BUSINESS RISK

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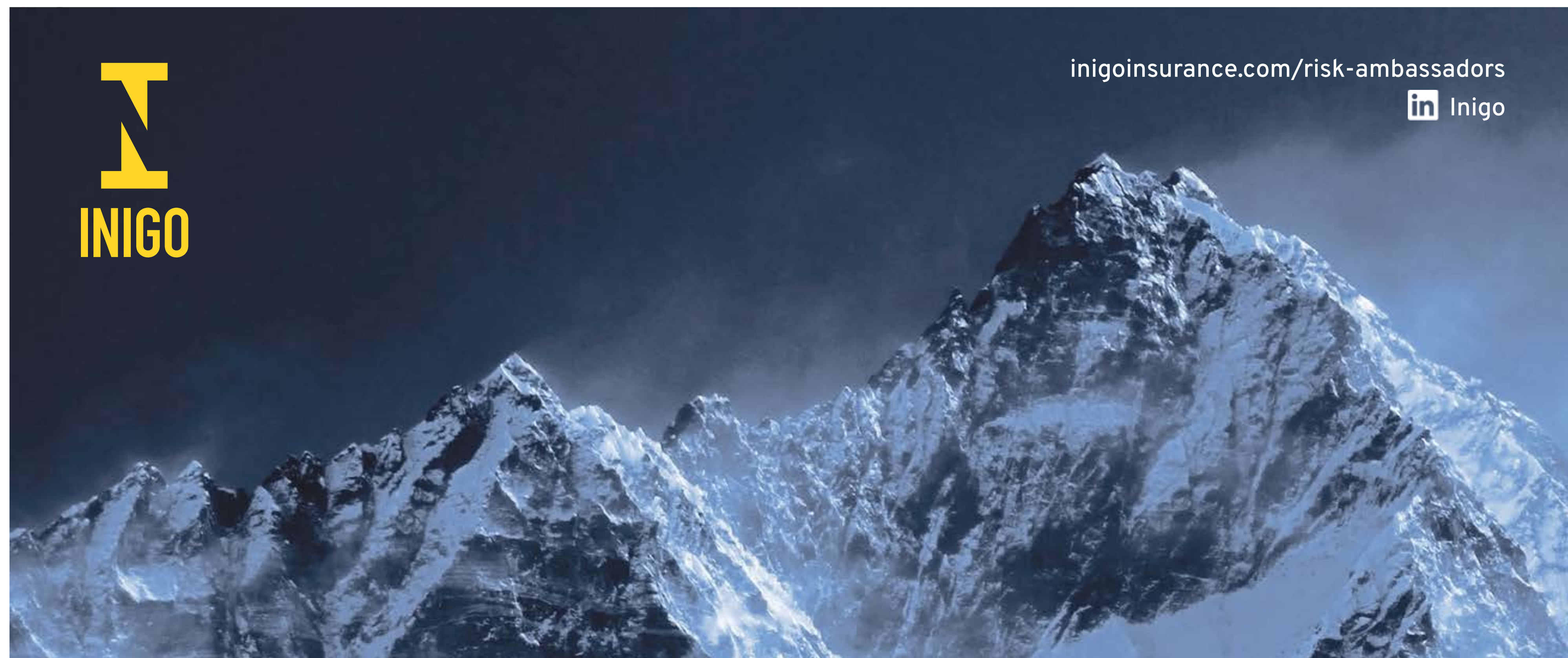


INTRODUCING

THE INIGO RISK AMBASSADORS

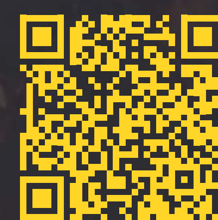
As insurance and reinsurance specialists, at Inigo we pose ourselves a radically simple question: How can we understand risk more deeply in order to create better outcomes for our clients?

Our answer:
Keep looking in places others are not.

Introducing the Inigo Risk Ambassadors. An ex-Royal Marine mountain leader and wingsuit base jumper, a world record-holding ice water freediver and a volcanologist. Extraordinary individuals who will help us surface the science of risk from inspiringly different perspectives and environments.

The similarities between their world and ours is immediate and striking. The convergence of data and calculation, with experience and instinct, informs the most critical decisions.

JOIN US AS WE SURFACE THE SCIENCE OF RISK



EXPLORE

BUSINESS RISK

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GEOPOLITICS

Welcome to the low-cooperation era

As governments around the world retreat from multilateral agreements and adopt more aggressive stances, potential risks to business are flourishing. What can firms do to adapt?

Sophia Akram

The world stands at a crossroads: as global shocks unfold, we're entering a "low-growth, low-investment and low-cooperation era".

That's according to a report from the World Economic Forum (WEF), which warns that factors such as worsening climate change, resource scarcity and the rising risk of conflict, combined with a gradual weakening of global multilateral institutions and increasing geopolitical fragmentation, are resulting in the marked ineffectiveness of international cooperation mechanisms.

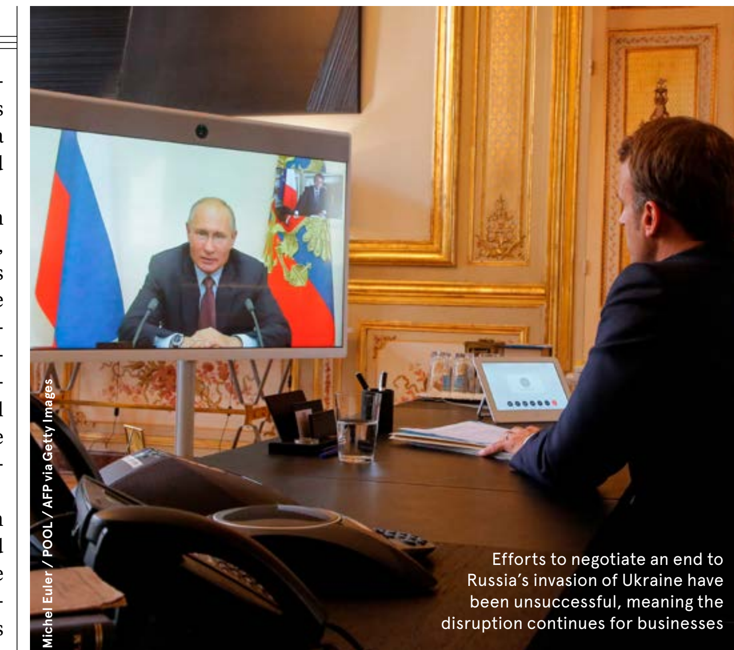
It's something that can be seen everywhere from Ukraine and Taiwan to the Middle East, where tensions have risen, disruptive conflicts have bubbled up, and prices have surged. The likes of the UN, Nato, the World Trade Organization and the G7 have done little to help.

