

Allianz Risk Pulse

Allianz Risk Barometer

Top Business Risks 2017



Allianz 

Executive Summary

The sixth annual Allianz Risk Barometer identifies the top corporate perils, and potential responses, for 2017, based on the insight of more than 1,200 risk experts from 50+ countries.

Companies worldwide are bracing themselves for a year of increased uncertainty, driven by growing concerns over political, legal and regulatory developments around the globe. Digital dilemmas such as the impact of new technologies on the risk profile of industries and cyber incidents are a rising concern as well, while natural catastrophe activity remains high on the agenda. But what troubles businesses most are actual or anticipated losses from a business interruption. [page 4 »](#)

Business interruption is the top risk for the fifth year in succession, but new triggers continue to emerge. Perils such as natural catastrophes and fires are the causes businesses fear most, but the nature of the risk is shifting increasingly towards **non-damage events**. A cyber incident or the indirect impact of an act of terrorism or political violence are events that can result in large losses without causing physical damage. More of these types of events are expected to occur in future. [page 7 »](#)

Companies will need to invest more resources into better monitoring of politics and policy-making around the world in order to anticipate, and adapt to, any sudden changes of rules that could impact business models and markets. This comes amid fears of increasing **protectionism** and anti-globalization, which could produce a business interruption threat of a different kind. [page 6 »](#)

Terrorism risk is rising and a business does not have to be the direct victim of an act to feel the effects. Locations can become inaccessible and supply chains impacted in the wake of an attack. The growing risk of **political violence**, acts such as war, civil war, insurrection and other politically motivated incidents, which focus on countries rather than certain locations, should also not

be underestimated, as the impact for global businesses can be much greater and longer-lasting. [page 9 »](#)

Market developments ranks as the second top risk for businesses overall but the top perils vary by industry sector. Increasing reliance on technology and automation is transforming, and disrupting, companies across all industry sectors. **Digitalization** is shifting the nature of corporate assets from mostly physical to increasingly intangible, producing new risks as well as benefits. [page 10 »](#)

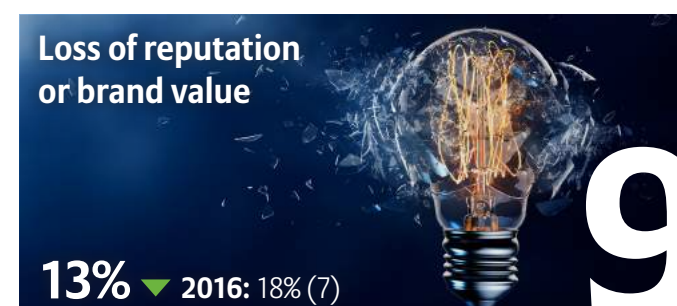
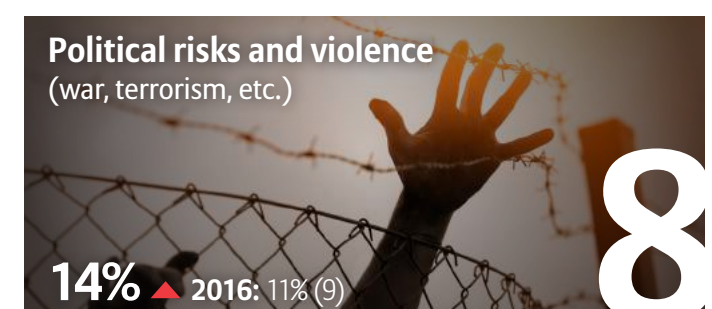
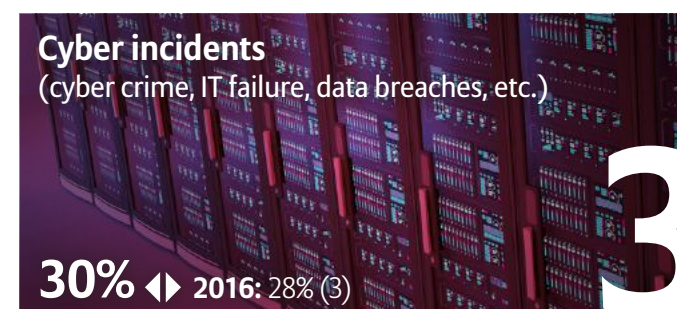
For the fourth year in succession businesses are more concerned about **cyber incidents**. The threat now goes far beyond hacking and privacy and data breaches, although new data protection regulations will exacerbate the fall-out from these events for businesses. Technical IT failure or human error can also result in costly damages. The digitalized production or **Industry 4.0 environment** means failure to interpret or submit data correctly can halt production. [page 14 »](#)

There are significant local and regional differences in the top 10 risks around the world. Market and macroeconomic developments rank as the top two risks in the Africa & Middle East region. Concern about cyber incidents climbs to second position in Europe. [page 16 »](#)

The rise of new technology and the shift from physical asset protection to intangible risks means the insurance model is also evolving. Today's risk management world is more fluid and data-driven and intangible risks in particular require specialist services such as forensic IT support or crisis management. Demand is also expected to increase for new insurance coverages such as cyber and non-damage business interruption insurance, as companies look to protect against an increasing range of exposures.

Top 10 Global Business Risks for 2017

[To see full Risk Barometer 2017 Rankings click here »](#)



For methodology, see page 4. Source: Allianz Global Corporate & Specialty

Photos: iStockPhoto

Snapshot: Top Business Risks Around The World in 2017

[Click here to see the full list of top 10 business risks for each region and for 25 different countries »](#)



This risk map shows the top risk for businesses in **selected** countries. It also shows rising risk concerns across these territories year-on-year.
 Source: Allianz Global Corporate & Specialty

The Allianz Risk Barometer 2017 response findings

BI tops the list

The impact of **business interruption** (incl. supply chain disruption), **market developments** (volatility, intensified competition/new entrants, M&A and market stagnation), **cyber incidents** (cyber crime, IT failure, data breaches), **natural catastrophes** and **changes in legislation and regulation** (government change, economic sanctions, protectionism, etc.) are the major risks occupying the attention of companies at the start of 2017, according to the sixth annual **Allianz Risk Barometer**, which surveys over 1,200 risk managers and corporate insurance experts from more than 50 countries.

Business interruption (BI) remains the top peril for the fifth year in succession, with 37% of responses rating it as one of the three most important risks companies face in 2017. Many of the top 10 risks in this year's barometer can have severe BI implications; evidence that a shift in BI risk is occurring. In today's interconnected industrial world, the reasons for BI are expanding from

damage-driven events, such as natural catastrophe or fire incidents, to intangible hazards or formerly uninsurable events. For example, a cyber incident, or the indirect impact of a terrorism or political violence event, such as denial of access to the affected location afterwards, can result in a large loss of income for companies, without them actually suffering a physical loss.

