Allianz Risk Pulse

Allianz Risk Barometer on Business Risks 2014

The rise of interconnected risks

Business interruption, natural catastrophes and fire top risks for companies in 2014

Allianz Risk Barometer also highlights increasing threat of emerging perils such as cyber and reputational loss and warns of need to bolster internal processes to combat potential systemic impact from evolving risk landscape.

Business interruption (BI) and **supply chain**, **natural catastrophes** and **fire/explosion** are the major risks which continue to occupy the attention of companies at the start of 2014, according to the third annual Allianz Risk Barometer, which surveys over 400 corporate insurance experts from more than 30 countries.

However, 2014 will also be a critical year for companies when it comes to dealing with the threat posed by a number of emerging perils with businesses around the world increasingly challenged by a combination of new technological-, economic- and regulatory-related risks. These perils are also often interlinked, potentially creating a systemic threat for risk managers.

Cyber and reputational challenges are the most significant movers in this year's *Risk Barometer* rankings (*see below*). Meanwhile, fears over intensified competition (fifth in last year's survey) have given way to increasing worries about market stagnation or decline, as companies continue to be challenged by the economic conditions of recent years.

A shortage of skilled talent remains a major issue across the global business landscape with many companies feeling the impact from cost-cutting measures of recent years. Meanwhile, a lack of appropriate candidates in the so-called growth markets, combined with an aging workforce around the world, means competition to hire the best is increasingly fierce.

The global risk landscape continues to evolve at pace, becoming increasingly complex due to growing interdependency of different industries and processes. This combined with the fact that inadequate internal processes are often the main factor behind companies suffering a crisis means there is an increasing need for deployment of holistic, state-of-the art risk management and mitigation strategies.

"Identifying the impact of interconnectivity between different risks is a top priority for risk managers. Today's business continuity plans must prepare for an increasing range of risk scenarios which need to reflect the sometimes hidden knock-on effects. For example, a natural catastrophe can result in BI, systems failure, power blackouts and a host of other perils."
Axel Theis, CEO, AGCS

Top 10 global business risks for 2014

	2014		2013	Rank	Trend
1	**Business interruption, supply chain risk**	**43%**	46%	(1)	—
2	**Natural catastrophes** (for example, storm, flood, quake)	**33%**	44%	(2)	—
3	**Fire, explosion**	**24%**	31%	(3)	—
4	**Changes in legislation and regulation**	**21%**	17%	(4)	—
5	**Market stagnation or decline**	**19%**	12%	(8)	↗
6	**Loss of reputation or brand value** (for example, from social media)	**15%**	10%	(10)	↗
7	**Intensified competition**	**14%**	17%	(5)	↘
8	**Cyber crime, IT failures, espionage**	**12%**	(-)	(-)	NEW
9	**Theft, fraud, corruption**	**10%**	(-)	(-)	NEW
10	**Quality deficiencies, serial defects**	**10%**	13%	(6)	↘

The third annual Allianz Risk Barometer survey was conducted among risk consultants, underwriters, senior managers and claims experts in the corporate insurance segment of both Allianz Global Corporate & Specialty (AGCS) and local Allianz entities. Figures represent the number of responses as a percentage of all survey responses (557)

Allianz

Supply chain analysis increasingly important for businesses

For the second year in succession **BI** and **supply chain** risk ranks as the top peril in the *Risk Barometer* with almost half (43%) of respondents rating this as one of the three most important risks for companies, although this is slightly down on the previous year (46%).

Today's global supply chains work to an ever tighter set of interdependencies, where "just-in-time" and "lean manufacturing" have become standard practices. This evolution, coupled with an increasing trend among companies to source globally and a rise in disruptive natural catastrophes (often in those areas where new supply capacity has been developed), has led to growth in BI and contingent BI.

Allianz Global Corporate & Specialty (AGCS) estimates that BI and supply chain-related losses typically account for 50% to 70% of insured property catastrophe losses, as much as $26bn a year*.

Given companies can sometimes take years to fully recover from the knock-on effect of a disturbance, it is unsurprising this remains the number one concern around the globe including in the US, UK, Germany, France, Australia and Brazil.

"Revenues, profits, reputation, market position and share price are seen as the pillars of corporate resilience; a blow to any of these could cause serious issues for a company and its management team," explains Volker Muench, AGCS property expert.

