

# Press Release

## Allianz Risk Barometer 2014: companies challenged by growing interconnectivity of risks

- Business interruption & supply chain, natural catastrophes, fire & explosion rank as top risks for companies in 2014.
- Cyber and reputational loss perils are significantly moving up the risk rankings.
- Increasingly complex and interconnected risks need strong internal controls and a holistic risk management approach from businesses.

**Munich, January 14, 2014.** Business interruption (BI) and supply chain, natural catastrophes and fire/explosion are the principal risks that continue to occupy the attention of global companies at the start of 2014, according to the third annual [Allianz Risk Barometer](#), which surveyed over 400 corporate insurance experts from 33 countries.

The survey highlights the increasing complexity of business risks, including a combination of new technological-, economic- and regulatory-related risks, potentially creating a systemic threat for businesses. Allianz suggests that companies can respond to these growing challenges through stronger internal controls, combined with a holistic approach to risk management.

2014 will also be a critical year for companies when it comes to dealing with the threat posed by a number of emerging perils explains **Axel Theis**, CEO of **Allianz Global Corporate & Specialty SE** (AGCS): "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, IT-systems failure and power blackouts, among other perils."

In its 2014 *Risk Barometer*, Allianz highlights that businesses are more concerned about cyber and reputational risks than ever before. In the prolonged sluggish economic environment, they also worry more about market stagnation/decline and, especially in growth markets, about talent shortages.

Not least due to the 'Energiewende', German companies in particular are highly occupied by changes in regulation and legislation, elected top three risk. According to **Michael Bruch**, Head of R&D, Risk Consulting, AGCS. "With the planned transition to renewable energies in Germany, 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."

## Top two risks generate highest losses

Business interruption and supply chain losses account for around 50-70% of all insured property losses, as much as \$26bn a year for the insurance industry based on 2013 data. As in last year's *Risk Barometer*, they represent the number one concern for businesses around the globe, including in Australia, Brazil, France, Germany, the UK and the US.

"As supply chains are becoming increasingly complex in a global sourcing world, any disruption – for example due to natural catastrophes, IT/telecom outages, transportation issues, a supplier's bankruptcy or civil unrest – can lead to a snowball effect", advises **Paul Carter**, Global Head of Risk Consulting, AGCS. "Business continuity planning is key and should be part of any company's procurement and supplier selection process. Yet, to ensure appropriate mitigation measures can be implemented, it is no longer sufficient to know your 'critical' suppliers; you also need to have a grasp of how they manage their own supply chain exposures."

While BI remains the biggest threat for large corporates, mid-sized companies tend to be more concerned about fire and explosion, the impact of austerity measures and credit availability.

Even more costly than BI damages, insured losses from the second top risk, natural catastrophes, totalled over \$38bn in 2013 (source: Swiss Re). A year earlier, due to a more damaging Atlantic hurricane season, they even amounted to \$75bn.

## Cyber and other interlinked emerging risks on the forefront

According to Allianz experts, the most heightened risk awareness in 2014 is around cyber and loss of reputation issues. Cyber is the biggest mover in this year's *Risk Barometer* climbing up to rank 8 from 15, while reputation moved up to 6 from 10.

Many of the top 10 risks in the *Risk Barometer* are closely interconnected with a potential cumulative effect, particularly changes in legislation, cyber risk and loss of reputation.

Amid rising cyber crime 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.

"Still, even with the best risk management framework, companies will never be 100% safe from glitches in their IT-infrastructure, failure of internal processes or external cyber-attacks that result in network interruption or data loss. Each business needs to decide whether it can afford to carry that risk itself or transfer it by taking out a cyber-insurance policy", says Nigel Pearson, Global Head of Fidelity (including Cyber) at AGCS.

## Changing regional differences in the appreciation of business risks

In **Europe** the *Risk Barometer* shows companies are feeling much more confident about the future of the Euro-zone than 12 months ago. However, a number of countries remain worried about the impact of austerity programs: for Spain and Portugal, for example, this is now the top risk.

Loss of reputation or brand value is the biggest mover in the Top 10 risks in the **Americas** region (from rank 8 in 2013 to 4 in 2014), but concerns over talent shortages are also notable in this region, as they are in **Asia Pacific**.

Following a longstanding trend in the Americas and Europe, **Asia Pacific** is now also increasingly occupied with regulatory changes, for example as tougher legislation about

rising environmental pollution is introduced.

### **Industry trends: regulatory change worries Power and Financial Services sectors**

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 significantly the major concern (60% of respondents citing this) 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.

After natural catastrophes, theft/fraud/corruption is the second major concern for the **Marine and Shipping** sector (which includes cargo operators). Theft, particularly internal fraud, is also an important threat in the **Transportation** sector.

Meanwhile, in the **Aviation** sector 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.

Cyber-crime was also identified as a fast emerging risk for the **Financial Services** sector. Nevertheless, regulatory changes remain the sector's number one concern, reflecting increasing supervisory intervention around the globe following the financial crisis.

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For more information and to download the full Allianz Risk Barometer 2014 go to:  
[http://www.agcs.allianz.com/assets/PDFs/Reports/Allianz-Risk-Barometer-2014\\_EN.pdf](http://www.agcs.allianz.com/assets/PDFs/Reports/Allianz-Risk-Barometer-2014_EN.pdf)

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Worldwide, AGCS operates in 28 countries with own units and in more than 160 countries through the Allianz Group network and partners. It employs more than 3,500 people and provides insurance

solutions to more than half of the Fortune Global 500 companies, writing a total of €5.3 billion gross premium worldwide annually (2012).

AGCS is rated AA by Standard & Poor's and A+ by A.M.Best (November 2013).

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