The WEF's dismal forecast of more of the same has major implications for global businesses too. The breakdown of top-level cooperation threatens to put businesses' supply chains, communications lines, finances and people management in the firing line. But how have we got here? And what can businesses do to mitigate against the slow collapse of international cooperation?

"Up to now, globalisation – or rather, international economic policies – have exacerbated the inequalities that have been undermining democracies in the West," observes John Breen, lead consultant at global risk analysis firm Sibylline. It's one narrative explaining what is behind a great deal of the unravelling of international cooperation.

After all, greater economic integration over the past 30 years has not changed the internal political dynamics or military ambitions of economic superpowers such as China and Russia. It has, then, been all too easy for these regimes to point the finger, casting Western-led globalisation as an attempt to reinforce the status quo. And mirroring the sabre-rattling overseas, the US has also shifted towards a more protectionist economic policy to shore itself up against the likes of China.

Overall, the consequences of this escalation – and the adoption of policies which diverge from the principles of deregulation and trade liberalisation – are potentially broad-ranging, affecting businesses' investments, supply chains, goods prices and cross-border operations.



Michel Euler / POOL / AFP via Getty Images

Efforts to negotiate an end to Russia's invasion of Ukraine have been unsuccessful, meaning the disruption continues for businesses

For instance, billions of dollars were lost amid Russia's invasion of Ukraine and many Western businesses' subsequent exit from Russia. Fuel giant BP let go of close to a 20% stake in Russian oil firm Rosneft, at a cost of more than $20bn (£15.6bn). Italian bank Unicredit lost more than $8bn, and Exxon Mobil took a $3bn hit. Clothing chain H&M suffered a 68% loss in earnings and German DIY chain OBI had to sell its Russian stores to a local businessman.

In addition to this mounting risk of costly disruption, Liza Robbins, chief executive of Kreston Global, an international advisory and accountancy network, points to the increasing compliance burden and conflicting country-by-country regulations which make it hard to secure the consistent, productive flow of resources that international businesses rely on.

Businesses' digital set-ups are a particular source of problems. "We frequently encounter issues when trying to align digital operations because of regional technical infrastructure capabilities," observes Robbins. A complete move to the cloud, for example, is not always feasible in countries which experience routine power outages.

Data privacy and data protection discrepancies between countries also restrict the free flow of information, particularly within the accounting sector, Robbins explains. In some cases, that could raise the risk of fraud and money laundering.

And it isn't just on the information side of the equation that the breakdown of international relationships is having an effect.

"Post-Brexit, UK firms have had reduced access to skilled talent through migration, a common issue across countries in a skills-short market," says Robbins. As barriers to talent migration increase, there is an inherent risk that workforces will become increasingly nationalised or monocultural, making it harder to achieve global collaboration between and within businesses in the long term, she warns.

The challenges of a low-cooperation world may already be having a chilling effect on business growth. A survey of 600 international business leaders by Kreston Global has found that 56% have chosen not to expand their business abroad. Just under a third of those (32%) said that their decision was down to international supply chain issues.

The recent experience in the semiconductor sector is a cautionary tale. Tensions between China, Taiwan and the US have piled on the pressure in the global semiconductor market, resulting in huge shortages. The US ban on exports of semiconductors and semiconductor manufacturing equipment to China has contributed significantly to this, as most foundries depend on American technology for production, explains Rashi Singh, assistant vice-president for procurement and supply chains at analytics specialist The Smart Cube.

"With chips being the building blocks for so much modern equipment and future-defining technologies – such as AI, robotics, biotech and 5G – it has become imperative for Western countries to invest in the development of a local supply chain for semiconductor chips while these geopolitical issues continue," he says. Of course, that won't be a quick fix and nor will it come cheap.

Beyond semiconductors, any effort to diversify supply chains will likely be a key mitigation strategy for global businesses. But the cost issue will undoubtedly remain.

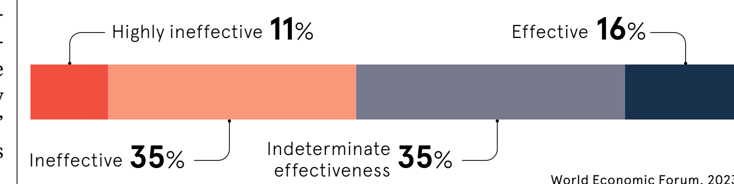
"It's really expensive to move these supply chains," says Breen. "And they're incredibly vulnerable to shocks because there are so many different inputs going into products these days." He also underlines the importance of adding geopolitical expertise at the board level to help with crisis preparedness – a skill which is increasingly sought by firms' legal counsel.

But as John Caplan, CEO of the online payment platform Payoneer, puts it, there's only so much preparedness can do. True resilience is forged in the fires of a crisis. "When, for whatever geopolitical reason, an international corridor is shut down, folks have to be resilient," he says. "What we've seen in our Ukrainian businesses is that 30% or more are looking to accelerate the growth of their business."

Business leaders, then, may simply have to adapt to the low-cooperation era as each successive international crisis arises, operating as and where they can and pivoting to new opportunities when existing avenues close to them. That, surely, will be the true measure of their resilience.

FEWER THAN ONE IN FIVE BUSINESS LEADERS HAVE FAITH IN INTERNATIONAL COOPERATION

Percentage of business leaders worldwide who believe international cooperation mechanisms are effective



World Economic Forum, 2023

INSIGHT

'Current risk interventions may be past their sell-by date'

The arrival of AI highlights issues in the way businesses go about assessing risk, says Airmic's **Julia Graham**

The word "risk" conjures up thoughts of negativity. After all, it is typically far easier to think about, assess and quantify the downside of a looming risk threatening your business than it is to turn over the coin and look at the upside or the opportunities. The data and insights often just aren't there to support looking for opportunities in the unknown, especially in such a fast-changing, uncertain and volatile world.