Market developments remain a priority concern for businesses, occupying second position in the Risk Barometer rankings (31% of responses). In addition to the concerns expressed about impact of volatile and stagnant markets and M&A, increasing digitalization and deployment of new technologies is also impacting existing business models and industry risk profiles, results show. For example, the new liability scenarios and changes in loss activity patterns anticipated from deployment of **new technologies**, means this risk appears in the top 10 global risks for the first time with 12% of responses, up year-on-year. Meanwhile, more than half of responses (53%), across all industries, cited increasing digitalization and use of new technologies as the most prominent trend currently transforming their business sector.

Cyber incidents continues its rapid recent climb up the Risk Barometer rankings, occupying third position with 30% of responses, again up year-on-year. Four years ago this peril ranked 15th in the top global risks, with just 6% of responses. Today, the results indicate that cyber risk occupies a significant portion of a company's exposure map. The risk now goes far and beyond the issue of privacy and data breaches. A single incident, be it a technical glitch, human error or an attack, can lead to severe business interruption, loss of market share and cause reputational damage. Of the top 10 global risks in the 2017 Allianz Risk Barometer, a cyber incident could be a potential root cause or trigger for 50% of them. In addition, the toughening of data protection regulation regimes around the world is also contributing to this risk being at the forefront of risk managers' minds, as penalties for non-compliance are increasingly severe. The growing sophistication of cyber-attacks is the impact of increasing digitalization companies fear most (45% of responses), while cyber risk is also the top long-term peril (42%), results show. However, cyber incidents ranks

Risk Barometer Methodology

The sixth annual **Allianz Risk Barometer** was conducted among Allianz corporate clients and brokers. It also surveyed risk consultants, underwriters, senior managers and claims experts of Allianz entities around the globe. Respondents were questioned during October and November 2016. The survey focused on large and small to mid-sized companies.

There were a record **1,237 respondents** from a total of **55 countries**. As multiple answers for up to two industries were possible, **4,679 answers** were delivered. Participants were asked to select industries about which they are particularly knowledgeable and name up to three risks they believe to be of most importance.

Most answers were for large enterprises (**over €500m/\$520m revenue**) [2,325 responses, 50%]. Small enterprises (**below €250m revenue**) contributed 1,275 responses (27%) while mid-sized enterprises (**€251m to €500m revenue**) produced 1,079 responses (23%). Risk experts from 21 industry sectors were featured.

Ranking changes in the Risk Barometer are determined by positions year-on-year, ahead of percentages.

just sixth for small-sized companies (<€250m revenue). Many companies underestimate their exposure and are not prepared for, or are able to respond to, an incident, with a lack of resources to do so a contributing factor.

A perennial concern for businesses is the impact of **natural catastrophes**, which ranks fourth in this year's Risk Barometer (24% of responses). Natural catastrophes accounted for \$175bn in economic losses in 2016, a four-year high, with insured losses totaling some \$50bn¹. At the same time, businesses are also more concerned about the impact of **climate change/increasing weather volatility** year-on-year, with this risk climbing to 14th position (6% of responses). A report by the ClimateWise coalition, which comprises 29 insurers including Allianz, warns of a \$100bn "protection gap" in the global insurance sector as a result of the rising impact of climate risks².

"Natural catastrophes and climate change worry our customers and society at large," says **Axel Theis, Board Member of Allianz SE**. "We must assume that global warming above 1.5 degrees Celsius would intensify climate damages, for example from heat waves and rising sea levels, significantly. It is our task as an insurer to develop solutions for these scenarios and establish prevention and insurance protection for, and together with, our customers and public partners."

In addition to the above threats, the 2017 Allianz Risk Barometer results also show that businesses are increasingly concerned about the ongoing uncertainty, and potential intangible risks, posed by the changing legal and political environment around the globe.

Changes in legislation and regulation (government change, economic sanctions, protectionism, etc.) [5th position], **political risks and violence** (war, terrorism) [8th position] and **Brexit, Euro-zone disintegration** (16th position), rank higher year-on-year, accounting for over 40% of responses collectively. Fear of protectionism or government intervention in business is perceived to be an increasing threat, leading to worries over access to markets and import and export restrictions; presenting a potential business interruption threat of a different kind. Terrorism risk is also rising; ranking as the number one concern for businesses in the political risk and violence category (*see page 9*).

"Companies worldwide are bracing for a year of uncertainty," says **Chris Fischer Hirs, CEO, Allianz Global Corporate & Specialty (AGCS)**. "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 rethinking of current monitoring and risk management tools."

Businesses are more concerned about the impact of climate change year-on-year. A report by the ClimateWise coalition warns of a \$100bn "protection gap" as a result of the rising impact of climate risks.
Photo: iStockPhoto



¹ Munich Re NatCatSERVICE ² Investing for Resilience, ClimateWise

A year of shocks Political (legal) perils and protectionism shape 2017 risk agenda

Companies will need to invest more resources into better monitoring politics and policy-making around the world in order to gather the economic intelligence that will enable them to anticipate, and adapt to, any sudden “abrupt and massive” changes of rules that could impact business models, amid fears of increasing protectionism and anti-globalization.

Political and legal perils, such as **changes in legislation and regulation** (government change, economic sanctions, protectionism, etc.) [5th], **political risks and violence** (8th) and **Brexit, Euro-zone disintegration** (16th), rank higher year-on-year in the Risk Barometer. Many expressed concern

about the uncertainty surrounding the political and business landscape – and how this is impacting planning – following the UK’s decision to leave the European Union and Donald Trump winning the US Presidential election – outcomes widely unexpected 12 months ago. Others said the results of 2017 elections in Europe could exacerbate the current situation. Protectionism or government intervention in business is perceived to be an increasing threat as well, according to Risk Barometer responses (*see page 9*).

“Since 2014 we have seen about 600 to 700 new trade barriers being introduced globally every year, including in the service sector,” explains **Ludovic Subran, Head of Euler Hermes Economic Research, Deputy Chief Economist of Allianz Research and Director of Macroeconomic Research**. “We see these protectionist measures in emerging markets such as China, Brazil or Indonesia, but also coming from the US or UK.”

Subran believes protectionist measures will increase further and expects them to become more complex in their implementation. “There will be less obvious, brutal trade bans but more sophisticated measures which will make sure that somehow local companies are favored,” he says. New forms of protectionism in the financial services, food, pharmaceuticals and healthcare sectors are anticipated.

