



CAPITAL & ECONOMICS

2017 Trends: What Is The Board Thinking About?

OVERVIEW

2016 saw some momentous – and often unexpected – changes in the world. Predicting the future seemed even harder than usual, and 2017 will likely continue in the same way. But trends are still identifiable, despite the uncertainty.

The global economy is still dealing with the fallout from the financial crisis, with declining GDP, higher levels of global debt, and financial market uncertainty. In a connected global economy, small miscalculations and dips can have widespread consequences. Understanding business and economic trends and navigating them with caution is imperative.

Demographic change continues to challenge the world's infrastructure. The rate of population growth has decreased by 39 percent since 1960, but an increase in average life expectancy of 36 percent over the same time period means that there is an increasingly aging population. This puts a strain on growth, on pension fund obligations and on healthcare providers. Widespread urban migration puts even more pressure on public services and infrastructure.

Globalized markets can offer immense opportunity as well as increased risk. A connected economy means that local economic shocks can become global issues. Migratory human networks can unwittingly help spread pandemics like Ebola and Zika. The World Bank estimates a bad pandemic could kill millions and reduce global GDP by up to 10 percent. These risks, together with a perceived imbalance of power and wealth, have also given rise across 2016 to a variety of populist political movements opposed to globalization. Varying perceptions of business critical issues like free trade will likely have profound effects and understanding these change trends will be more important than ever.

Below, experts discuss the top trends organizations will likely need to be mindful of in the coming year.

IN DEPTH

Geopolitics: Political Uncertainty Causing Market Volatility

With new questions and concerns over the pace of globalization and a potential rise of protectionism, there's more geopolitical instability than we've seen in quite some time. Major questions surround the overall impact on the global economy if some proposed policies are implemented.

For example, the UK's Brexit vote in June and the 2016 U.S. Presidential election had results that surprised markets and caused short-term volatility. The Italian Prime Minister recently resigned after losing a national referendum. The 2017 elections France and Germany may also surprise forecasters, and cause yet more instability in markets.

These markets have so far been able to recover from the initial shocks caused by these events, but the longer-term impact remains to be seen. It's possible that they will create further levels of instability and uncertainty that organizations will need to address.

Organizations will also need to assess global assets and obligations. This is especially important for investments such as pension funds, which can represent a significant proportion of a company's enterprise risk. Understanding how their pension asset portfolios might change relative to liabilities can be helped by applying stochastic models and assessing the impact of potential alternative market scenarios – ultimately helping companies to understand their risk exposure, and to develop strategies and execution processes to mitigate that potential impact.

Paul Garner, Partner, International Retirement & Investment, Aon Hewitt

External Market Forces Will Push Companies To Re-Examine Org Structures

2016 showed us that things can change very quickly. As organizations deal with the impact of interest rates, currency volatility, technological disruption, and varying degrees of geopolitical instability, one thing is certain: leaders will continue to ask: "how do we best respond to the current environment?".

Traditionally, we've seen organizations develop their employees individually – this isn't anything new. But our world is moving so fast, what we will now see is organizations developing *groups* of employees, designed to be agile enough to quickly address issues and also capitalize on opportunities before competitors. Being able to assemble teams and deploy resources quickly requires a detailed understanding of a workforce, so you can bring in the right team at the right time. More progressive companies are already deploying these agile teams.

At the same time, there is a balance organizations need to strike when moving to this structure: assembling teams quickly versus keeping employees and teams accountable via managers and controls. The pendulum has been swinging toward agility, but we're seeing the need for more accountability when acting quickly.

Joanne Dahm, Managing Director Americas – Talent, Rewards and Performance, Aon Hewitt

Protectionism And Threats To Global Trade

Anti-globalization sentiment, fueled by nativist and populist political messages, is evolving from being pure rhetoric to becoming a serious threat to firms that rely upon exports. Donald Trump's election and Brexit portend increasing global trade risks in 2017 and beyond. This could lead to increased protectionism, mercantilism and the gutting of multilateral trade deals.