There are other reasons, too, why grasping the upside of risk can prove difficult. For instance, any decision to dedicate time and budget to something requires concrete justification. The 'here and now' is easier to contemplate and ultimately justify than 'what might be' – especially if the 'what might be' would probably end up under someone else's remit.

This brings us to the prospect of artificial intelligence (AI). The headlines tell us that it has ceased to be 'what might be' and has suddenly become the 'here and now'. The question that remains, though, is: should we fear or embrace AI?

Before we try to answer that question, it's worth remembering that AI is a continuation of a trend which started more than four decades ago. One danger for us to grapple with is that the attention being paid to the downsides of AI are a distraction, focusing our minds on the negatives at the expense of the opportunities. As the technology accelerates quickly, the focus ought to be on how we can ensure implementing AI does not widen social inequalities and does not see it being used for the benefit of the few at the expense of the many.

So, to fear or embrace it? Well, let's try asking ChatGPT: it tells us that if generative AI is used to replace workers instead of supporting them, it could have consequences for employment and economies. It's an honest assessment, at least.

As businesses weigh up this conundrum for themselves – the upside-versus-downside risk analysis – it will be worth recognising that there are diverging views on the future role of AI and whether it offers valuable solutions or is something to approach with caution. Certainly, extreme optimism could be risky. It feels as though we are rushing into a future without fully understanding what this might mean. The technology seems to be ahead of our ability as individuals, businesses, regulators and governments to keep up with it. The technologies are awesome at what they do and are developing rapidly. We are in a race to understand and implement technologies which may evolve with inbuilt biases, when perhaps we should be approaching the future more like being at war.

Of course, AI is just one example of a case where businesses need to weigh up their approach to a given risk, and it raises broader questions. For one, what does our current scenario with AI tell us in terms of how businesses should go about managing risk? And how can businesses use the knowledge and skills of risk professionals to full advantage as they assess changes of this kind?

For example, if you have risk registers – lists of risks and heat charts – and you don't operate the management of them dynamically, then you may as well put them in the bin and save yourself time and money. Static views of the world and what matters can be divisive and can drive a business towards a dead end – or worse.

Instead, businesses need to practise real-time, dynamic risk management. This will help them to keep an eye on a changing context externally and internally, as well as identifying any new risks as they arise. It's also well worth looking at risk connectivity and examining where the intersection points are right now and where they're moving to.

If the sudden arrival of AI can teach us anything, then, it's that our current risk interventions may be past their sell-by date. Businesses could be addressing the wrong risks in the wrong way, or equally, the right risks in the wrong way. ●

Julia Graham
CEO, Airmic

TECHNOLOGY

5 ways AI could endanger your business

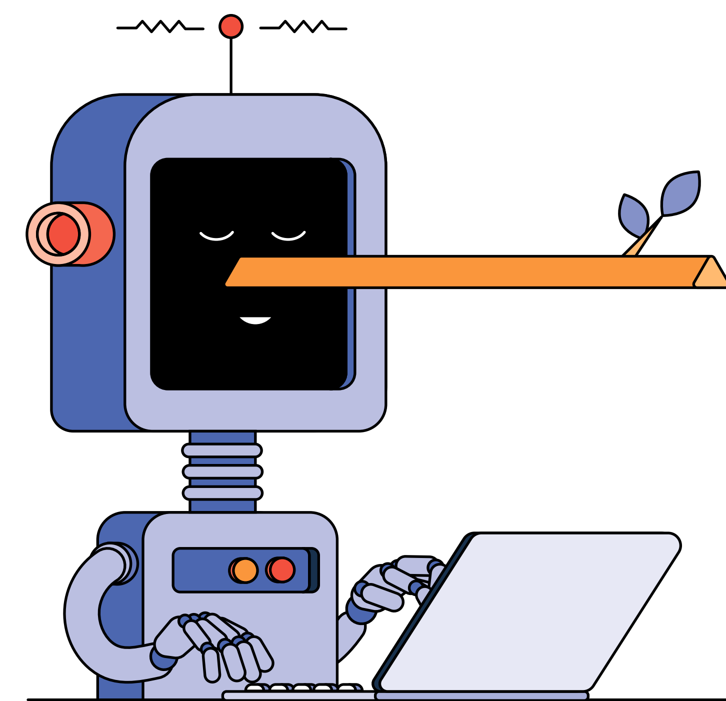
AI isn't always a boon to a business. As several recent incidents have shown, it can cause serious problems if used recklessly

Emma Woollacott

In recent months, warnings have come thick and fast that artificial intelligence (AI) could represent an existential threat to the human race.

In March, for instance, tech leaders including Elon Musk and Apple co-founder Steve Wozniak issued an open letter calling for a pause in developing AI, citing "profound risks to society and humanity". In late May, a group of expert engineers and NGOs argued that "mitigating the risk of extinction from AI should be a global priority".

But none of this has stopped firms from rushing to adopt tools such as ChatGPT, encouraged by reports of greater efficiency. But as some businesses are beginning to discover, a hasty embrace of AI tools can sometimes bring problems of their own.



Inaccuracy and errors

Within two months of its launch, OpenAI's ChatGPT application drew in more than 100 million users. A succession of similar tools followed in its wake, from chatbots to website text generators, scheduling tools and presentation designers, and even coding.

But ChatGPT and other large language models have developed a reputation for some serious problems with accuracy.

And while ChatGPT-4's creators claim that it is now 40% more likely to produce "factual responses" than its earlier iterations, problems remain. The system has no knowledge of events since September 2021, it can make errors of reasoning and it's often confidently wrong.

In one recent example, a New York lawyer representing a man suing Colombian airline Avianca submitted a set of cases as precedent. Unfortunately, he had used ChatGPT for his research, and not one of the cases was genuine. He may now be sanctioned for "fraudulent notarization".

Similarly, many developers have experimented with using ChatGPT to generate code, and have found that this, too, is subject to errors.

"Bad code simply wastes developer time, takes up resources and ultimately reduces business profitability," says Dr Leslie Kanthan, co-founder and CEO of AI code optimisation firm TurinTech. "And those in the data-science pipeline already want to spend less time refining code."