“Companies need to monitor and understand better the political, legal and regulatory environment in which they operate. It’s important for every company to better monitor public policy-making down to a local level and do more contingency planning and scenario building, including their subsidiaries in various regions. It’s no longer only about managing effects from economic cycles on your top line growth or revenue base, it’s preparing for potentially very abrupt and massive changes which may impact the way you do business. These can force you to change your risk management approach and partners. They can force you to look on your operations with a very critical eye as it will become more difficult to do business in certain countries and regions.”

Trump, anti-globalization and economic pragmatism?



Photo: iStockPhoto

Trump outlook

“Opportunities and challenges,” says Subran. “Companies which are domestic, either a regional multinational or national, will benefit. However, the business environment for large multi-national corporations who do have global, strongly regionally diversified business models will be more challenging. Stronger regional interests will make the lives of companies more complicated as there will be increasing protectionist regulation.”



Photo: iStockPhoto

Further impact of anti-globalization trends

“Global financing and capitalization will be more challenging for companies. Supply chain management might follow a more regional rather than global approach.”



Photo: iStockPhoto

The return of economic pragmatism?

“We observe a return of pragmatism in business and economics. In the aftermath of the financial crisis there was an overinflation of new rules and regulations as there was no more trust in the system. So it will be interesting to see if there are more trust-based contracts between businesses. This would be a positive development because the problems with rules is that there are always ways to circumvent them and this undermines the level of trust.”

Top risks in focus Business interruption

Business interruption (incl. supply chain disruption) continues to be the top risk for the fifth successive year according to the Allianz Risk Barometer, with 37% of responses choosing it among their top three business risks. Business interruption (BI) entails a loss of income that could impair a company's revenue stream and thus a shortfall in covering the ongoing costs of doing business. Its impact is one of the hardest risks to measure.

Insurance claims analysis shows that the average large BI property insurance claim is €2.2m (\$2.38m), 36% higher than the average direct property damage loss of €1.6m (\$1.75m)¹, emphasizing the significant impact BI can have on companies' revenues. Accordingly, physical perils like fire and explosion (44%) and natural catastrophes (43%) are the top causes of BI that businesses fear most. However, alongside these perils, so-called **non-physical or non-damage causes of BI** are becoming a much bigger issue. Impact of supplier

failure (33%), cyber incidents (29%) and the wider disruption caused by a terrorist event (10%) (see page 9) are just some of the many incidents that can cause large losses for companies without causing property damage. Businesses will need to think about how to mitigate these risks as more of these events occur in future. Meanwhile, BI risk continues to further evolve. For example, insufficient management of societal and environmental risk topics (ESG) could lead to a BI event ordered by authorities moving forward.

"BI again tops the Allianz Risk Barometer survey," notes **Volker Muench, Global Practice Group Leader, Property Underwriting, AGCS**. "That's because new triggers for BI emerge constantly. These can range from cyber incidents to market developments to the changing political landscape. Going forward we expect there to be more non-damage triggers of BI. It is important that our insured customers understand the evolving threats they are facing."

Which causes of business interruption (BI) are feared most?



Source: Allianz Global Corporate & Specialty. Figures represent the percentage of answers of all participants who responded (499). Up to three answers possible.

Photos: iStockPhoto

¹ Global Claims Review: Business Interruption in Focus, Allianz Global Corporate & Specialty

SME BI risk

45% of large-sized companies chose BI as one of their top three risks. This drops to 27% among small-sized companies (<\$250m revenue) but such enterprises should not underestimate a BI event. Maintaining sufficient on-hand inventory levels, avoiding geographic concentrations of suppliers, monitoring mergers and acquisitions among suppliers and avoiding production specialization that leads to outsourcing can help SMEs mitigate its impact.

The impact of cyber and other intangibles: Non-Damage BI

A main driver behind non-physical damage BI losses is the continued impact of digitalization as companies technologically upgrade. "There is a need for real data or information on risk exposures, both tangible and intangible, in an environment that is continuously changing with new suppliers and new geographic locations," says **Thomas Varney, Regional Manager, Americas, Allianz Risk Consulting**.

Many factors can be said to trigger BI, including system interconnectivities, reliance on outsourcing suppliers and the ever-broadening aspect of cyber risks. "With the current incidence of data-driven events," says Muench, "most can be linked back to business interruption. Businesses need to think about data as an asset and then what prevents data from being used. Hacking isn't the only threat, cyber incidents can also stem from human error or technical failure and these risks need to be identified and managed too."

Then there are other threats beyond cyber incidents that may also impact production. Supplier failure, for example, ranks third on the list of top BI risks businesses

fear most, especially related to using single-source, low-cost suppliers or plants in countries where labor is cheapest. "Cost-cutting measures such as these can be recipes for disaster, because as supply chain costs fall, risks soar," says **Mark Mitchell, CEO AGCS Asia**.

Supply chain disruption, and hence a contingent business interruption (CBI) scenario, can result from overreliance on a sole or key supplier, no matter if it is due to physical exposures – human or natural hazards – or intangible exposures like bankruptcy, civil unrest, competition or other perils.

"To ensure business resiliency and continuity," says Mitchell, "companies need to maintain the right level of supplier diversification at cost-competitive prices."

Planning is crucial, too. Constantly updated business continuity plans that involve all facets of an organization are effective in understanding supply chain exposures and critical internal and external suppliers. Business continuity management remains a gap in many supply chain risk management programs.

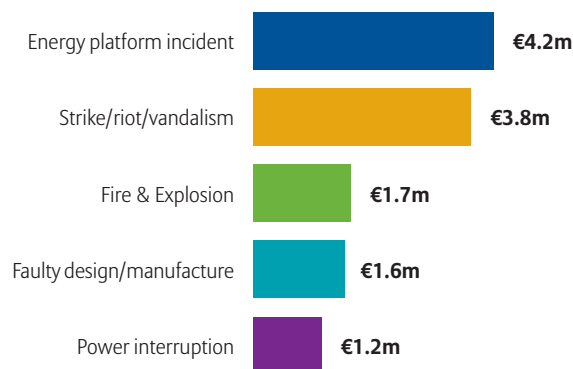
Non-damage BI (NDBI) exposures exist independently of the normal flow of business. For example, after the explosions in Tianjin, China, in 2015, a number of losses associated with the supply flow interruption occurred because the port was closed by local authorities or because companies were unable to power-up facilities due to impacted workforce. Such damages may not be covered by insurance, unless special NDBI insurance coverage has been purchased.

