RISK & INNOVATION

C–Suite Signals: The 7 Key Global Business Trends Of 2018

OVERVIEW

Around the world, 2017 was another turbulent year. Political events – from the brinkmanship in the Brexit negotiations, to North Korea's missile tests – have sparked uncertainty across the globe.

On top of the political uncertainty, natural disasters – from devastating hurricanes, to raging wildfires – have inflicted unprecedented levels of damage across the U.S., the Gulf of Mexico and beyond. As technology continues to advance, cyber attacks have become more far-reaching.

Improvements in health care have increased life expectancy around the globe, which has placed an additional burden on funding our retirement. With an uncertain economic and political backdrop, traditional pension funds face low interest rates, prompting a $1 trillion dollar global retirement savings gap.

2018 will likely see many of these economic, demographic and geopolitical trends continue. Here, seven senior leaders at Aon share their perspective on some of the major issues facing the business world in 2018, and what companies can do to prepare for them.

IN DEPTH

Make Real-Time Decisions Based On Data And Analytics

More than 50 billion devices are expected to be connected to the internet by 2020, and the amount of accessible data is projected to double every three years. Large data sets can now be analyzed more effectively using artificial intelligence and predictive modeling, turning data into insights that enable better decision-making.

According to Aon's 2017 Global Risk Management Survey, companies must use better analytical insights to mitigate the impact of six of the top 10 risks – including cyber risk and damage to brand or reputation. While progress has been made to help drive better pricing and claims certainty as it relates to risk management, organizations are still realizing the full potential that data and analytics have to offer.

With more data at our fingertips than ever before, we now have the opportunity to move from decision-making based on historical trends, to acting on critical decisions in real-time. Having a clear understanding of a situation at the very moment it is happening can help shift how our industry traditionally views risk management, and move to a state where we can proactively manage or even mitigate risks before they occur.

- Lori Goltermann, Chief Executive Officer, Aon Risk Solutions U.S. Retail

Balancing An Over-Capitalized Insurance Industry With Global Under-Insurance

The 2017 Atlantic hurricane season was particularly catastrophic for the U.S. and Caribbean – the devastation caused by hurricanes Harvey, Irma and Maria produced an estimated insured loss of between $75 billion and $85 billion. However, the majority of the damage was uninsured.

Considering that the U.S. is one of the most insured countries in the world, only around 38 percent of the $120 billion U.S. economic loss from these events was covered by insurance. This worrying figure only goes to highlight the size of the insurance protection gap. And that gap is even wider in many other countries due to lower rates of insurance penetration.

At the same time, alternative sources of capital, such as pension funds, are adding to the $4.3 trillion of re/insurance capital currently in the marketplace, representing an unprecedented amount of total capacity to help reduce re/insurers' exposures to natural catastrophe losses.

Essentially, we are seeing an over-capitalized insurance industry at odds with global under-insurance. Given that the gap between insured and economic losses from Harvey, Irma and Maria alone has been estimated at more than $100 billion, there is clearly a real need to further unite capital and risk.

To practically address the protection gap challenge, we are developing a framework that we call the "capital efficiency gap model," which will give us a more nuanced approach to tackle the problem. This framework factors in the costs associated with insurance premiums, administrative risk control costs, and retained losses – as well as the various sources of capital available for risk transfer.

- Eric Andersen, Chief Executive Officer, Aon Benfield

Find External Expertise To Help You Solve Your Organization's Retirement "Gap"

Fewer workers than ever before are financially prepared to retire at the age of 65. Pair this with an increasing life expectancy – with people living longer and requiring more income during retirement – and employers are facing increasing obligations and additional risks on their balance sheets.

With interest rates still low and markets tackling continued uncertainty, leaders are looking for ways to help better balance the responsibility for funding retirement benefits. Employers need advice on how to help their employees achieve financial security by creating participant-friendly plans that help their people feel more accountable.

Additionally, there is a growing appetite among businesses to outsource their entire investment portfolio. Company leaders are increasingly looking at third-party experts to whom they can delegate investment responsibility. This way, their asset manager is freed up to oversee, but not manage, the tasks, and can therefore spend their time focusing on the objectives of their organization.

- Cary Grace, Chief Executive Officer, Global Retirement & Investment, Aon

Take A Holistic View Of Employee Health – Including "Emotional Fitness"

With the fate of the U.S. Affordable Care Act unclear, and the average cost of employer-sponsored medical plans set to rise by at least 8.4 percent – 5.3 percent above the global projected average rate of inflation in 2018 – there is uncertainty across the health care system. While attempting to mitigate rising health care costs, organizations are just as focused on improving the overall health or their workforce – and it's not just about physical health.