Transparency and accountability

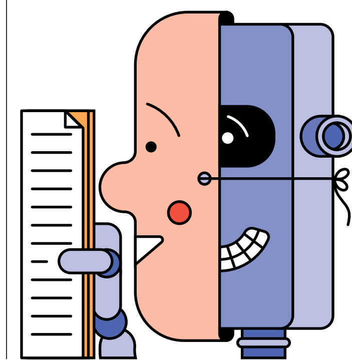
One of the principles of the EU's new AI Act is that organisations should disclose whenever content has been generated by AI.

Unfortunately, this doesn't always happen. Tech title CNET, for example, was recently discovered to have been publishing AI-generated stories and was forced to apologise for misleading readers.

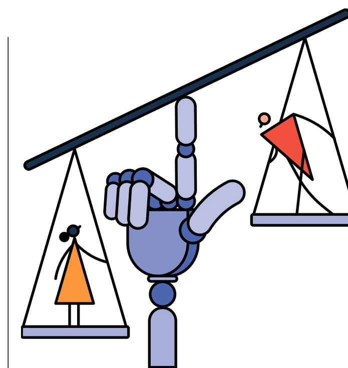
The OECD recommends that AI use should be transparent and generally understood, and that users should be aware of their interactions with it and able to understand and challenge the outcomes. Communication with customers and other stakeholders therefore needs to be clear. In order to have accurate information to share with customers, businesses will need to carry out due diligence on their AI suppliers in terms of data lineage, labelling practices and model development.

To achieve all of this, Jay Limburn, vice-president of AI and data at IBM, advises involving governance, risk and compliance staff and giving them real teeth to help ensure AI accountability. "If a company building AI tools doesn't follow clear principles to promote ethical, responsible use of AI, or if they don't have practices in place to live up to those principles, their technology has no place on the market," he says.

"Ultimately this is about trust. If the AI models that organisations are using aren't trusted, the organisations themselves will not be trusted and society will not fully realise the benefits of AI." After all, a lack of accountability in AI, Limburn adds, can result in regulatory fines, brand damage and lost customers.



Data quality and algorithmic bias



Despite the risks of unintended biases in AI models long recognised as a potential problem, according to a survey by IBM three-quarters of businesses using AI have still done nothing to address this.

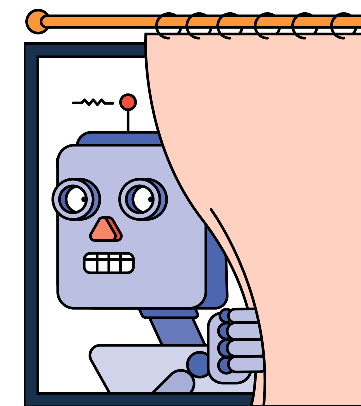
Such biases can have extreme consequences too: Amazon, for example, was forced five years ago to scrap an AI recruitment tool which was found to be sexist. Trained using data that came almost entirely from male applicants, the system was silently downgrading CVs belonging to female candidates.

Simon Bain is CEO of encrypted data analysis specialist OmniIndex. He notes that the biggest chatbots, such as ChatGPT and Bard, "still rely on the same generative AI concepts that made Microsoft's Tay, the incredibly misguided, racist and all-round bigoted AI that was replying to teens and journalists in 2016".

Ensuring that this doesn't happen can be tricky. Data used for training purposes needs to be accurately representative of all groups and users should have the opportunity to challenge the output.

Meanwhile, data needs to be thoroughly labelled, so that if problems with the results are identified it is possible to find where the issue might lie.

The Brookings Institute think-tank, for instance, recommends the use of regulatory sandboxes to foster anti-bias experimentation, the development of a bias impact statement, inclusive design principles and cross-functional work teams.



Data privacy

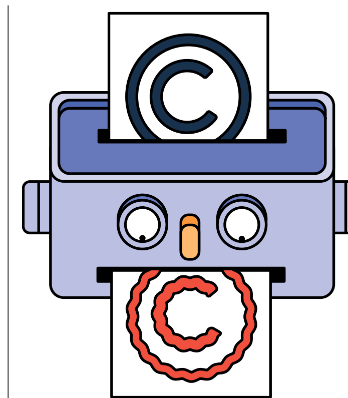
Earlier this year, video platform Vimeo agreed to pay $2.25m (£1.7m) to some of its users for collecting and storing their facial biometrics without their knowledge. The company had been using the data to train an AI to classify images for storage and insisted that "determining whether an area represents a human face or a volleyball does not equate to 'facial recognition'".

But any personal information is subject to standard data protection rules, no matter how it's used. This includes any data collected for the purposes of training an AI, which can easily end up becoming extremely extensive.

The Information Commissioner's Office advises organisations to carry out a data protection impact assessment to gain the consent of data subjects; to be prepared to explain their use of personal data; and to collect no more than is necessary.

Crucially, procuring an AI system from a third party does not absolve a business from responsibility to comply with data protection laws.

Intellectual property



Businesses are increasingly falling foul of IP rules in their use of AI. Most recently, for instance, image supplier Getty Images sued Stability AI for reportedly using its images to train its art-generating AI, Stable Diffusion. Similarly, a class-action lawsuit is in progress against Microsoft, GitHub and OpenAI, alleging that they broke copyright law by using source code lifted from GitHub to train the Copilot code-generating AI system.

Theodoros Evgeniou is professor of decision sciences and technology management at business school INSEAD, and a World Economic Forum academic partner on AI. He notes that there is a range of potential IP infringements in using AI. "One extreme is, for example, if one fine-tunes a so-called foundation model, such as Dall-E or ChatGPT, on the work of someone else and then creates something like a 'digital twin' of that person or company.

"Then there's also the question of what to do about the prompts given by the users – so, not the data used to train the model. A user can fine-tune the AI's output using their own prompts, which can be, for example, the works of another individual." ●

Commercial feature

De-risking the supply chain: how to leverage your data

When supply chain disruption occurs, businesses need the visibility and agility to make data-driven decisions that deliver products and profits, while exploiting the cloud to expedite data sharing and access. Enter the intelligent ERP

The performance of global supply chains is reliant on a combination of interdependence and interconnectedness to deliver goods and services to consumers. This is aided by predictable buying habits, access to goods and consistent shipping patterns.

