



RISK & INNOVATION

2016: A Look Ahead

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OVERVIEW

2015 was a year of change. Innovative organizations are developing new ways to tackle some of the developing world's biggest challenges. In labs around the world, scientists are working on revolutionary technologies. Medical experts are teaming up with technologists to devise breakthrough treatments that combine cutting-edge technology with the latest in biological science. After a concerted effort, the Ebola outbreak in west Africa came to an end, leaving valuable lessons for future pandemics. The development of new trade deals promised renewed global growth.

At the same time, market turmoil in China led to renewed uncertainties over global growth. Oil and commodity prices remained low, putting further pressure on the global economy, and emerging markets in particular. The migration crisis in Europe put increasing strain on welfare systems and European unity. Terrorist attacks in Nigeria, Mali, France, Kenya, Egypt, Lebanon, the U.S. and elsewhere heightened security fears. Global average temperatures for the year reached new heights, putting fresh pressure on businesses to increase their environmental sustainability, with a roadmap agreed at the COP21 summit in December. Monetary policy began to diverge with the U.S. raising interest rates for the first time since 2006, potentially threatening further market volatility.

To see what may be in store for 2016, we asked some of Aon's leading experts to talk us through the trends they've been following over the past twelve months – and what they expect to see over the coming year:

- Confidence in global growth will re-emerge
- Disruptive technologies will lead to new approaches to risk management
- Climate challenges will continue, but progress will be made
- The global skills shortage will encourage new approaches to recruitment



IN DEPTH

Confidence in global growth will re-emerge

Following a late summer and fall of economic growth soul searching, 2016 is shaping up to be a year where we may begin to rebuild confidence in sustainable global economic growth.

Mature American economies may lead the building confidence while growth prognostications from China are critically analyzed and rationalized – for example, as people come to realize that six percent growth in Chinese GDP today is worth more economically than their nine percent growth five years ago. Western Europe, the United Kingdom and certain emerging Latin American economies may strengthen too, but slowly.

With commodity prices, currency exchange rates and interest rates each and all sensitive to such building confidence in economic growth, we expect interest rates to continue near their current historically low levels. These low interest rate levels will continue to drive investors to potentially higher yielding and/or diversifying investments.

These tendencies will drive more capital to insurance and reinsurance risks.

Insurance and reinsurance is generally not tied to interest rates or economic activity that could affect stock prices, so has become highly attractive for investors, with \$68 billion of so-called alternative capital already deployed in the business. This capital is helping insurers and reinsurers lower their cost of underwriting capital. We expect alternative capital to grow to \$120-\$150 billion by the end of 2018. Businesses exposed to insurable property, casualty and liability risks will continue to see lower costs of risk transfer and risk financing as we head into 2016, which should further help economic growth.

Bryon Ehrhart, CEO, Aon Benfield Americas & Aon Securities Inc.

Disruptive technologies will lead to new approaches to risk management

2016 is the year in which the “Internet of Things” (IoT) – basically a world in which data and machines makes decisions – becomes a big topic for discussion across business, government and insurers. The revolution in smart technology cuts across all industries. Everyone is using it in some way, from traditional manufacturers to retailers to pharmaceutical companies.

With disruptive technologies and new business models from 3D printing, to IoT and “The Sharing Economy”, there are no clear guidelines, case law or historical data to help make underwriting decisions for risks. There is both a challenge and an opportunity in developing new risk solutions for this exciting space.

At its core, 3D printing technology is an evolution in manufacturing. Naturally, as more parties are involved in the manufacturing process, risk and potential liability becomes the significant concern: who’s at fault? Is the product real or counterfeit? Was it a design error, a manufacturing error or raw material failure?

With the Internet of Things, sensors imbedded inside devices can help make real-time decisions, which can improve efficiency, enhance safety, and lower costs. It can also introduce new risks and uncertainty, so the insurance industry will need to develop new approaches to underwriting this risk.

2016 will also see more innovation in the automotive industry, with more autonomous vehicles and driver assist technology. The manufacturers themselves are very advanced – it’s the regulators that are really lagging.

It’s going to be an interesting time because insurance and effective risk management will be a critical component in the growth of disruptive technology.

