

## TOP 10 GLOBAL RISKS



### RISK & INNOVATION

## How To Prepare For The Top Global Risks Of 2017

### OVERVIEW

Changing consumer behavior, shifting regulatory backdrops, the speed at which good and bad news is spread around the world, dramatic advances in technology, and disruptive new business models are all among the top global risks contributing to a challenging business environment.

In today's volatile and complex world, companies face more risks than ever before. A better understanding of traditional and emerging risks can help business leaders create and prioritize strategies to capitalize on the opportunities also presented by such challenges.

Which risks have emerged as the top 10? Aon's 2017 Global Risk Management Survey (GRMS) analyzes the top risks and gives insights into how best to prepare for them.

### IN DEPTH

#### #1 Damage to Reputation / Brand



From financial institutions to telecommunications, over ten industries rank brand and reputation as their #1 risk.

Source: Aon's 2017 Global Risk Management Survey

THE **one** BRIEF

**The Risk:** Scandals, poor customer relations or product recalls can cost a company millions. Just one brand-damaging incident, exacerbated by social media, can hit a company's share price in the short-term – and cause longer-term financial problems. There are also those isolated incidents from which companies have not been able to recover.

**The Opportunities:**

- Successfully managing a reputational crisis gives a brand the opportunity to appear responsive, competent and conscientious.
- Times of crises can also be an opportunity for a brand to review and change the internal processes or business activities which initially led to the incident, and re-engage with key stakeholders on how to avoid similar events in the future.

## #2 Economic Slowdown/Recovery



Only three in 10 respondents say they have a plan for, or have undertaken a formal review of, this risk.

Source: Aon's 2017 Global Risk Management Survey

THE **one** BRIEF

**The Risk:** A downturn in the economy usually heralds a period of contracting demand, low spending and conservative investment strategy, all of which can impact on a company's profits or stifle their ambitions. During times of slowdown, organizations tend to invest less in R&D, which can inhibit future growth.

### The Opportunities:

- Contracting markets can be an opportunity to review product strategy: Is it time to diversify your product lines, or can you improve your existing range to cater to the new needs of changing markets?
- Strategic M&A activity might be an appropriate approach during such times as the declining valuations of competitors can make acquisitions cost-effective and more attractive.

## #3 Increasing Competition



The retail and wholesale trade sectors see increasing competition as their #1 threat, likely due to digital media becoming more effective at serving commerce needs.

Source: Aon's 2017 Global Risk Management Survey

THE **one** BRIEF

**The Risk:** Companies are right to be concerned by the threat of expansion of their competitors, or the sudden appearance of new ones. In an environment in which tech firms, for example, have spread beyond traditional Silicon Valley enterprises across more and more industry verticals, competition can be tougher than ever.

### The Opportunities:

- Increased competition can galvanize innovation, provide the necessary impetus for companies to experiment by entering new markets, and develop their business model.
- An appetite for diversification can result in new approaches to R&D.
- Companies can also develop how they attract and retain talent, to keep it within their organization and out of their competitors'.

## #4 Regulatory/Legislative Changes



Companies have increasingly recognized that regulation is no longer a secondary concern, but is now a primary consideration in their business strategies.

Source: Aon's 2017 Global Risk Management Survey

THE **one** BRIEF

**The Risk:** Regulations can bring advantages for consumers as they attempt to create a level playing field across an industry, but they can be expensive for companies to comply with – and even more so if they are breached. Periods of shifting regulation between administrations can also impose difficulties on long-term business strategy.

### The Opportunities:

- Anticipating and complying with regulations – or even actively exceeding compliance criteria – before they are law and building them into strategy can give organizations the edge in a changing environment.
- Innovation tends to move quicker than regulations. New industries and technologies can mean updates to existing regulations or creating new regulations entirely. By embracing compliance early, companies can have a voice in shaping what those regulations might be.

## #5 Cyber Crime



Cyber crime is now the #1 concern among businesses in North America.

Source: Aon's 2017 Global Risk Management Survey

THE **one** BRIEF

**The Risk:** In a few short years, over 50 billion devices will be connected to the internet. With more devices there is greater risk, as there are increased chances of malicious attacks from malware, ransomware, data breaches, system failures and simple human error. A major cyber breach can compromise a huge range of company assets, data and infrastructure, and cause lasting damage to the business and its brand reputation.