But in recent years, covid-19, 2021's Suez Canal blockage, and the ongoing Russia-Ukraine war have exposed the vulnerability of supply chains and forced businesses to re-evaluate how they de-risk their business networks to ensure customers get the goods they need on time while maintaining quality and profits.

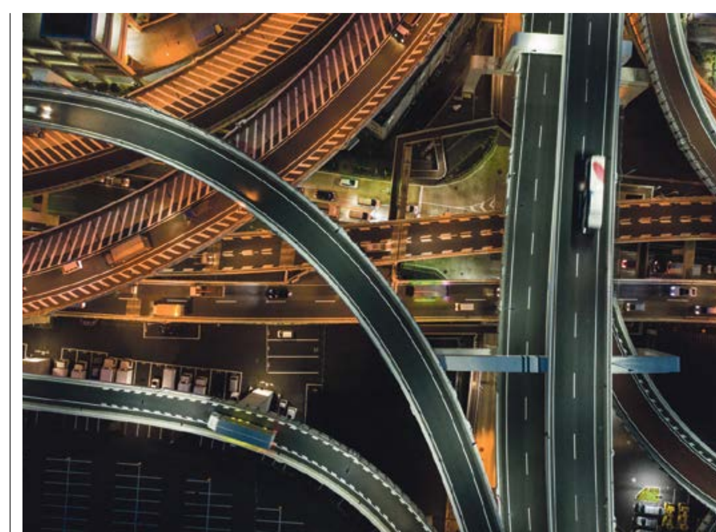
Some have chosen to reroute their entire networks. Globalised supply chains have enabled companies to source the cheapest possible quality components, materials and products, but lengthy networks spanning multiple countries increase the risk of disruption. Near-shoring and reshoring of production are becoming increasingly common as companies seek more control over risk factors by moving production closer to the end consumer.

It's an example of intelligent decision-making that can be enhanced further by hard numbers. "Data sharing across extended supply chains, facilitated by cloud ERP software, is providing businesses with greater accuracy in planning and execution, from production to fulfilment, that can be accessed anywhere at any time," says Andy Coussins, head of international at Epicor. Predictive insights into expected fluctuations in supply and demand allow manufacturers, distributors and retailers to adapt at speed and avoid stock-outs or excess stock.

"These visualisation solutions keep supply chains moving by bringing data to life, giving manufacturers access to insights in context, specifically for the function they're tasked with," Coussins adds. "Epicor's dashboards can be configured to an individual's role, so they have the latest relevant information available when and where needed." This expedites decision-making and ultimately ensures a right-sized supply chain, so the right amount of stock is in the right place at the right time.

Supply chain in the cloud

Moving supply chain data and business-critical applications from on-premises solutions to the cloud can also increase resilience against many threats, including cyberattacks, by tapping into Epicor's partnership with Microsoft to leverage the Azure platform.



Businesses have no control over the timing or duration of major events, such as natural disasters or wars, but many are taking action to reduce shutdown periods when they occur. One strategy is to diversify their supplier community. If disruptions impact one geographic region, organisations must quickly shift sourcing to alternative suppliers.

To do so, these key supplier relationships and the ability to send electronic orders must be in place ahead of unforeseen disruption. Epicor's supplier portal ensures a broad community of suppliers is available to fulfil demand, regardless of whether any part of the supply chain is disrupted.

But partnering with the right suppliers can be complex and due diligence is essential. Dashboards on historical supplier performance, such as order accuracy, fulfilment rates, on-time shipping, and payment history, are helping organisations to align with the most reliable trading partners across their supply chain.

Trading risk for reliability

Reliability also comes in the form of the production and maintenance of reliable products. "Fines and production shutdowns can occur if minimum requirements or regulatory mandates are unmet. The cost of quality issues is then passed down the supply chain, often ultimately to the consumer," says Coussins. To support quality assurance, Epicor has developed Advanced MES solutions and digital work instruction solutions (Epicor Connected Process Control) – driving productivity, quality, as well as worker safety, that are embedded in the production process and deliver greater oversight into quality events – when there are issues with products, components, or ingredient quality in the manufacturing lifecycle.

Businesses are also starting to measure and monitor other risk factors posed by trading partners in their supply chains, including financial performance, regulatory compliance, and adherence to ESG and sustainability policies. Any of these could impact a supplier's cost structure and overall viability.

Sustainability is increasingly important as businesses are tasked with meeting ambitious net zero goals, and it's also at the heart of cloud-based ERP solutions. Modern, cloud-based ERP solutions drive sustainability by helping businesses to minimise waste all along their supply chains. They also optimise transportation to minimise carbon footprint and drive maximum equipment uptime and performance to reduce energy consumption.

A sustainable, lean and data-driven supply chain will give businesses the intelligence and agility to pivot to keep their supply chains moving when the next disruption occurs.

