this research. It does not represent any new analytical approach to the E&S factors in our credit ratings.

The relative materiality of the factors indicated on the materiality maps may inform the E&S Risk Atlas scores and the weights of the E&S factors used in ESG evaluations.

They may also inform our discussions with issuers on those factors' existing or potential credit materiality.

## Related Research

- Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors, May 18, 2022
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- ESG Evaluation Analytical Approach, Sept. 20, 2022