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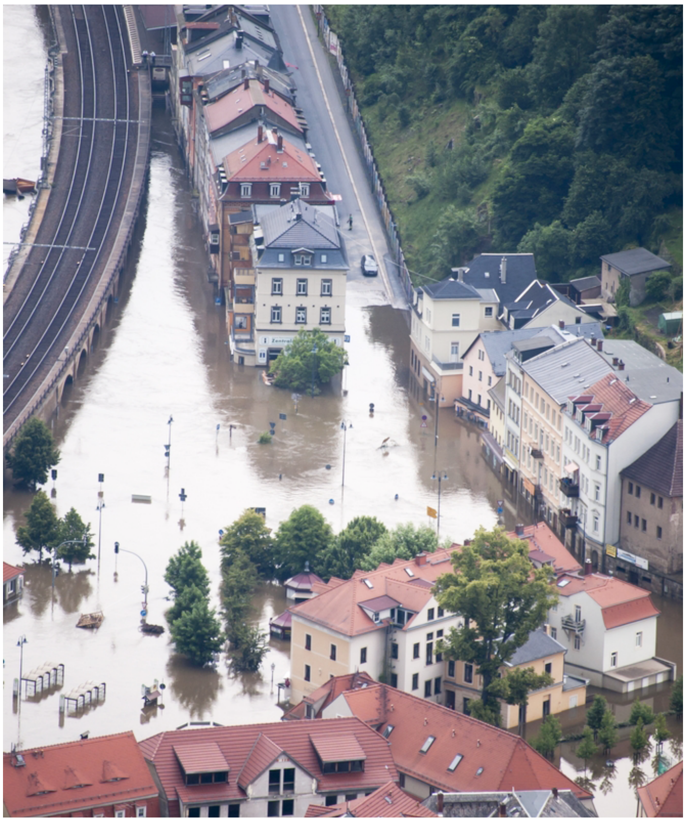


Flooding in Germany and Central Europe in June 2013 resulted in insured losses of more than $4bn for the insurance industry. The impact of natural catastrophes on increasingly complex global supply chains is concerning businesses and insurers.

Allianz Risk Barometer survey – participants and methodology

- The third annual Allianz Risk Barometer survey was conducted among risk consultants, underwriters, senior managers and claims experts within both AGCS and local Allianz entities in **October and November 2013**, with a focus on the corporate insurance sector for both large industrial and mid-sized companies.
- There were 405 respondents from a total of 33 countries. As multiple answers for up to two industries were possible 557 answers were delivered.
- Participants were asked to name industries about which they are particularly knowledgeable and then name up to three risks they believe to be of most importance for their clients within each industry. In addition, they identified risks they thought their clients significantly underestimate.

"Yet all are at risk of crumbling if an organisation cannot maintain its supply chain of raw materials or critical component parts. In a global sourcing world, disruption in one part of the world is rarely contained to that area."

In addition, supply chains have evolved over the past two generations to become increasingly complex. As well as natural catastrophes they are also at risk from other perils, such as IT or telecommunications outages, transportation network disruptions and civil unrest and insurers are beginning to put much greater weight on supply chain risk when underwriting large industrial risks.

"There is a need to examine beyond the identification of so-called 'critical' suppliers. How do these companies manage their own supply chain exposures? Only when this level of granularity has been reached can significant mitigation measures be implemented."
Paul Carter, Global Head of Risk Consulting, AGCS

For example, manufacturers are increasingly being caught out by the closure of critical suppliers, a trend which has both insurers and businesses concerned.

Business continuity planning should be an integral part of any company's procurement and selection process, advises Paul Carter, Global Head of Risk Consulting, AGCS.

However, he cautions that identification of critical suppliers is not always an obvious exercise. It is possible to make wrong assumptions and subsequently incorrect business decisions.

"Without adequate data it is not possible to identify hotspots within a supply chain," he continues. "Therefore data transparency between clients and insurers will become an increasingly important part of any supply chain analysis.

See report "Managing disruptions".

*Source: AGCS calculation based on preliminary natural catastrophe insured losses in 2013 of $38bn, according to Swiss Re. All $ are US$.

Changes in overall risk perception 2014

2014			2013 Rank	%	% change	Rank change
1	**Business interruption, supply chain**	**43%**	1	46%	-3%	–
2	**Natural catastrophes**	**33%**	2	44%	-11%	–
3	**Fire, explosion**	**24%**	3	31%	-7%	–
4	**Changes in legislation and regulation**	**21%**	4	17%	+4%	–
5	**Market stagnation or decline**	**19%**	8	12%	+7%	Up 3
6	**Loss of reputation, brand value**	**15%**	10	10%	+5%	Up 4
7	**Intensified competition**	**14%**	5	17%	-3%	Down 2
8	**Cyber crime, IT failures**	**12%**	15	6%	+6%	Up 7
9	**Theft, fraud, corruption**	**10%**	11	9%	+1%	Up 2
10	**Quality deficiencies, serial defects**	**10%**	6	13%	-3%	Down 4
11	**Market fluctuations**	**8%**	7	13%	-5%	Down 4
12	**Austerity programs**	**7%**	18	4%	+3%	Up 6
13	**Commodity price increases**	**7%**	14	7%	–	Up 1
14	**Technological innovation**	**7%**	13	8%	-1%	Down 1
15	**Credit availability**	**6%**	12	9%	-3%	Down 3
16	**Talent shortage, aging workforce**	**6%**	16	6%	–	–
17	**Pollution**	**5%**	20	3%	+2%	Up 3
18	**Political/social upheaval, war**	**4%**	17	5%	-1%	Down 1
19	**Power blackouts**	**3%**	21	3%	–	Up 2
20	**Health issues, pandemics**	**3%**	19	3%	–	Down 1
21	**Euro-zone breakdown**	**3%**	9	12%	-9%	Down 12
22	**Terrorism**	**3%**	24	2%	+1%	Up 2
23	**Environmental changes**	**3%**	22	2%	+1%	Down 1
24	**Inflation**	**2%**	23	2%	–	Down 1
25	**Protectionism**	**1%**	25	1%	–	–
26	**Deflation**	**1%**	26	0%	+1%	–