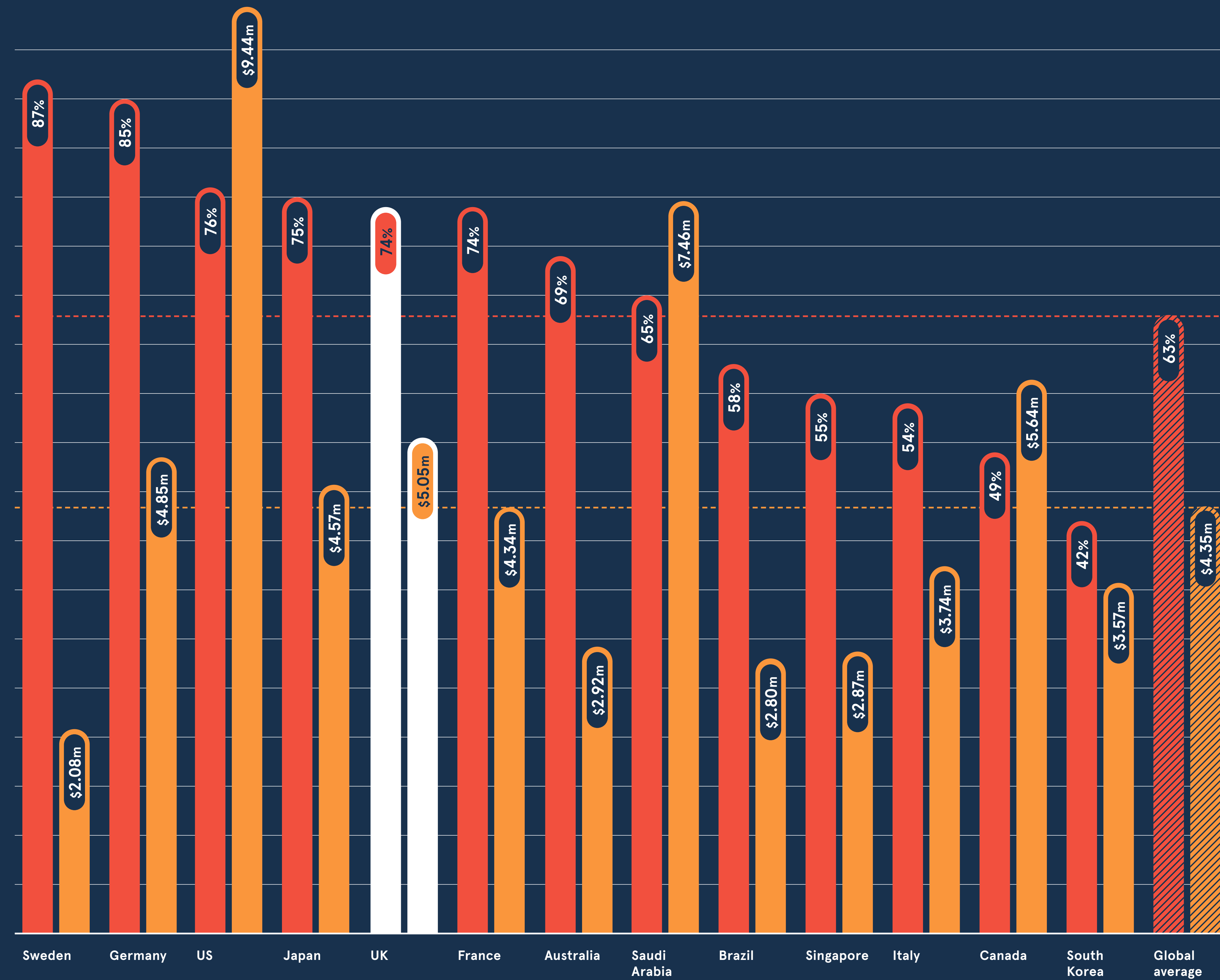
For more information please visit epicor.com/business-insights

EPICOR

BRITISH BUSINESSES ARE AMONG THE MOST LIKELY TO LOSE DATA TO A CYBER ATTACK

Percentage of CISOs whose organisations have dealt with a data loss incident in the past 12 months, by country

Average cost of a data breach in 2022



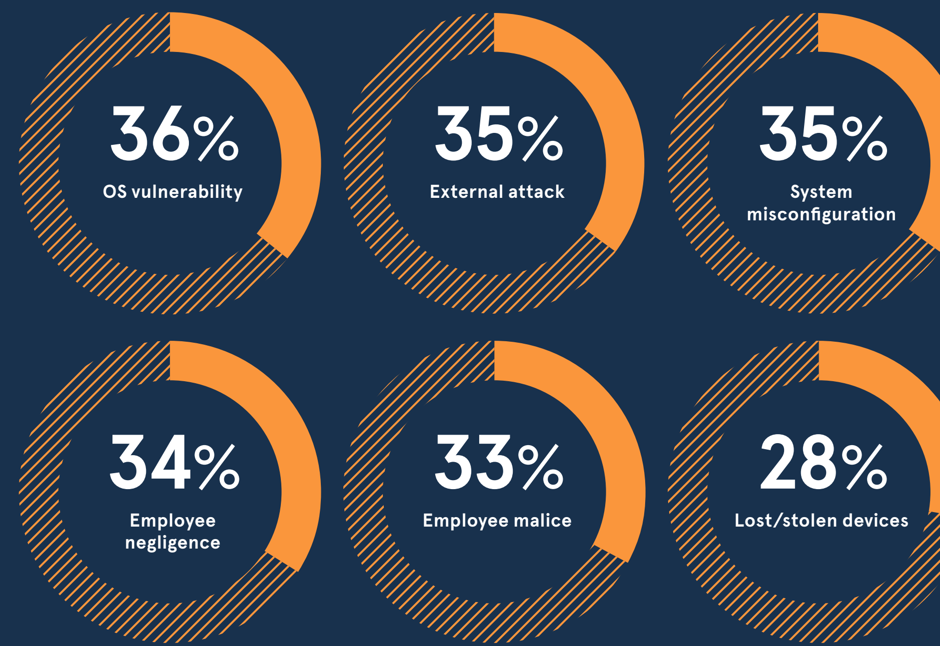
Proofpoint, 2023; IBM, 2022

THE COST OF DATA LOSS

Almost two-thirds of CISOs have had to deal with a loss of sensitive information from their organisation in the past 12 months, whether via a malicious attack or an accidental data breach. What does that end up costing a business?