By 2030, the World Health Organization (WHO) anticipates that depression and anxiety will be the most expensive health issues in the world. Currently, the two problems cost the global economy around $1 trillion every year. The same study estimated that improved access to treatment could add 43 million healthy years to people's lives, generating $310 billion in additional revenue. Emotional distress in the workplace has substantial business impacts. It means lower levels of engagement, higher rates of staff turnover, and lost productivity due to absenteeism and low performance.

In addition to ensuring the health and wellbeing of their current workforce, organizations are also balancing helping their retiree population. In the U.S. for example, projected total lifetime health care expenses – including premiums and out of pocket costs – for men are $275,035. For women, expenses are $294,975. And with only 1 out of 5 employees projected to have retirement savings that exceed the amount needed at age 65 – the cost of health care becomes a large part of the financial consideration.

Focusing on a holistic view of employee health from all angles – financial, social, physical and emotional – will continue to gain traction within the C-suite in an attempt to not only decrease overall medical-related costs, but to truly help improve the health of their current, future, and retiree workforce.

- John Zern, Chief Executive Officer, Global Health and Benefits, Aon

Diversify Investments In These Uncertain Markets

Uncertainty in financial markets, a constantly changing regulatory environment, and low interest rates are creating a challenging environment for plan sponsors and individual investors.

Along with sponsors and institutional investors, boards are looking for strategies that will improve their return while better managing the level of risk. Alternative investments – more specifically real estate and physical assets – play an increasingly important role in those strategies. According to Greenwich Associates' U.S. Institutional Investors Survey, 19 percent of U.S. institutional investors are expected to significantly increase asset allocation in direct real estate over the next three years.

As a commercial asset-class, real estate is attractive as it adds diversification to investment portfolios. By nature of the asset class, this type of investment is a longer-term play in order for the investment to grow over time, possibly also helping to hedge against inflation risk.

- Terry Ahern, Chief Executive Officer, The Townsend Group, an Aon company

Companies Need To Break Down Organizational Silos To Manage Cyber As An Enterprise Risk

Last year, cyber attacks severely impacted organizations across various industries – from health care providers to manufacturing companies – with startling frequency. The consequences of these cyber attacks affected every part of these organizations, including their operations, revenue, shareholder value, legal and compliance, human resources, brand, reputation and more. For example, global shipping giant Moller-Maersk reported losses upwards of $300 million stemming from IT system disruptions caused by a cyber attack.

Despite the convergence of cyber risk with other enterprise risks, businesses have largely continued to manage cybersecurity as if it were only an IT issue. Cybersecurity risk management programs have been hamstrung by a lack of coordination and communication between different functions within the C-suite – and cyber criminals have exploited these weaknesses.

In 2018, companies will continue to report significant financial losses caused by cyber attacks, due to lost sales or business interruption issues. More executives and businesses will be held liable for their handling of major incidents. As a result, cyber risk will continue moving to the top of the agenda for C-suites and boards alike.

The most successful organizations bring together all members of the C-suite to create a common framework for assessing the impact of technical risk across the entire enterprise. This integrated approach requires breaking down silos and creating a cross-functional team to address the financial, regulatory, technical and operational aspects of cyber risk.

Managing cyber as an enterprise-level risk requires a balance between technical remediation and risk transfer. As the scale and scope of cyber attacks increases into 2018, organizations will need to take an integrated approach toward preparedness.

- Jason J. Hogg, Chief Executive Officer, Aon Cyber Solutions

Use Predictive Analytics To Identify And Recruit The Best

Companies can't afford to ignore or undervalue their people as a key growth driver. The right people strategy not only mitigates the pervasive risk organizations face, but also inspires a culture that embraces uncertainty and capitalizes on opportunity.

As business leaders rethink their talent strategies to help position them for growth, managers increasingly need an effective and efficient way of identifying talent. Technologies are emerging that can help companies and their leaders better predict recruits' future performance. When organizations invest in recruitment – bringing in the strongest performers from the start – they are better positioned for success. Typically, the return on recruitment investment is much higher than in any other talent management processes, with far lower costs involved compared to training and development processes.

- Andreas Lohff, Managing Director & Owner, cut-e Group, an Aon Company

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