Types of BI insurance

BI insurance provides coverage for lost income (net profit), ongoing costs or required extra expense. Insurers provide "short-term liquidity" in case a disruption occurs and the insurance policy is triggered. Businesses are then provided with the required funds to mitigate the loss and stay in business. There are several different types of BI:

- **Standard BI** insuring loss of income and ongoing costs as a result of property damage to an owned business facility
- **Contingent BI (CBI)** extension to BI insurance that reimburses lost income and ongoing costs and extra expenses resulting from an interruption of business caused by a property damage at the premises of a customer or supplier
- **Non-Damage BI (NDBI)** insuring loss of income and ongoing costs from interruption of business caused by situations where there is no physical damage to the insured, the supplier or customer and there is no BI claim to be made, this coverage indemnifies a business for lost revenue due to disruption
- **Data Driven (Cyber) BI** insuring loss of income and ongoing costs from interruption of business due to unavailability of data and computer systems caused by hacking, technical failure or human error.

How much can BI cost?



Source: Global Claims Review: Business Interruption In Focus, Allianz Global Corporate & Specialty
Average value of claims. Energy platform and strike/riot/vandalism incidents do not occur as frequently but when they do, the BI impact is significant.

88%

of BI claims originate
from technical or
human factors¹

“Insurers such as AGCS can help insureds with BI, CBI and NDBI threats by providing new insurance solutions, such as political violence and data-driven (cyber) risk products, but even more so by providing risk management services, such as supply chain risk management workshops, where the insured’s supply chain organization is stress tested, to identify and reduce those threats,” says Muench.



Concern over political risks and violence, including terrorism, is up year-on-year in many countries, including France.
Photo: iStockPhoto/
Guillaume Louyot

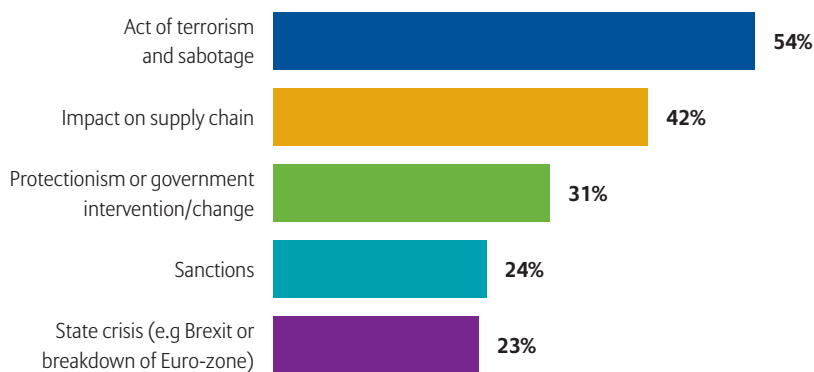
The potential BI impact of terrorism/political violence

Terrorism risk is rising. Fear of political unrest and terrorism moves up one position in the overall Risk Barometer rankings year-on-year to 8th position, while **Act of terrorism and sabotage** is the number one concern for businesses in this risk category (see below). Terrorism resulted in 29,376 deaths and cost the global economy \$89.6bn in 2015².

From an insurance perspective, according to **Adam Posner, Senior Underwriter, AGCS Crisis Management (Terrorism) North America**, a business does not have to be the direct victim of a terrorist act to feel the effects of BI. If an attack occurs in the close vicinity, for example, the surrounding area will likely be cordoned off by local authorities for an indeterminate amount of time, meaning nearby businesses will be unable to operate. Policy extensions like denial of access following an act of terrorism are important coverages to consider.

Businesses should also consider supply chains and the possible impact an act of terrorism can have on suppliers which could produce a CBI scenario. If the insured is a manufacturer relying on a small number of suppliers or customers, terrorism contingency plans should be in place, as it can take months for an affected company to get back to regular trading levels due to the substantial interruption.

Political risks and violence are an increasing concern for multinational business. Which risks are most worrying?



Source: Allianz Global Corporate & Specialty. Figures represent the percentage of answers of all participants who responded (1,040). Up to three answers possible.

Growing risk of political violence

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 the 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.

While there is often little companies can do to prevent an incident, they can prepare by monitoring the political landscape and seeking help from professional crisis management companies. AGCS has formed a partnership with one of the global leaders in this area, red24, which enables businesses to access services including threat analysis and bespoke crisis management planning.

¹ Global Claims Review: Business Interruption In Focus, Allianz Global Corporate & Specialty

² 2016 Global Terrorism Index: Measuring and understanding the impact of terrorism, Institute for Economics & Peace

What are your top
emerging risks for
the long-term future
(10yrs+)?

Top risks in focus Market developments – Rising impact of new technology and digitalization continues

42%

Cyber incidents

40%

New technologies

33%

Market developments

Source: Allianz Global Corporate & Specialty. Figures represent the percentage of answers of all participants who responded (1,237). Up to three answers possible.

Market developments remains a priority concern for businesses in the Allianz Risk Barometer, maintaining second position in the global rankings (31% of responses). Companies are concerned about the potential risk impact of factors such as intensified competition, mergers and acquisitions (M&A) and market stagnation. At the same time increasing dependence on technology and automation is transforming, and disrupting, companies across industry sectors, including the insurance industry. Digital innovation brings a wealth of opportunities but many companies are also concerned about its impact. More than half of Risk Barometer responses (53%) cited increasing digitalization and use of new technologies as the most prominent trend currently transforming their respective industry sector.

“Companies that don’t want to become a victim of disruption but rather shape their industry, must be able to innovate, change and adapt their business model,” says **Solmaz Altin, Chief Digital Officer, Allianz**.

“For example, at Allianz, we have set-up ‘Allianz X’ (a new business unit) to build and connect with start-ups. Through Allianz X we are also gaining access to new business models to hedge against disruption.

“Digitalization is, above all, about what clients need and want. Technology is only the enabler. Today’s customers want simple and convenient solutions that are tailored to their needs and accessible anywhere, anytime.”

Changing risk profile

Digitalization is also changing the risk profile of industries. In the 2017 Risk Barometer, the risk impact of **new technologies** ranks in the top 10 for the first time (10th). Increasingly, connected industries and their insurers will experience new liability scenarios. For example, human error – a leading cause of losses in many sectors – could increasingly be replaced by technical failure. An increase in non-physical losses (see page 7) is also anticipated, as digitalization will shift the nature of corporate assets from the mostly physical to increasingly intangible. Such intangible risks will require specialist services and solutions such as crisis management and forensic IT support, for example.

Loss activity patterns could also change. Frequency of losses could be reduced due to increased predictive maintenance, driven by real-time monitoring and data analytics. However, this may be accompanied by the potential for larger-scale losses from cyber-attacks and infrastructure breakdown.