Figures represent the number of responses as a percentage of all survey responses (557)

Volatile weather activity on the increase

The threat posed by **natural catastrophes** remains the second top risk in this year's *Risk Barometer*. A total of 33% of respondents cite this as one of their major concerns, significantly down on the previous year (44%), reflecting what, at first glance, appears to be a relatively moderate year for natural catastrophes.

Insured losses from natural catastrophes totalled over $38bn* during 2013, down from $75bn a year earlier. Significantly, the 2013 Atlantic hurricane season recorded the lowest number of hurricanes (2) since 1982 with none making landfall in the US**.

"As the increase in the number of extreme weather events around the globe demonstrates, climate change is becoming more specific and threatening. More needs to be done in terms of prevention, than to rebuild what has been destroyed after each disaster", *Clem Booth, Member of the Board of Management, Allianz SE*

However, the devastation caused by Typhoon Haiyan in the Philippines and the fact that the 10 most costly insured catastrophe losses in 2013 were all weather-related events offers a reminder that volatile weather activity is increasing around the world. According to Allianz the bills associated with events are also rising. Insurers have paid out $70bn for damages from extreme weather events globally every year for the last three years alone. In the 1980s $15bn a year was paid out for such claims.

Allianz identifies four key steps businesses can implement now to be better prepared for future extreme weather events: update and test emergency preparedness plans; review business contingency plans; understand your insurance policy; and know what to prepare for.

See report "Superstorm Sandy – Lessons Learned: A Risk Management Perspective"

See report "The Weather Business – How Companies Can Protect Against Increasing Weather Volatility"

*Source: Swiss Re **Source: National Hurricane Center

Raising concern about fire, regulatory change and market stagnation

For the second year in a row **fire and explosion** and **changes in legislation and regulation** occupy third and fourth positions respectively in the *Risk Barometer* rankings. Fire is the top risk for companies in Russia (57%) and Hungary (42%) but overall companies appear less worried about this risk than a year ago.

Conversely, the barometer shows businesses are more concerned about the **regulatory environment** than last year with this being a particular worry for Asia Pacific operations. Here, it is ranked as the fourth top risk after not even being in the Top 10 in 2013.

Fear over **market stagnation or decline** (19%) completes the top five perils with concerns over sluggish growth in mature markets and slower growth in emerging markets much more prominent in 2014.

IT security not enough to combat rising cyber crime

According to Allianz experts the most heightened risk awareness in 2014 is around **cyber** and **loss of reputation** issues, with risk managers around the world increasingly on red alert about the threat such fast- evolving, high-tech perils pose.

Cyber risk is the biggest mover in this year's barometer, moving up to eighth from 15th (*see box*).

"There is now a general understanding among people who are not IT specialists that this is an emerging risk," says Nigel Pearson, Global Head of Fidelity, AGCS.

"Amid rising cyber criminality IT security is not enough. A comprehensive set of information and network security policies and procedures backed by the board of directors is essential. They also need to be properly implemented, tested and updated on a regular basis to ensure the risk management approach is adequate."

Pearson notes that many of the Top 10 risks in the barometer are closely interlinked, particularly changes in legislation, cyber risk and loss of reputation, which is ranked sixth in 2014, up four positions compared with last year.

"Industry reports indicate that if a company loses someone's data then that person's trust in that company diminishes. It damages their brand and reputation. This shows such risks can have a cumulative effect," Pearson says.

Cyber threats are evolving at an exponential rate

The growing involvement of organised crime, inadequate internal procedures, fast-developing, increasingly punitive supervisory environments and a hacking hit ratio that spammers can only dream of means cyber risk is now regarded as a bigger threat than ever before in 2014.

Companies increasingly face new exposures to first- and third-party liability and business interruption from attacks or disruptions with loss of personal data and theft of intellectual property major concerns.

And although businesses are becoming more aware of the damage a cyber attack or leak can do, many still struggle to get their heads around the "totality" of this risk, according to Nigel Pearson, Global Head of Fidelity at AGCS.

"Threats are evolving at an exponential rate," he says. "Whereas 10 or 15 years ago it was just hackers doing it for the kudos, today we see organized crime moving into this space, regarding it as an extremely lucrative market.

"Meanwhile, changes in the legislative environment around the world are making any failure to secure a person's data increasingly painful for companies in the forms of heavier fines and other penalties."

On average, it is estimated that a data breach costs US companies approximately $5.4m – the highest in the world*

According to José Fidalgo, Head of Risk Consulting Germany, AGCS the causes of first-party and third-party damage can be broken down by thirds; one third can be traced to glitches in the IT infrastructure, one third to internal process failures and one third to external attacks.