### Opportunities:

- First-hand exposure to a cyberattack can enable organizations to identify their digital vulnerabilities and put in place the processes, talent and technology to protect against future incidents. However, instead of waiting for an attack to occur, conducting a dummy-test can help an organization better identify and remedy risks in their current processes.
- As people tend to be essential in digital security, a cyberattack can be an opportunity to review chains of accountability, and engage in cybersecurity education programs.

## #6 Failure to Innovate



This risk is consistently within the top 10. Three years from now, the risk is expected to climb to #4.

Source: Aon's 2017 Global Risk Management Survey

THE **one** BRIEF

**The Risk:** Innovate or become irrelevant: no organization or industry is immune to disruption. In an age of constant disruption, failure to innovate can mean more than a loss of market position. At worst, it can be fatal to an entire business model.

### The Opportunities:

- The need to innovate can be an invitation for a company to 'self-disrupt' by examining the longevity of its own core products and services, and challenging its business model. Asking questions such as "do we have the right talent in place in order to help us disrupt with new ways of thinking?" is essential.
- It can also be an opportunity to implement alternative management structures to encourage innovation to flourish.

## #7 Failure to Attract or Retain Top Talent



This risk threatens to undermine future economic productivity and jeopardizes a company's competitiveness and profitability.

Source: Aon's 2017 Global Risk Management Survey

THE **one** BRIEF

**The Risk:** During times of change, organizations need agile talent who can quickly solve a problem. Innovation too, needs the right talent in the right roles. Failure to attract, engage and retain top talent puts the success of an organization in long-term jeopardy.

### The Opportunities:

- This can be an opportunity to examine hiring needs and optimize talent strategies appropriately – do you have the right people, are they in the right roles and are they engaged? Even more importantly, do you have the right people for where you want to be five, 10, and 20 years from now?
- It can also be an opportunity to review current engagement strategies including compensation, training and rewards programs to keep your best people on board.

## #8 Business Interruption



The average large business interruptions insurance claim has now exceeded USD 2.4 million – 36% higher than the corresponding average property damage claim.

Source: Aon's 2017 Global Risk Management Survey

THE **one** BRIEF

**The Risk:** From a cyber breach that debilitates an organization to a natural disaster that disrupts a strategic supply chain, business interruption can cost organization's millions.

**The Opportunities:**

- Worst-case-scenario planning allows organizations to review their supply chains, and better understand where their vulnerabilities lie.
- Understanding this can allow organizations to build in resilience – for instance, a company using a supplier that operates in a high-risk flood area or an area known to have earthquakes, can look at diversifying their supply chain so that they are not overly reliant on a single source.

## #9 Political Risk/Uncertainties



Risk readiness in addressing increasing political risk and uncertainty has declined 12% – from 39% in 2015 to the current 27%.

Source: Aon's 2017 Global Risk Management Survey

THE **one** BRIEF

**The Risk:** As 2016 has shown, politics can be unpredictable. With the increased rise of protectionist and populist sentiments around the globe, there is a question mark over the future of global trade. Political uncertainty can complicate or delay business decisions, hamper supply lines and the availability of labor, and affect long-term investments.

**The Opportunities:**

- Understanding what's happening in the world of politics allows organizations to stay ahead of impending legislation that could affect operations, and make plans to mitigate and minimize those risks.
- Political change opens new doors as it closes others. For example: Brexit may restrict UK banking operations, but create new demand in continental European banking hubs.

## #10 Third Party Liability (Incl. E&O)



The year over year fluctuations in ranking have less to do with a decrease in third party liability claims, instead, the fluctuations reflect a shift in business objectives.

Source: Aon's 2017 Global Risk Management Survey

THE **one** BRIEF

**The Risk:** Global supply chains mean that companies are increasingly reliant on the integrity of multiple suppliers, partners and infrastructure providers for their own businesses to succeed. If an organization's third-parties are compromised, its own operations and reputation can suffer, damaging revenues and impeding business continuity.

- It can prompt companies to assess who they are working with, and the reliability and even the ethics of those companies, and make sure that they're working with the right partners to drive growth and support operational integrity
- Different jurisdictions have different cultures of liability. Reviewing these can help with long-term strategy and geographic planning.

## TALKING POINTS

“We live in an era of unprecedented volatility. Trends across three major dimensions—economics, demographics, and geopolitics—combined with the exponential pace of technology change, are converging to create a challenging new reality for organizations around the world. While these forces create new and sometimes unforeseen opportunities, they also create new risks, which must be managed, often in new ways.” – Greg Case, CEO, Aon



## FURTHER READING

2017 Global Risk Management Survey – Aon