“The technological advances over the last decade are the main driver of the growing cyber exposure landscape,” comments **Georgi Pachov, Global Practice Group Leader, Cyber, AGCS**. “There is no industry untouched by the penetration of digitalization and the vast amount of information exchanged at all stages of the business value chain. This interconnectivity enables growth, cost optimization and more flexible business models close to the final customer. However, it also poses significant risks related to inability to deliver the product or services. The utilization and application of machine learning, artificial intelligence, big data and, in general, solid analytics contributes to the ever-increasing cyber exposure. Implementing proper cyber risk management and mitigation procedures will become an indispensable part of every company’s top management priorities. This requires understanding and quantifying the cyber risk, training employees and identifying exposures to be transferred to the insurance industry.”

Digitalization is significantly impacting business models. Which risk impact of increasing digitalization do you fear most?



Source: Allianz Global Corporate & Specialty. Figures represent the percentage of answers of all participants who responded (1,006). Up to three answers possible.

Sector Analysis Top business risks in 2017 by industry

The 2017 Allianz Risk Barometer analyzes responses from **21** different industry sectors, generating a diverse range of risk concerns.



Photo: iStockPhoto

Engineering, Construction, Real Estate: Impact of natural catastrophes (40%) is the new top risk for the sector, replacing market developments. In recent years the cost of engineering claims has been rising with the trend towards ever-higher values and risks that are increasingly interconnected and concentrated on areas with exposure to natural hazards. Earthquakes pose a particular threat. A five year analysis of large insurance claims (€1m+) showed earthquake to be the top cause of loss in the engineering sector, accounting for 65% of all claims according to value.¹

Engineering, Construction, Real Estate			2016 Rank	Trend
1	Natural catastrophes (e.g. storm, flood, earthquake)	40%	2 (34%)	▲
2	Business interruption (incl. supply chain disruption, and vulnerability)	37%	3 (32%)	▲
3	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	30%	1 (39%)	▼
4	Macroeconomic developments (austerity programs, commodity price increase, deflation, inflation)	29%	4 (27%)	-
5	Fire, explosion	23%	5 (24%)	-

140 responses

Source: Allianz Global Corporate & Specialty. Figures represent the number of responses as a percentage of all responses. More than one risk selected.



Photo: iStockPhoto

Financial Services: Little change in the sector year-on-year with market developments continuing to maintain the top risk ranking. Cyber incidents remains the second top risk but events such as the hacking of the banking arm of supermarket chain Tesco in the UK², which led to money being stolen from thousands of accounts, has raised fresh concerns about the methods used to detect this risk. The Bank of England has said the threat of cyber-attacks is one of the major risks facing the industry.

Financial Services			2016 Rank	Trend
1	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	41%	1 (44%)	-
2	Cyber incidents (cyber crime, IT failure, data breaches, etc.)	40%	2 (44%)	-
3	Changes in legislation and regulation (government change, economic sanctions, protectionism, etc.)	36%	3 (37%)	-
4	Macroeconomic developments (austerity programs, commodity price increase, deflation, inflation)	33%	4 (29%)	-
5	Political risks and violence (war, terrorism, etc.)	23%	NEW	▲

252 responses

Source: Allianz Global Corporate & Specialty. Figures represent the number of responses as a percentage of all responses. More than one risk selected.

¹ Global Claims Review, Allianz Global Corporate & Specialty ² Tesco Bank announces full service has resumed for customers, corporatetescobank.com

IN FOCUS Manufacturing (including Automotive)

Manufacturing (incl. Automotive)			2016 Rank	Trend
1	Business interruption (incl. supply chain disruption, and vulnerability)	59%	1 (65%)	-
2	Cyber incidents (cyber crime, IT failure, data breaches, etc.)	32%	5 (21%)	▲
3	Natural catastrophes (e.g. storm, flood, earthquake)	29%	3 (29%)	-
4	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	27%	2 (38%)	▼
5	Fire, explosion	21%	NEW	▲

165 responses

Source: Allianz Global Corporate & Specialty. Figures represent the number of responses as a percentage of all responses. More than one risk selected.

"The top risk, business interruption, is a consequence of many of the other risks identified," comments **Michele Williams, Global Practice Group Leader, Heavy Industries & Manufacturing, Property Underwriting, AGCS**. "Insurers can support identifying some of the risks through services such as supply chain risk management assessment and risk consulting. However, focusing on the cause of the business interruption is incredibly important in this process. There are insurance/risk transfer solutions available for many of the risks identified. Often the problem is that an insurance budget is set and it is very difficult to get approval for additional spend for a new product unless the 'coverage gap' has been identified by the business and there are some concrete examples of losses. For newer risks this information is limited. This is where close communication between insurers and clients is key

to develop and provide solutions to protect against new risks."

Market developments – Automotive

Overcapacity and increasing pressures across the automotive supply chain have resulted from the combination of the maturity of the industry, low margins and the slowdown of emerging market economies. This is resulting in short term cost optimisation which could have negative consequences in the longer term.

To counter this there are a number of new players entering the market who benefit from flexibility and a low cost base, along with an innovative approach to technology, design, manufacturing and distribution. These companies are designed around the customer and are ideally suited to operate in the changing environment.



Photo: iStockPhoto

Marine and Shipping: The global shipping industry has been weathering rough seas for years. According to Euler Hermes¹, this situation is not likely to change soon given evidence in the container segment where insolvencies rose by more than 10% during the first half of 2016. Business interruption rises up the risk rankings in the wake of the fall-out of the collapse of Hanjin Shipping. Human error is a new entry in the top five risks. It is estimated that around 80%² of marine accidents can be attributed to this.

Marine & Shipping			2016 Rank	Trend
1	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	35%	1 (46%)	-
2	Business interruption (incl. supply chain disruption, and vulnerability)	28%	3 (31%)	▲
2	Theft, fraud, corruption	28%	2 (33%)	-
4	Natural catastrophes (e.g. storm, flood, earthquake)	23%	4 (30%)	-
5	Human error	22%	NEW	▲

82 responses

Source: Allianz Global Corporate & Specialty. Figures represent the number of responses as a percentage of all responses. More than one risk selected.

¹ Rough Seas For The Shipping Industry – Consolidation Wave Still Rolls, Euler Hermes ² Human Reliability and Error in Transportation Systems, Springer

Business interruption is the new top risk in the **Power and Utilities** sector and, together with market developments, in the **Transportation** sector.