If existing trade deals unravel and geopolitical rivalries heat up, organizations will need to alter the mix of the markets in which they operate and shift revenue generation to lower-risk domestic markets. Increases to both oil prices and US dollar value also threaten to slow global trade, increasing manufacturing input costs as well as making US exports less competitive in foreign markets. Exporting companies need to protect revenue from foreign markets in such headwinds.

Firms must prepare for the new externalities, including trade wars, by being prepared to shift revenue reliance from key markets to new ones with different market dynamics. We caution firms to anticipate the most likely supply chain disruptions and start undertaking contingency plans for any gaps that emerge. This could involve working with other countries and companies that you're less familiar with, creating a whole new set of political and economic risks. You mitigate one risk, but open up a number of others. Insurance can greatly help organizations protect themselves from the risks of recalibrating supply chains.

Clayton Sasse, Managing Director, Aon Trade Credit

Environment: Global Consensus, New Challenges

With or without the U.S., the Paris Agreement represented a massive step forward towards forming a global consensus to dealing with the risks of a changing climate.

But this doesn't mean the task is over. Central Bankers are showing a growing interest in the systemic risk climate poses to the financial system, highlighted by the recent FSB report on climate risk disclosure. This is a growing priority for organizations as well – especially those in industries with large portfolios of physical assets like real estate and manufacturing. If there is a massive hurricane or unprecedented floods, what is the possible impact to these physical assets, and to the organisation that rests on them? This might be a hard-dollar value in terms of loss, but there are also knock on effects such as supply chain disruption and brand damage that are difficult to quantify that must be considered.

Increasingly, organizations are going to prioritize understanding the full impact of climate risk – especially as it relates to the balance sheet. The risk manager will begin to help facilitate discussions within the organization to help other leaders better understand the risk exposure and value at-risk assets.

Gregory Lowe, Global Head of Resilience and Sustainability at Aon

Disruption Will Force Companies To Improve The Customer Experience

If the sharing economy and IoT have taught us anything – it's about better anticipating disruption. When we look at business models, we see that there are two significant groups – those that *are* disruptors and those that are trying to stay ahead of the disruptors. But "disruption" doesn't come from your competition – which is usually where companies focus their attention protecting against. Entire industries can emerge because they promise something to the end-user: a better customer experience.

In order to anticipate what a better customer experience can mean and in order to create a more unique experience, companies must disrupt their actual organizations and industries. For example, over the last decade, there have been significant shifts in how consumers interact with banking, transportation, hospitality and retail and these preferences are now becoming the new normal. Now the ripple effects of these types of disruptions need to be addressed. How do you deal with independent contractors? How will regulations evolve? What are the implications for talent – do companies have the talent that they need to keep ahead of competitors and do companies have their own disruptors?

Randy Normes, Executive Vice President, Aon Risk Solutions

Cyber: The Rise Of Data Integrity Issues

Data sabotage attacks will become a reality in 2017. Criminals will seek to create confusion by tampering with the accuracy and creating doubt on the authenticity of information thereby impairing decision-making across the private and public sector.

Recent high profile attacks have already involved deleting data, editing news headlines, and disrupting access to information. The U.S. election season was mired by the flood of “fake news” that independent researchers contend influenced the election through a sophisticated campaign that created and spread misleading articles online through botnets.

In 2017, it will be even harder for individuals and organizations to trust information, data, and news stories. Data integrity attacks could have even bigger ramifications than fake news headlines. For example, the altering of credit scores or bank account numbers will become more common or a corporate competitor who wants a competitive advantage might tamper with financial account databases to distort reality, immediately prior to the closing of a significant contract. Organizations will need learn quickly how to protect themselves against data integrity and sabotage as this type of cybercrime becomes more mainstream.

Ed Stroz, Founder & Co-President, Stroz Friedberg, an Aon company

