What's worrying businesses most in 2017?

Companies increasingly fear the unpredictable business environment, where markets are volatile and political perils – such as protectionism or terrorism – are on the rise. Other growing concerns are digital dilemmas arising from new technologies and cyber risks, as well as natural catastrophes. However, what continues to trouble them most, are losses from business interruption.

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These are the key findings of the 6th annual Allianz Risk Barometer analysing corporate risks globally, as well as by region, country, industry and size of business. The results are based on a survey conducted among 1,237 risk experts from 55 countries.

Business interruption

Business interruption (BI) continues to lead the ranking for the fifth year in a row (37% of responses), primarily because it can lead to significant income losses, but also because multiple new triggers are emerging, especially non-physical damage or intangible perils, such as cyber incidents, and disruption caused by political violence, strikes and terror attacks.

This trend is driven, in part, by the rise of the Internet of Things (IoT) and the ever-greater interconnectivity of machines, companies and their supply chains which can easily multiply losses in case of an incident. Companies are also facing potential financial losses with the changing political landscape (Brexit, Trump, upcoming EU elections, etc.) leading to fears of increasing protectionism and anti-globalisation.

“Companies worldwide are bracing for a year of uncertainty,” says Chris Fischer Hirs, CEO of Allianz Global Corporate & Specialty (AGCS) SE. “Unpredictable changes in the legal, geopolitical and market environment around the world are constant items on the agenda of risk managers and the C-suite. A range of new risks are emerging beyond the perennial perils of fire and natural catastrophes which require re-thinking of current monitoring and risk management tools.”

Cyber tops the rankings in South Africa

“Cyber incidents (30%) costs the South African economy around R35 billion annually with the most common threats being from hackers, disgruntled employees, negligence and competitors so it doesn’t surprise us to see this risk ranked first in the country for the second year in a row,” says Nobuhle Nkosi, head of financial lines AGCS Africa.

“South Africa continues to face macroeconomic challenges, including low commodity prices, the Chinese slowdown and the tightening of US monetary policy and also suffers from its own internal pressures such as inflation, weak domestic demand and socio-political tensions.”

The most important risks for businesses in South Africa 2017

Top 10 business risks for South Africa			2016 Rank	Trend
1	Cyber incidents (cyber crime, IT failure, data breaches, etc.)	30%	1 (42%)	-
2	Business interruption (incl. supply chain disruption, and vulnerability)	29%	2 (32%)	-
3	Macroeconomic developments (austerity programs, commodity price increase, deflation, inflation)	28%	3 (26%)	-
3	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	28%	5 (21%)	▲
5	Changes in legislation and regulation (goverment change, economic sanctions, protectionism, etc.)	25%	3 (26%)	▼
6	Fire, explosion	21%	7 (16%)	▲
7	Natural catastrophes (e.g. storm, flood, earthquake)	17%	NEW	▲
7	Political risks and violence (war, terrorism, etc.)	17%	7 (16%)	-
9	Talent shortage	16%	NEW	▲
10	New technologies (e.g impact of increasing interconnectivity, nanotechnology, artificial intelligence, 3D printing, drones, etc.)	14%	7 (16%)	▼

Source: Allianz Global Corporate & Specialty

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Market and macroeconomic developments lead the way in Africa & Middle East

“Africa has a particular role in embracing and responding to new technologies compared to mature markets. Although, this is a major concern, the biggest threats to the continent are market developments (39%), macroeconomic developments (37%) and political risks and violence (31%),” says Delphine Maïdou, CEO of AGCS Africa.

While conventional terrorism is a real concern, the growing risk of political violence events such as war, civil war, insurrection and other politically motivated incidents which focus on countries – particularly in Middle East and Africa – rather than certain locations should not be underestimated, according to Christof Bentele, head of global crisis management, AGCS. “The impact for globally operating businesses and our customers can be much greater and longer-lasting,” he says.

“Instability in African states such as Burundi, The Gambia, Democratic Republic of Congo, Libya, Somalia and South Sudan is a chief concern as well as the persistent Islamic terrorism of Boko Haram in some parts of Nigeria,” adds Maïdou.

Market developments and volatility

Globally, market developments and volatility (31% of responses) is the second most important business peril in 2017 and the top concern in the aviation/defense, financial services, marine and shipping and transportation sectors, as well as across the Africa & Middle East region in general.

In order to anticipate any sudden changes of rules that could impact markets, companies will need to invest more resources into better monitoring politics and policy-making around the world in 2017. According to trade credit insurer, Euler Hermes, a subsidiary of Allianz SE, since 2014, there have been 600 to 700 new trade barriers introduced globally every year.

Top 10 business risks by region in 2017: Africa & Middle East

	Top 10 business risks		2016 Rank	Trend
1	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	39%	1 (44%)	-
2	Macroeconomic developments (austerity programs, commodity price increase, deflation, inflation)	37%	1 (44%)	▼
3	Political risks and violence (war, terrorism, etc.)	31%	7 (27%)	▲
4	Changes in legislation and regulation (goverment change, economic sanctions, protectionism, etc.)	26%	3 (32%)	▼
5	Cyber incidents (cyber crime, IT failure, data breaches, etc.)	23%	5 (30%)	-
6	Business interruption (incl. supply chain disruption, and vulnerability)	22%	5 (30%)	▼
7	Natural catastrophes (e.g. storm, flood, earthquake)	17%	3 (32%)	▼
8	Fire, explosion	15%	8 (25%)	-
9	Theft, fraud, corruption	14%	9 (20%)	-
10	Loss of reputation or brand value	10%	NEW	▲

Source: Allianz Global Corporate & Specialty. Figures represent a percentage of all relevant responses. 182 respondents. More than one risk selected.

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Digitalisation and cyber risk

At the same time, increasing reliance on technology and automation is transforming, and disrupting, companies across all industry sectors. While digitalisation is bringing companies new opportunities, it is also shifting the nature of corporate assets from mostly physical to increasingly intangible, bearing new hazards, above all cyber risks (30% of responses). Companies ranked cyber threats a close #3 globally, climbing to #2 across the Americas and Europe and the top risk in Germany, the Netherlands, South Africa and the UK. At the same time, it is the top concern globally for businesses in the information and telecommunications technology and the retail/wholesale sectors.

The threat now goes far beyond hacking and privacy and data breaches, although new data protection regulations will exacerbate the fall-out from these for businesses. Time is running out for businesses to prepare for the implementation of the new General Data Protection Regulation across Europe in 2018 – although the cost of compliance will be high, the penalties of not doing so could be even higher.

Meanwhile, increasing interconnectivity and sophistication of cyber-attacks poses not only a huge direct risk for companies but also indirectly via exposed critical infrastructures such as IT, water or power supply. Then there is the threat posed by technical failure or human error, which can lead to long-lasting and widespread BI exposures.

In the digitalised production or Industry 4.0 environment, a failure to submit or interpret data correctly could stop production. Businesses need to think about data as an asset and what prevents it from being used. Results also show that smaller companies may be underestimating cyber risk: in this category (revenues under €250 million), cyber ranks only #6. However, the impact of a serious incident could be much more damaging for such firms.