Power & Utilities			2016 Rank	Trend
1	Business interruption (incl. supply chain disruption, and vulnerability)	56%	2 (42%)	▲
2	Natural catastrophes (e.g. storm, flood, earthquake)	30%	3 (35%)	▲
3	Changes in legislation and regulation (government change, economic sanctions, protectionism, etc.)	28%	1 (48%)	▼
4	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	24%	NEW	▲
5	Cyber incidents (cyber crime, IT failure, data breaches, etc.)	23%	5 (27%)	-

86 responses

Source: Allianz Global Corporate & Specialty. Figures represent the number of responses as a percentage of all responses. More than one risk selected.

Transportation			2016 Rank	Trend
1	Business interruption (incl. supply chain disruption, and vulnerability)	35%	NEW	▲
1	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	35%	3 (30%)	▲
3	Theft, fraud, corruption	33%	1 (48%)	▼
4	Changes in legislation and regulation (government change, economic sanctions, protectionism, etc.)	31%	NEW	▲
5	Human error	27%	NEW	▲

75 responses

Source: Allianz Global Corporate & Specialty. Figures represent the number of responses as a percentage of all responses. More than one risk selected.

[View the top risks from other industry sectors in the Risk Barometer 2017 Appendix here »](#)

IN FOCUS Small to mid-sized (MidCorp) businesses

Business interruption (BI) is ranked as the top risk by mid-sized companies (€250m to €500m revenue): it ranks second among small-sized companies (<€250m) in the 2017 Allianz Risk Barometer. For small- to mid-sized companies, generally, market developments is a major risk concern. Naturally, smaller enterprises are affected heavily by market stagnation, leading to a cap in small- to mid-sized business lending, barely balanced by government grants or other support. Highly competitive industries like the service sector, construction or food services dominate this space. While larger companies may face fewer new market entrants, small- to mid-sized businesses in these sectors have to continue to address an incoming stream of competition, says **Vinko Markovina, Global**

Head of MidCorp, AGCS. "The MidCorp business segment plays such an important role in our global economy," says Markovina. "At the same time, this segment can be particularly vulnerable to slower economic growth and increasing geopolitical turmoil."

Interestingly, cyber incidents ranks just sixth top risk for small-sized companies. "Are small companies underestimating cyber risk? Yes," says **Jens Krickhahn, Head of Cyber Insurance Central and Eastern Europe, AGCS.** "Many underestimate their exposure and are not prepared for, or are able to respond to, an incident. Many do not have the resources to build a response team. This can be fatal if they become the target of a cyber-attack."

Top six risks for small-sized enterprises (<€250m revenue)

			Overall ranking
1	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	32%	2
2	Business interruption (incl. supply chain disruption and vulnerability)	27%	1
3	Changes in legislation and regulation (government change, economic sanctions, protectionism, etc.)	26%	5
4	Natural catastrophes (e.g. storm, flood, earthquake)	25%	4
5	Macroeconomic developments (austerity programs, commodity price increase, deflation, inflation)	24%	6
6	Cyber incidents (cyber crime, IT failure, data breaches, etc)	22%	3

Source: Allianz Global Corporate & Specialty. Figures represent the number of responses as a percentage of all relevant responses (1,275). More than one risk could be selected by respondents.

Top risks in focus Cyber incidents

With increasing numbers of data breaches and cyber-attacks invading the news cycle – ranging from Yahoo’s recent admission that one billion accounts were compromised in one of the biggest data breaches in history in 2013¹ to alleged disruption of the US Presidential election – it is no wonder that **cyber incidents** continues an impressive five-year climb up the **Allianz Risk Barometer**.

In 2013, cyber was the 15th top risk, with only 6% of responses naming it in their top three business risks. By 2014, it jumped to 8th place with 12%. In 2015, it was the most significant mover, climbing to 5th place with 17% of responses. Last year, cyber emerged for the first time into the top three in 3rd position with 28% and although still in third place this year, the number of responses is up to 30%, only one point behind the number two risk, market developments.

Why cyber risk is a growing concern

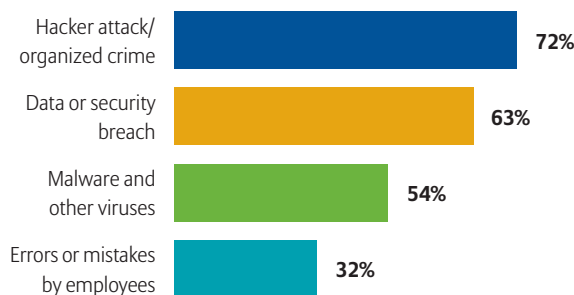
“Cyber risk is not going away and people around the world are right to be concerned,” says **Emy Donavan, Head of Cyber North America, AGCS**. Concern is increasing because it is still largely an unknown risk, is not isolated to a particular segment and spans different industries and sizes of companies, from an online retailer through to a heavy manufacturer to an oil refinery. The nature of hacking attacks, for example, is enigmatic and will

change over time and companies are worried about increasing sophistication of attacks (*see page 10*).

“Increasing interconnectivity and sophistication of cyber-attacks poses not only a huge direct risk for corporate and commercial clients but also indirectly via exposed critical infrastructures such as IT, water or power supply. Cyber-attacks might impact companies and societies more severely via long-lasting and widespread business interruptions of those critical infrastructures,” says **Michael Bruch, Head of Emerging Trends at AGCS**.

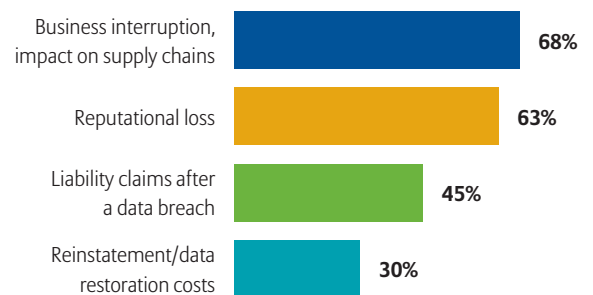
Meanwhile, data protection rules are becoming increasingly tough as government agencies bolster cyber security. This significantly impacts businesses; as penalties for non-compliance can be severe. Laws in the US are already strict but a heightened liability focus is also seen elsewhere in the world. A significant development is occurring in Europe where the introduction of the General Data Protection Regulation will transform the landscape. According to **Nigel Pearson, Global Head of Fidelity at AGCS**, time is already running out for businesses to prepare for its implementation in May 2018. “It will impose significant liabilities and penalties on companies doing business in the EU or with EU citizens. Costs to comply with the legislation will be high, the penalties of not complying could be even higher,” he says. Companies could be fined as high as 4% of their global revenues for breaching rules. Executive liability is also expected to increase. Then there is the impact of technical IT failure or human error, which can also result in costly damages.

What are the main causes of cyber incidents?