NOT ALL DATA LOSSES ARE THE RESULT OF MALICIOUS ATTACKS

Main causes of data loss experienced by CISOs worldwide



Proofpoint, 2023

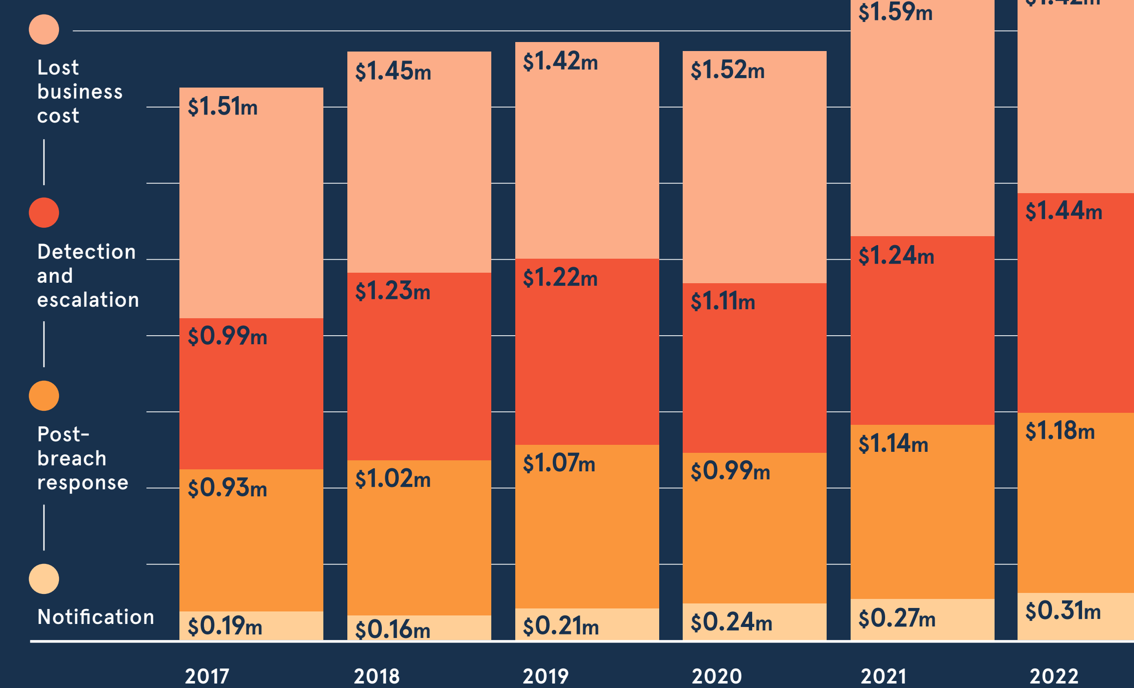
RECOVERY COSTS, FROM OPERATIONAL DOWNTIME TO LEGAL BILLS, ARE THE MOST COMMON CHALLENGE AFTER A BREACH

Main consequences of data loss experienced by CISOs worldwide

Proofpoint, 2023

DATA BREACHES ARE BECOMING MORE COSTLY

Average total cost of a data breach worldwide, by cost segment



IBM, 2022

61%

of CISOs believe their organisation is unprepared to withstand a targeted cyber attack, and yet...

60%

feel that their organisation's data is adequately protected

Proofpoint, 2023

RESPONSIBLE BUSINESS

Why inequality is a serious business risk

Social inequality is often seen as a problem for governments, not business. But a new report from the World Business Council for Sustainable Development argues otherwise, on the grounds that the world's yawning wealth gap presents various material threats, including to companies' supply chains, sustainability targets and staffing. So, what's the case for putting inequality on the corporate agenda?

Interviews by Oliver Balch

'Human rights risks need to be monitored and managed'

Caroline Rees

President and co-founder, Shift

The private sector hasn't historically seen inequality as a business issue, but there's a strong moral case for it to do so.

For 50 or 60 years now, the dominant business philosophy has pushed companies to externalise costs to maximise revenues. Much of the brunt of this way of thinking has been felt by vulnerable workers and marginalised communities. It's natural and logical, therefore, that businesses should help to resolve a problem that they have had a hand in creating.

Risk management is another major reason to act. Covid-19 offers a clear example. Years of pressing down on prices have left companies' supply chains with no buffer whatsoever. In several industries, suppliers can barely pay their workers a decent wage, let alone invest in business resilience. So, when an unexpected event like the global pandemic hit, the whole supply chain collapsed.

Another example is when extractive companies displace communities unfairly or pollute their lands. Very often these communities are poor but can still put up a roadblock. What's more, they can connect with international campaign groups and get their story into the media.

Alongside operational and reputational risks such as these, there is a wide range of regulatory and legislative risks now emerging. In Europe, we're seeing legislation on human rights due diligence and reporting really taking off. In North America, customs controls mean that companies cannot import goods from high-risk countries without proving that forced labour has not been used.

One of the first and most effective steps to mitigate human rights risks is for companies to assess how and where their activities intersect with particularly vulnerable groups – be it in their workforce, in their value chains, or among the wider public. It's important to actually talk to people because businesspeople often carry false assumptions. Most companies don't set out to have a deleterious effect on vulnerable people; instead, what usually happens is that good intentions get trumped by conflicting incentives.

Imagine a company has an ethical code of conduct for its supplier relations. Then imagine that the purchasing department is being incentivised to hit tight price targets. Suppliers will inevitably end up having to reduce wages or cut corners on health and safety. For that reason, human rights risks need to be monitored and managed with the same rigour as every other commercial process. If not, the desire to respect human rights will always lose out to immediate business imperatives.

'If companies neglect people, then they will experience resistance'

Gerbrand Haverkamp

Executive director, World Benchmarking Alliance

The importance of a just transition towards a future that is net-zero and nature-positive speaks for itself. Businesses can't operate successfully on a broken planet. Yet if companies set out to reduce 'x' million tonnes of carbon emissions or to restore 'y' million hectares of degraded land but neglect to address the knock-on effects of these changes on people, then at some point they will find they experience resistance.

Making sure the transition to a low-carbon and nature-positive economy is centred on people is therefore an imperative. In practice, that means companies not stepping over the interests of their workers, not ignoring the communities where they operate, not failing to support smallholder farmers, and so on.

Imagine the scenario for a large food producer. Many large companies in the agriculture sector now have ambitious sustainability strategies. Why is this? Because they know that climate change is seriously impacting the quantity and quality of food production. Mitigating this risk requires farmers to adopt more climate-sensitive practices. But if they lack the skills and resources to do this, then what happens? Large food processors or food retailers cannot swap suppliers at short notice. Climate change is affecting farmers all over the world. So if companies ignore the farmers in their supply chains, they face the risk of supply shortages or of failing to deliver on their public sustainability commitments.

Taking a people-centric approach will increase the likelihood of workers and communities going along with companies' transition plans. This involves businesses investing in the skills of their workers (and their suppliers, where relevant), as well as in appropriate technologies and resources. Likewise, it means engaging with impacted communities to understand their needs and take these into account. That way, they will get to see sustained positive benefits from the transition. All of this requires long-term planning. It is not something that can be resolved at the last minute.