"Despite all the headline-grabbing accounts of hacking, it is often the case that most data is lost due to inadequate internal procedures and training," Pearson adds.

Yet innovative hackers are having increasing success with targeted "phishing" attacks, particularly in the form of emails to a company's employees which are similar in style, structure and language to official communications.

Anecdotal evidence suggests that, in some cases, these campaigns can results in hit rates as high as 1-in-10. Spam email generates 1 response per 12,500,000 emails or just 0.00001%, according to a University of California study.

Photo: Shutterstock

The Anonymous group of hackers has gained notoriety around the world after conducting a number of cyber attacks on global corporations. According to latest research, the cost, frequency and time to resolve cyber attacks continue to rise for the fourth consecutive year.

US organizations experience an average of 122 successful attacks per week, up from 102 attacks in 2012.

*The average time to resolve a cyber attack is 32 days, a 55% increase over 2012's 24 days.**

*Source: 2013 Cost of Data Breach Study: Global Analysis/Ponemon Institute

"Hidden" risks – the big movers

Risers	↗	Fallers	↘
Market stagnation	+7%	Natural catastrophes	–11%
Cyber crime, IT failures	+6%	Euro-zone breakdown	–9%
Loss of reputation or brand value	+5%	Fire and explosion	–7%
Changes in legislation and regulation	+4%	Market fluctuations	–5%
Austerity programs	+3%	Quality deficiencies	– 3%

The Risers and Fallers chart shows the increasing influence on the *Risk Barometer* of "hidden", often internal-focused risks such as cyber attacks, reputational damage and market conditions, the impact of which may not be immediately apparent to many businesses and can catch them unaware if not adequately managed. Conversely, although external risks such as natural catastrophes and fire continue to occupy the thoughts of businesses around the world, companies are not as worried about the threat posed by these as they were 12 months ago.

Increasing influence of social media and ESG

Reputation is valuable. The closely-related concept of brand value typically represents approximately 24% of a company's total value.*

AGCS warns the impact a negative image can have on price of products, stock and ability to hire the best talent should not be underestimated. Listed companies face an 85% likelihood of a significant corporate crisis in any five-year period**. In addition to security breaches this can stem from health and safety incidents, product recalls, allegations over business practices and negative association with third parties, to name but a few examples.

The increasing influence of social media only exacerbates the potential risks, according to Michael Bruch, Head of R&D, Risk Consulting, AGCS.

"It is easy for stakeholders to spread news quickly via social media," he says. "This can be beneficial but it also poses a risk because rumors can now be spread much faster, creating harmful positions for a company and its reputation."

However, Bruch points out reputational risk can be managed and even insured against, although he adds insurance represents only part of a risk management solution.

"Companies should put in place a board or committee focusing on environmental, social and governance (ESG) issues. They have to make sure these topics have the support of senior management," he says.

"There is an increasing need for transparency around processes and suppliers. If you don't communicate on these issues it can be increasingly harmful for the company."