Source: Allianz Global Corporate & Specialty. Figures represent the percentage of answers of all participants who responded (446). Up to three answers possible.

What are the main causes of economic loss after a cyber incident?



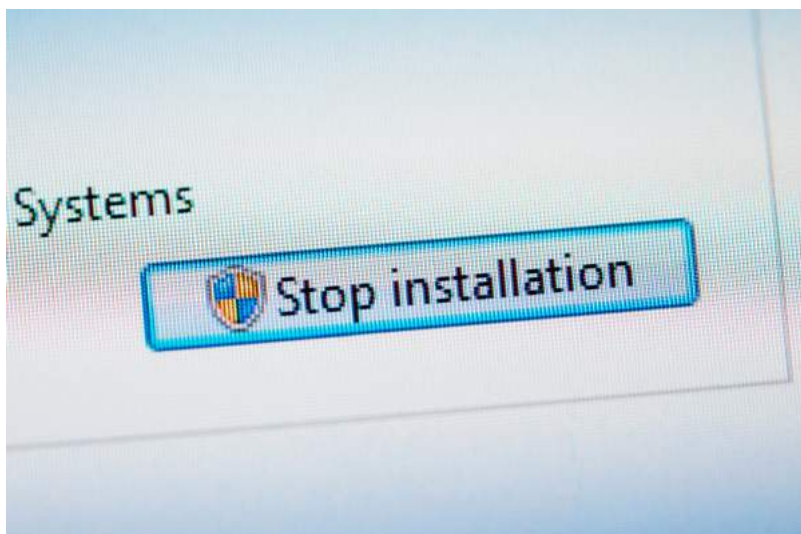
Source: Allianz Global Corporate & Specialty. Figures represent the percentage of answers of all participants who responded (446). Up to three answers possible.

¹ Important Security Information for Yahoo Users, Yahoo.tumblr.com

Business interruption, customer and reputational damage

Business interruption impact is now the cause of economic loss after a cyber incident companies worry about most, according to Risk Barometer responses. Almost 70% cited this a major concern. "Cyber exposure goes well beyond standard privacy/data breaches," says **Georgi Pachov, Global Practice Group Leader Cyber, AGCS**. "A single cyber incident, be it a technical glitch, human error or cyber-attack can lead to a severe business interruption, loss of customers and market share, as well as mid to long-term reputational and brand damage."

"In today's Internet of Things/Industry 4.0 production environment the machines and companies are connected. A failure to submit the data or read the data correctly could stop production," adds **Volker Muench, Global Practice Group Leader, Property Underwriting, AGCS**.



In the Industry 4.0 environment a failure to submit or interpret data correctly could stop production.
Photo: iStockPhoto

Cyber risk mitigation strategies

As a fast-moving and difficult to prevent risk, cyber is challenging to mitigate because not only is the nature of the assault unknown but the nature of the loss can be hard to determine, as well. Because of the indefinite nature of the risk, companies may not even know they have been impacted until long after the initial event occurred.

All organizations, including smaller-sized enterprises (*see page 13*) need to consider their potential exposures and prepare for an incident. Businesses should know their assets and how to prepare and protect data. Although there is no such thing as 100% security, companies and employees at all organizational levels should implement monitoring and early warning systems to guard against data breaches, for example. Developing a cyber strategy with a business continuity plan is equally important. "Security is not just an IT issue," says **Thomas Varney, Regional Manager, Americas, Allianz Risk Consulting**. "Every organization is vulnerable to cyber threats and how swiftly they respond to mitigate a breach is key."

Donavan suggests companies train employees on how to identify fake emails and not to click through on suspicious links. She emphasizes the importance of backing up data offsite, segmented apart from the rest of the company's network. Finally, she stresses the importance of using role-based permissions for employees and not granting more data access to employees than they need to effectively do their jobs. "Doing these three things," she says, "would prevent half the losses I see."

According to Pearson, businesses should employ a chief information security officer (CISO) or equivalent who should implement a comprehensive information security management system. "This can be costly and time-consuming but is necessary, not just for information security but for the long-term health of the business," he says. "This is why it should be a board level concern."

Cyber insurance continues to evolve. Examples of areas of protection include:

- Business interruption and restoration costs
- Consultant services
- Crisis communication
- Cyber extortion
- E-payments
- Hacker theft
- Media liability claims
- Network security claims
- Notification costs
- Privacy and data breach
- Regulatory costs
- Response costs

Regional Analysis

The 2017 Allianz Risk Barometer analyzes responses from a record 55 countries and four regions. **Business interruption** (inc. supply chain disruption) [BI] remains the top business risk for 2017 in three of the four regions – Americas (43%), Asia Pacific (42%) and Europe (35%). However, there are some significant differences in the risk rankings around the world.



Political risks and violence is a top three business risk for the first time in the Africa & Middle East region.

Photo: iStockPhoto/Jon_Brown

Market (39%) and macroeconomic (37%) developments rank as the top two risks in the **Africa & Middle East region**. "Nigeria and South Africa continue to face challenges: from low commodity prices, the Chinese slowdown and the tightening of US monetary policy, as well as internal pressures such as inflation, weak domestic demand and socio-political tensions," says **Delphine Maidou, CEO, AGCS Africa**.

Businesses are also increasingly focused on the threat of political risks and violence in the region, with this a top three business risk for the first time. Instability in African states such as Burundi, 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. Fear of loss of reputation is also rising across the region.

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 (government 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	▲

REGIONAL RISK RISERS Fear over the impact of a cyber incident tops the rankings in **South Africa**. They are reported to cost the South African economy ZAR6bn (\$400m) annually. Macroeconomic developments dominate in **Nigeria**. Concerns about political risks and violence have soared in **Turkey**, following a number of deadly terror attacks in 2016, ensuring it becomes the top business risk with a record 92% of responses.

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

Recent events, such as the wildfires in Fort McMurray, Alberta, have highlighted the issues companies face with business interruption.

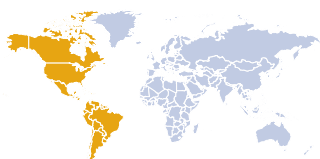
Photo: Jason Woodhead/
Wikimedia Commons



Across the **Americas** region, fear of BI, cyber incidents and natural catastrophes are the three major concerns for businesses. "Each of these issues at times may be an unknown or hidden risk exposure, but an exposure that could create potentially both short and long-term consequences to a company's

bottom line," says **Thomas Varney, Regional Manager, Americas, Allianz Risk Consulting**. "Understanding of a supply chain exposure requires a partnership between client and carrier." Fears over macroeconomic developments and the new risk impact of increasing interconnectivity are rising.