Randy Nornes, Executive Vice President, Aon Risk Solutions

Climate challenges will continue, but progress will be made

In late November 2015, the World Meteorological Organisation (WMO) stated that 2015 was very likely to become the warmest on record, testifying to rising global temperature trend in recent decades.

The major objective of United Nations Climate Change Conference held in Paris at the beginning of December was to adopt international agreement on the reduction of greenhouse gases to limit the increase of global temperatures.

Most achievements during the conference are not likely to have any effect on mitigation of 2016’s weather related risks, but may be a basis for reduction of risks from atmospheric perils in a long run. The conference could see immediate results by organizing international cooperation and drafting legal frameworks to prevent and fight forest fires, such as we have seen in Indonesia recently. The unprecedented effects of forest fires not only lead to massive greenhouse gas emissions, but also pose an imminent health risk to millions of people in Indonesia and several neighboring countries.

El Niño, one of the main contributing factors to last year’s high temperatures, was peaking at the end of 2015. It’s expected to weaken into a neutral phase before the start of the hurricane and typhoon seasons of 2016. Based on past experience, this means we can expect to see above average precipitation in California and along the Atlantic coast of the U.S. this winter, with weather patterns worldwide also affected by the phenomenon. Nevertheless, it is still highly uncertain which form and intensity the precipitation will take.

Adam Podlaha, Head of Impact Forecasting, Aon Benfield

The global skills shortage will encourage new approaches to recruitment

A key employment need is emerging that will become an acute challenge for organizations in 2016 and beyond: worldwide, employers are increasingly seeking functional skillsets that successfully combine with data and analytics, but are finding these hard to find.

This skills shortage will drive organizations to take innovative approaches to nurturing and cultivating their talent pipelines. Increasingly, they will look to forecast the future availability of talent across all their growth markets based on data-driven factors including population growth, current talent availability, availability of qualified graduates, trends in talent migration, commute times, incentives for new businesses and more. Forecasting scenarios of talent needed to support business growth will be a core part of talent pipelining.

Meanwhile, the workforce of the future is still struggling, with global youth unemployment stabilizing well above pre-crisis levels. This could form part of the solution to the global skills shortage, as organizations seek to curate skills that match their capability needs by hiring graduates for apprenticeship programs that can tap into specific millennial skillsets like project management, virtual collaboration and knowledge of the digital economy, then layer deep expertise from more experienced professionals.

At the same time, this growing demand for new skills will also see both employees and job-seekers come under pressure to upgrade their capabilities and merge their existing skillsets with data orientation and analytical acumen.

Not only will we see this trend continue, we anticipate that organizations will go beyond graduate schools to nurture talent within high school students through specific talent and skills recognition contests and educational scholarships.

Usha Mirchandani, Partner, Talent Analytics, Aon Hewitt

TALKING POINTS



"Mergers and acquisitions reached a record high this year. Don't expect 2016 to keep up the blistering pace, but do watch for a couple of famous brands to get absorbed by competitors... We also foresee a good year for women in leadership—on corporate boards, if not necessarily in corner offices." – Fortune



"There have already been hacks that caused physical damage in the offline world, but experts are warning that 2016 might bring an attack on critical infrastructure. The result, they predict, will be new laws to shore up the electrical grid, nuclear power plants, and other large energy facilities." – Inc.



"In 2016 more than a quarter of millennial professionals are set to become managers... they will be 'transformational' rather than autocratic leaders, doing away with traditional hierarchies and driving companies to do something good for society, as well as make money." – The Center for the Future of

Work

FURTHER READING

- The Fed Is Clouding Market Predictions For 2016 – Forbes, December 15, 2015
- This Outrageous Predictions Says Oil Will Hit \$100 In 2016 – MarketWatch, December 17, 2015
- Check Out The Business Tech Trends For 2016 – SME Insider, December 18, 2015
- IT Predictions For 2016 – Business Review Europe, December 14, 2015
- 2015 Set To Be Hottest Year on Record – But Next Year Could Be Even Hotter – ITV News, December 17, 2015
- El Niño To Last Into Middle Of 2016 – The Wall Street Journal, November 24, 2015
- 10 Workplace Predictions For 2016 – Time, December 15, 2015
- The 2016 Job Market Is Looking Bright For Workers – Fortune, December 16, 2015