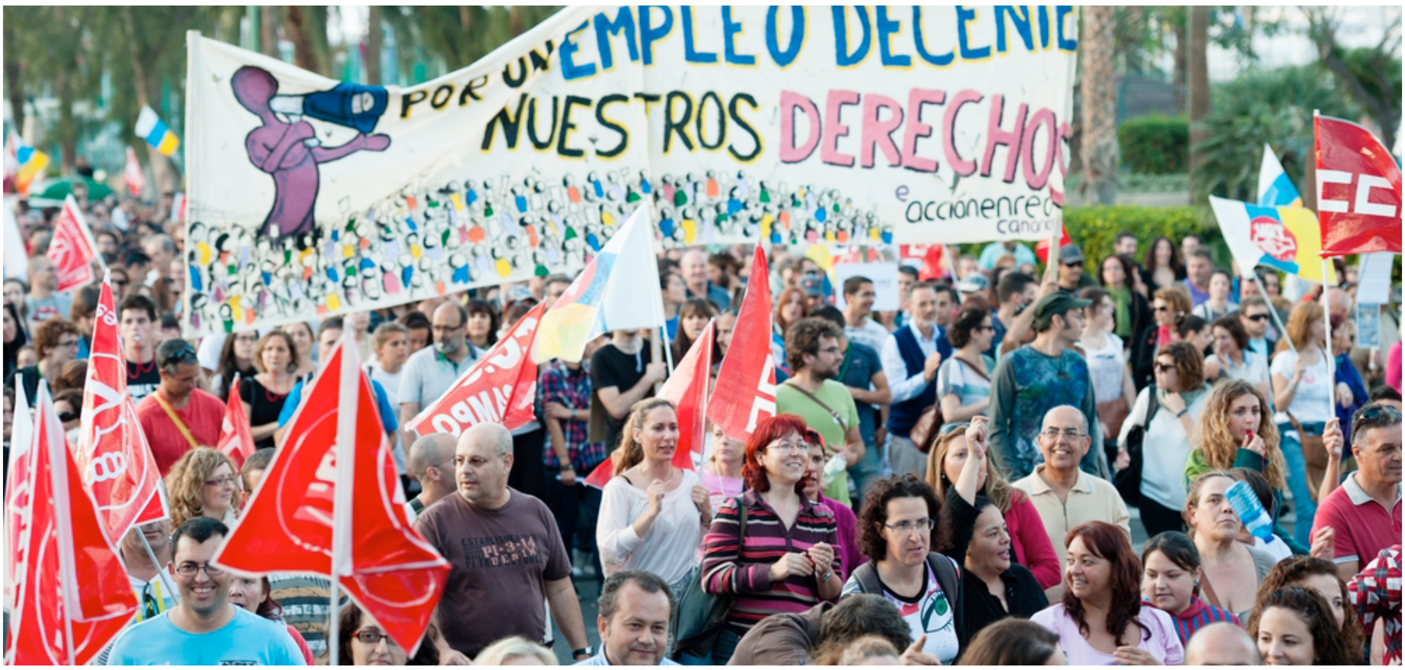


Photo: Shutterstock

Workers protest against austerity programs in Spain. The impact of such programs is the top risk for companies operating in the country

*Source: Brand Finance Global 500 report **Source: Oxford Metrica/Aon Reputational Risk Survey, 2011

Regional analysis: Fear overs Euro-zone breakdown and political upheaval recede

The 2014 *Risk Barometer* analyses contributions from a record 33 countries around the world. Although the top three risks – **BI/supply chain, natural catastrophes and fire and explosion** – are identical across all regions for the second successive year (*see table*) there are differences elsewhere.

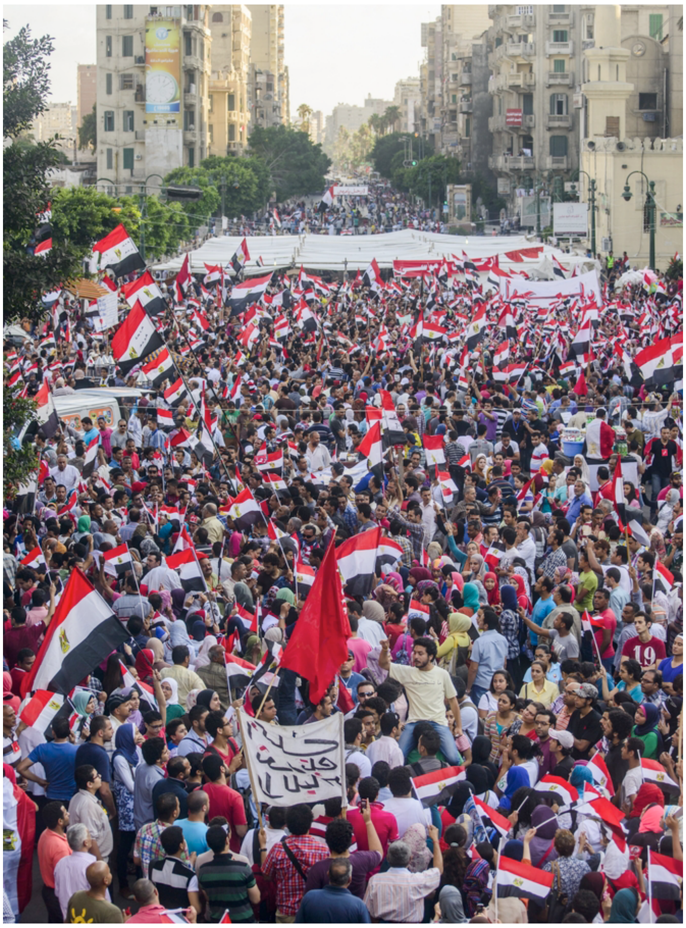
In **Europe** the barometer shows companies are feeling much more confident about the **future of the Euro-zone** then 12 months ago when this risk was a Top 10 concern.

Fears of a possible break-up have clearly receded with it dropping out of the Top 10 global risks to 21st. However, a number of countries remain worried about the impact of **austerity programs**. Allianz experts note that for companies in two countries adversely impacted by the economic downturn – Spain and Portugal – this is the top risk.

Reflecting global trends, **loss of reputation**, **cyber** and **theft** are all new entries in the Top 10 replacing fears over **market fluctuations**, such as currency and interest rate movements, and **credit availability**.

Meanwhile, across the **Middle East and Africa** region fears about the long-term impact of the events of the Arab Spring of 2011 also appear to be receding with concern about political/social upheaval not as prominent as a year ago. This peril drops one position in 2014 to 18th.