Top 10 business risks by region in 2017: Americas



Top 10 business risks

			2016 Rank	Trend
1	Business interruption (incl. supply chain disruption, and vulnerability)	43%	1 (58%)	-
2	Cyber incidents (cyber crime, IT failure, data breaches, etc.)	31%	2 (46%)	-
3	Natural catastrophes (e.g. storm, flood, earthquake)	28%	3 (37%)	-
4	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	26%	4 (35%)	-
5	Changes in legislation and regulation (government change, economic sanctions, protectionism, etc.)	19%	5 (28%)	-
6	Fire, explosion	15%	6 (25%)	-
7	Macroeconomic developments (austerity programs, commodity price increase, deflation, inflation)	15%	8 (20%)	▲
8	Loss of reputation or brand value	14%	6 (25%)	▼
9	New technologies (e.g. impact of increasing interconnectivity, nanotechnology, artificial intelligence, 3D printing, drones, etc.)	12%	NEW	▲
10	Theft, fraud, corruption	12%	9 (20%)	▼

REGIONAL RISK RISERS Concerns over the impact of cyber incidents and changes in legislation, regulation and the government are up year-on-year in the **US**. BI is the most important risk for businesses in both **Brazil** and **Canada**.

Source: Allianz Global Corporate & Specialty. Figures represent a percentage of all relevant responses. 398 respondents. More than one risk selected.

The earthquake (and aftershocks) which struck the Kumamoto prefecture in Japan in April 2016 was the costliest natural catastrophe of the year.

Photo: hyolee2/
Wikimedia Commons



Across **Asia Pacific** market developments (32%) ranks behind BI as the top concern for businesses in 2017, with natural catastrophes ranking third. The region saw the costliest disaster globally of the year in 2016 – the earthquake (and aftershocks) which struck the Kumamoto prefecture in Japan in April. The total economic cost of this event is estimated at \$20bn, but just \$5bn of this was insured¹.

“Governments are working together to achieve an integrated ASEAN insurance market which will facilitate a

wider distribution of risks through cross border solutions and open access to the individual domestic markets,” comments **Mark Mitchell, CEO, AGCS Asia**. “This will result in safer and more cost-effective provision of insurance which will help pilot critical capacity gaps in respective ASEAN jurisdictions. It will also help reduce the burden on governments, corporates and consumers, as well as strengthen economies’ resilience to catastrophe losses.”

Cyber, fire and new technology-related risks are among the ranking risers year-on-year.

Top 10 business risks by region in 2017: Asia Pacific



Top 10 business risks

			2016 Rank	Trend
1	Business interruption (incl. supply chain disruption, and vulnerability)	42%	1 (56%)	-
2	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	32%	2 (55%)	-
3	Natural catastrophes (e.g. storm, flood, earthquake)	29%	3 (36%)	-
4	Cyber incidents (cyber crime, IT failure, data breaches, etc.)	26%	5 (32%)	▲
5	Fire, explosion	22%	8 (20%)	▲
5	Macroeconomic developments (austerity programs, commodity price increase, deflation, inflation)	22%	4 (35%)	▼
7	Changes in legislation and regulation (government change, economic sanctions, protectionism, etc.)	17%	7 (25%)	-
8	Loss of reputation or brand value	14%	6 (26%)	▼
9	New technologies (e.g impact of increasing interconnectivity, nanotechnology, artificial intelligence, 3D printing, drones, etc.)	13%	NEW	▲
10	Human error	10%	NEW	▲

REGIONAL RISK RISERS BI is the major concern for businesses in **Australia** and **Singapore**. Market developments dominate in **China**. Natural catastrophe exposure ranks top in **Hong Kong** and **Japan**.

Source: Allianz Global Corporate & Specialty. Figures represent a percentage of all relevant responses. 141 respondents. More than one risk selected.

¹ Sigma preliminary estimates, Swiss Re



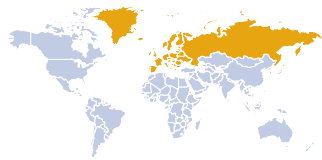
Tributes to the victims of the terrorist attacks in Brussels on March 22, 2016. Political risks and violence, including terrorism, climbs to 7th position in the European rankings.

Photo: iStockPhoto/cristi_m

Across **Europe**, while BI remains the top risk year-on-year, fear of cyber incidents climbs to second position, while political risks and violence climbs to seventh position.

“Cyber-attacks continue to proliferate and hit the headlines,” says **Nigel Pearson, Global Head of Fidelity, AGCS**. “Looking ahead, the introduction of the General Data Protection Regulation in May 2018 significantly increases the liabilities for companies doing business in Europe or with European citizens.”

Top 10 business risks by region in 2017: Europe



Top 10 business risks

			2016 Rank	Trend
1	Business interruption (incl. supply chain disruption, and vulnerability)	35%	1 (53%)	-
2	Cyber incidents (cyber crime, IT failure, data breaches, etc.)	32%	3 (40%)	▲
3	Market developments (volatility, intensified competition/new entrants, M&A, market stagnation, market fluctuation)	32%	2 (52%)	▼
4	Changes in legislation and regulation (government change, economic sanctions, protectionism, etc.)	28%	4 (39%)	-
5	Macroeconomic developments (austerity programs, commodity price increase, deflation, inflation)	23%	5 (31%)	-
6	Natural catastrophes (e.g. storm, flood, earthquake)	21%	6 (31%)	-
7	Political risks and violence (war, terrorism, etc.)	16%	10 (17%)	▲
8	Fire, explosion	15%	8 (22%)	-
9	Loss of reputation or brand value	12%	7 (29%)	▼
10	New technologies (e.g impact of increasing interconnectivity, nanotechnology, artificial intelligence, 3D printing, drones, etc.)	12%	9 (19%)	▼

REGIONAL RISK RISERS Impact of cyber incidents is the top concern for businesses in **Germany** for the first time and in the **UK** for the second year in a row. Uncertainty over **Brexit** and the **Eurozone** is a much bigger risk concern year-on-year in the **UK**, rising to 5th position following the June 2016 referendum. BI is the new top risk concern in **France** and is the major concern in **Austria, Italy**, the **Netherlands, Spain** and **Switzerland**. Macroeconomic concerns continue to dominate in **Greece**. Changes in legislation is the new top risk in **Croatia**, also ranking 1st in **Hungary** and **Russia**. Market developments rank top in **Belgium**. Impact of a fire and explosion is top in **Slovakia**.

Source: Allianz Global Corporate & Specialty. Figures represent a percentage of all relevant responses. 516 respondents. More than one risk selected.

[To see the full Appendix of the top 10 risks per selected countries in each region click here »](#)

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