Photo: Shutterstock



Egyptians protesting against the government in Alexandria in June 2013. Companies in the Europe, Middle East and Africa region are not as worried about the impact of political upheaval as they were a year ago

Top 10 business risks by region in 2014

Americas 2014

		2014	2013	Trend
1	Business interruption, supply chain risk	56%	(52%) (1)	—
2	Natural catastrophes	53%	(49%) (2)	—
3	Fire, explosion	26%	(32%) (3)	—
4	Loss of reputation or brand value	16%	(10%) (8)	↗
5	Changes in legislation and regulation	15%	(23%) (5)	—
6	Market stagnation or decline	12%	(–) (–)	NEW
7	Theft, fraud and corruption	11%	(11%) (7)	—
8	Cyber crimes, IT failures, espionage	11%	(–) (–)	NEW
9	Talent shortage, aging workforce	9%	(–) (–)	NEW
10	Intensified competition	9%	(23%) (4)	↘

Europe, Middle East and Africa (EMEA) 2014

		2014	2013	Trend
1	Business interruption, supply chain risk	39%	(43%) (1)	—
2	Natural catastrophes	29%	(40%) (2)	—
3	Fire, explosion	24%	(30%) (3)	—
4	Market stagnation or decline	22%	(15%) (6)	↗
5	Changes in legislation and regulation	22%	(16%) (4)	↘
6	Intensified competition	16%	(15%) (7)	↗
7	Loss of reputation or brand value	14%	(–) (–)	NEW
8	Theft, fraud and corruption	12%	(–) (–)	NEW
9	Cyber crime, IT failures and espionage	11%	(–) (–)	NEW
10	Quality deficiencies, serial defects	10%	(16%) (5)	↘

Asia Pacific 2014

		2014	2013	Trend
1	Business interruption, supply chain risk	46%	(47%) (2)	↗
2	Natural catastrophes	30%	(50%) (1)	↘
3	Fire, explosion	25%	(27%) (3)	—
4	Changes in legislation and regulation	22%	(–) (–)	NEW
5	Loss of reputation or brand value	21%	(14%) (7)	↗
6	Cyber crime, IT failures and espionage	18%	(–) (–)	NEW
7	Commodity price increases	16%	(17%) (5)	↘
8	Market fluctuations	13%	(18%) (4)	↘
9	Intensified competition	12%	(11%) (9)	—
10	Talent shortage, aging workforce	9%	(12%) (8)	↘

Figures here represent a percentage of all relevant responses. Responses for Europe, Middle East and Africa: 396 (it is important to note that European responses dominate); Americas: 85; Asia Pacific 76

Americas and Asia Pacific worry about brand value and talent gap

Loss of reputation or brand value is the biggest mover in the Top 10 risks in the **Americas** region with **market stagnation** and **cyber** perils also perceived as posing a greater threat than 12 months ago. **Asia Pacific** is the only region not to be overly-concerned about the prospect of market stagnation or decline with this risk failing to make the Top 10, unlike in EMEA (fourth) and the Americas (sixth).

However, there is evidence the **regulatory bite** that has increasingly occupied the attention of companies in Europe and the Americas in recent years is finally beginning to crunch in Asia Pacific – 22% of Allianz experts believe it now constitutes a major concern.

"What we are seeing – and China is one of the best examples of this – is that Asia is experiencing what industrialised countries have gone through recently in terms of regulatory development but over a much shorter time period," says Michael Bruch, Head of R&D, Risk Consulting, AGCS. "For example, the rise of environmental pollution, and then the introduction of more strict legislation around it, are happening within 10 years."

Cyber is another new entrant in the Top 10 Asia Pacific risks with increasing signs that tougher legislative proposals – similar to those on the table in the European Union – are to be introduced in Australia and debated in other territories. Awareness outside of the region's core markets is definitely beginning to catch up.

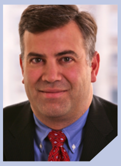
A shortage of skilled talent remains a Top 10 risk in the region with a lack of trained candidates cited as a major concern. Competition is fierce among global companies in the region to hire the best talent.

Talent shortage is considered a more pronounced risk in the Americas region (*see box*).

Addressing the talent shortage in the insurance industry

In mature markets such as the US but also in growth markets across Asia and Latin America, a key challenge facing the insurance industry is how to attract the next generation of talent.

Nearly 500,000 insurance professionals are retiring between 2008 and 2018, according to McKinsey; and the US industry alone will have to fill a gap of about 50,000 new hires a year – from claims to underwriting.



Hugh Burgess

According to Hugh Burgess, Chief Executive, Americas, AGCS such a gap means investing in developing expertise is essential. "New skills are needed – not the same as what were required 20 years ago." Burgess says different skillsets are necessary because new risks and challenges have arisen driven by factors such as increasing globalization; more competition; faster supply chains; "lean and just-in-time" manufacturing processes; digitalization; higher quality demands; greater regulation and compliance; increased complexity and interconnectedness of risk; and advancements in risk modeling.

"Both 'hard' and 'soft' skills are needed," he says, classifying "hard" skills as "technical underwriting insight based on understanding of clients' businesses; strong awareness of emerging perils such as environmental risks; insight into the client risk environment and new markets; and increasing specialization of knowledge, such as understanding of finance and engineering for BI risks".

"Soft" skills incorporate international/cultural awareness, languages, relationship-building, collaboration around cross-border/teams, as well as an "innovative mindset". Burgess says there is also a need for companies such as Allianz to "grow their own experts" in addition to hiring engineers in specialized fields such as aviation, marine and energy.

"We have no choice but to do so if we want to keep pace," he says. "The world has changed: industry may not have focused enough on these issues in the past but going forward we are looking to more of a 'consulting type' environment, and with similar investment in training."

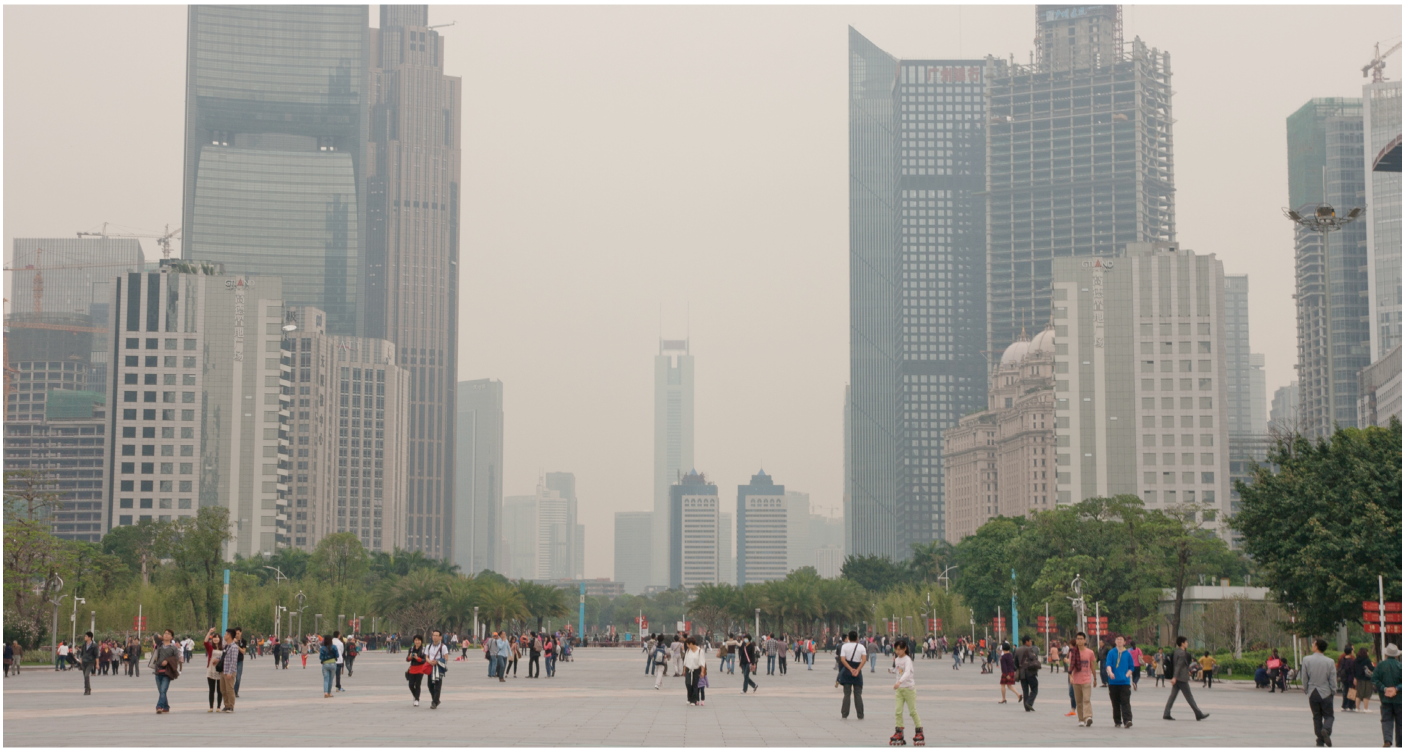


Photo: Shutterstock

Guangzhou, China. Many of China's cities face serious air pollution and poor air quality as the development of industry continues at a dramatic pace. The need for strong environmental regulation has prompted the government to move forward with a number of new policies and laws

Sector analysis: Regulatory change worries power sector, theft concerns marine

As per last year, the top three risks rank consistently highly across the majority of the six featured sectors (*see table*). However, fire and explosion is not regarded as a major concern by the financial services and marine sectors.

Key sector trends identified in the 2014 *Risk Barometer* include:

The **Engineering and Construction** sector is most worried about the impact of natural catastrophes and BI/supply chain risk and is the only sector to regard availability of credit as a top five concern.

For the **Manufacturing** sector BI and supply risk is comfortably the major concern (60%) with supply chain in particular deemed to be difficult for manufacturers to manage due to global demands for raw materials and competition.

Legislative change is the top risk in the **Power and Utilities** sector with BI/supply chain risk second and power blackouts third. The risk posed by the latter is increasing. Major power outages in the US caused by weather increased from five to 20 each year during the mid 1990s, to 50 to 135 each year during the past five years, according to AGCS. Power quality and blackout issues in the US currently cost industrial and commercial companies between $132bn and $209bn.

"The power and utilities sector is increasingly concerned about regulatory change. A good example is the *Energiewende* in Germany. With the planned transition to renewable energies, traditional business strategies of the power supply industry have to be reconsidered. On the other hand, there is great potential for Germany to benefit from its new energy policy by leading the transition to the energy world of the future."
Michael Bruch, Head of R&D, Risk Consulting, AGCS

"Enterprise-level risk management as a strategic function is not yet commonplace in many Asian companies, but we feel this is likely to change in coming years."
Alexander Ankel, Regional CEO, Asia, AGCS

After natural catastrophes, theft, fraud and corruption is the second major concern for the **Marine and Shipping** sector. Theft is also a major concern in the **Transportation** sector with Allianz experts noting many companies are aware of incidences of internal fraud being perpetrated by staff but are unsure how to solve or mitigate this issue.

According to AGCS and CargoNet, an industry information network for cargo theft prevention and recovery, estimated industry losses in the US as a result of cargo theft are in excess of $1bn per year.

Meanwhile, in the **Aviation** sector (*not featured in the table*) there is growing concern about the impact a large-scale cyber attack could have, particularly given the interconnected world of booking systems and client data.

For the **Financial Services** sector changes in regulation and legislation remains the number one concern, reflecting increasing supervisory intervention around the globe following the financial crisis. Cyber crime was also identified as a fast emerging risk in this sector, with heightened awareness in the wake of a number of high-profile attacks.

Top business risks in 2014 by industry

	Engineering/Construction	
1	Natural catastrophes	40%
2	Business interruption, supply chain risk	35%
3	Market stagnation or decline	33%
4	Fire,explosion	27%
5	Credit availability	18%

	Manufacturing	
1	Business interruption, supply chain risk	60%
2	Natural catastrophes	42%
3	Fire, explosion	36%
4	Market stagnation or decline	24%
5	Intensified competition	24%

	Transportation	
1	Theft, fraud and corruption	46%
2	Natural catastrophes	25%
3	Fire, explosion	25%
4	Market stagnation or decline	21%
5	Intensified competition	21%

	Power & Utilities	
1	Changes in legislation and regulation	53%
2	Business interruption, supply chain risk	53%
3	Power blackouts	24%
4	Natural catastrophes	21%
5	Fire, explosion	15%

	Marine & Shipping	
1	Natural catastrophes	38%
2	Theft, fraud and corruption	24%
3	Business interruption, supply chain risk	24%
4	Market stagnation or decline	21%
5	Changes in legislation and regulation	17%

	Financial services	
1	Changes in legislation and regulation	39%
2	Natural catastrophes	25%
3	Market fluctuations	25%
4	Business interruption, supply chain risk	18%
5	Loss of reputation or brand value	18%

Figures here represent the number of responses as a percentage of all responses (between 28 and 60 responses per industry)

Differences between large and mid-sized enterprises

Risk	2014 Large	2014 Mid-sized	2013 Large	2013 Mid-sized
Austerity programs	6%	9%	4%	2%
Business interruption, supply chain risk	51%	31%	48%	42%
Changes in legislation and regulation	22%	20%	19%	15%
Commodity price increases	7%	8%	6%	8%
Credit availability	5%	7%	5%	12%
Cyber crime, IT failures, espionage	16%	6%	7%	4%
Deflation	0%	1%	1%	2%
Environmental changes	3%	2%	2%	2%
Euro-zone breakdown	3%	3%	12%	12%
Fire, explosion	18%	33%	27%	32%
Health issues (for example, pandemics)	1%	6%	2%	5%
Inflation	1%	4%	1%	3%
Intensified competition	14%	15%	15%	18%
Loss of reputation or brand value	19%	11%	13%	8%
Market fluctuations	6%	9%	11%	15%
Market stagnation or decline	17%	22%	12	13%
Natural catastrophes	37%	27%	45%	42%
Political/social upheaval, war	4%	5%	6%	4%
Pollution	5%	6%	3%	2%
Power blackouts	4%	3%	4%	2%
Protectionism	1%	1%	1%	2%
Quality deficiencies, serial defects	11%	8%	17%	9%
Talent shortage, aging workforce	7%	3%	6%	6%
Technological innovation	8%	4%	10%	5%
Terrorism	2%	4%	1%	2%
Theft, fraud, corruption	6%	17%	5%	13%

2014 figures represent the number of responses as a percentage of all survey responses for large companies (326) and mid-sized enterprises (231).

Differences between large and mid-sized companies

According to the *Risk Barometer* large businesses are more exposed to isolated, singular events. Regarding the top three risks **BI/supply chain** is of more concern to larger enterprises. **Fire and explosion** is deemed more important by mid-sized enterprises due to a lack of available resources.

Mid-sized firms are also more concerned about the impact of **austerity programs**; **credit availability** – most of these firms have no access to the capital markets; **health issues such as pandemics** – because these can dramatically impact workforce availability; and **theft**, with a lack of consistent guidelines and resources again cited as reasons for this being a concern.

"When we look back at how companies get into trouble, most of the time it is due to inadequate internal processes. The capability to manage these top 20 external risks is intrinsically-linked to the quality of a company's internal risk management."
Michael Bruch, Head of R&D, Risk Consulting, AGCS

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