If companies centre their transition plans on people as well as the environment, then the benefits for their business can be substantial. We're seeing this in the energy sector, for example. Right now, there is a huge demand for electrical engineers who understand how clean energy technologies function. Energy companies that invest in training their own engineers effectively remove what is currently a major constraint to their transition plans, thus enabling them to accelerate their business growth.

'When younger people are out of the workforce, businesses miss out'

Laurent Freixe

CEO, Nestlé Latin America

The risk to business of people being out of work or ill-prepared for the changing world of work first hit me more than a decade ago. At the time, I was heading up Nestlé's operations in Europe, where unemployment after the 2008 financial crash was something like 25%. Obviously, this situation is tough for the individuals who find themselves outside the formal workforce. Some find themselves having to work in the informal economy, where they have no contract and no protections. Widespread unemployment also presents a risk for the wider economy: people out of work spend less, which means consumption drops, which leads to a reduction in investment. It's a vicious downward spiral.

As every businessperson knows, a skilled workforce is vital to the competitiveness of their business. The world is changing faster than ever due to the rise of digital technologies and the climate imperative. While it's good to have older people in any business, it's the young who are best placed to embrace these changes. They have a sense of the urgency of the issues at play, as well as an appetite to transform how things are done. If younger people are out of the workforce then businesses miss out on these key attributes. Instead of being agile and innovative, there's a danger they become stuck and start to fall behind.

At Nestlé, for instance, we've introduced programmes to try to better equip young people for today's changing world of work. In 2013, we launched a programme which set out to give 20,000 young Europeans the experience and tools required to get a job. It offers jobs, training in writing CVs, and preparing for interviews, as well as hands-on apprenticeships. I think apprenticeships are a great way for businesses to tackle inequality.

We also helped create a similar programme called the Global Alliance for Youth, through which other major companies, including Microsoft, L'Oréal, Starbucks and Cargill, support similar initiatives.

Our business model ultimately is all about creating shared value – not just value for us as a business but all those we interact with. Young people make up a critical part of that value proposition. Bringing the next generation on board not only sets them up for success; it's good for all of us too. ●

> **People out of work spend less, which means consumption drops, which leads to a reduction in investment. It's a vicious downward spiral**

Commercial feature

Can insurance CXOs break free from the on-prem era?

Insurance companies face an urgent need to modernise as talent shortages and legacy systems shine a spotlight on outdated operating models

The insurance industry is facing two pressing challenges – a wave of imminent retirements that is expected to leave a significant talent shortage and a heavy reliance on costly legacy systems. Recognising those challenges, 68% of insurance company CIOs said they intend to increase investment in application modernisation this year, according to a Gartner survey. Meanwhile, insurance companies and their asset management businesses face increased competition, further squeezing margins.

All of that underscores a need to transform both digitally and operationally. "Too much money is being spent on non-differentiating activities like accounting and reporting, and not enough on areas that can help insurance companies differentiate," says Josef Sommeregger, Head of the DACH region at investment management solutions provider Clearwater Analytics.

The fast-approaching retirement cliff poses a significant challenge for companies as they struggle to secure sufficient talent to effectively manage their middle and back office functions. Talent attraction and retention is something that keeps 52% of CFOs awake at night, Gartner's research found. The pressing question remains: will businesses continue to have access to the same calibre of talent in the future? This concern is especially acute for numerous companies lacking the necessary resources to implement location strategies and tap into overseas talent pools, according to Sommeregger.

On the other hand, failure to consistently invest in technology transformation can result in companies lacking the necessary efficiency and agility to remain competitive. Thirty-four per cent of CTOs have expressed concerns regarding the sluggish pace of their transformation efforts, highlighting not only their awareness of the potential business advantages but also the risks associated with a slow and ineffective transformation process.

"We already see that the asset management world is a very competitive space. You want to be able to show a fantastic client experience, but your middle and back office can't work fast enough to meet the regulatory and accounting requirements needed to provide that. If you're not moving right now, if you're not agile, you will miss out on the growth opportunities that come with it," Sommeregger says.

Knowing that change is inevitable, why are some companies still reluctant to embark on digital transformation in the middle and back office? The answer is simple: they are unsure if their investment will pay off. For Sommeregger, the start of future-proofing operations is establishing a solid data foundation. Once this is in place, insurance companies can assess non-differentiating activities and explore opportunities for third-party technology support. This leads to cost savings, quicker turnaround times and increased precision across all tasks.

However, the digital transformation journey can seem overwhelming, so it's essential to begin by stepping back and prioritising desired outcomes. For many, adopting a business-process-as-a-service (BPaaS) could be the answer. It allows companies to focus on running their businesses efficiently whilst the challenges around change management are effectively outsourced.

For Sommeregger, the future is data-centric, which means organisations have to recognise the need to change their legacy operating models and the urgency of taking action. "Everyone knows that we can't avoid digital transformation forever, my question is, when will we realise that this has to happen now?"

In the upcoming years, companies relying on on-prem systems will face disadvantages compared to their competitors who can leverage more agile technologies. The encouraging news is that digital transformation doesn't have to happen overnight. Success lies in taking incremental steps forward, prioritising progress one step at a time and partnering with the right solution provider.

Sommeregger outlines the key questions leaders need to ask themselves as they assess their investment operating model: "Where do you have resources? Where do you have talent gaps? Where should you be looking for a partner that has a technology-driven approach? Who should you partner with? This is crucial to understand, otherwise, you might be on an agility train that never leaves the station."

To find out more, visit clearwateranalytics.com

CLEARWATER ANALYTICS

Antonio Suarez Vega via iStock

SUSTAINABILITY

Are you baking risk into your energy transition?

Business leaders might think they're doing the right thing by decarbonising and switching to cleaner technologies, but could they be falling foul of hidden risks in the process?

Olivia Gagan

For years, opting for lower-carbon energy – installing rooftop solar panel or choosing a renewable energy supplier, for example – distinguished a business as taking climate change and decarbonisation seriously.

But expectations are evolving. As the regulations around, and spending on, clean energy technology grow, so too does the level of scrutiny on the practices and processes involved. For instance, UK-listed businesses are now required by law to disclose their direct and indirect carbon emissions, as well as the climate risks and opportunities they face. This comes as global investment in the transition to low-carbon energy totalled a record-breaking \$1.1tn (£860bn) in 2022, matching fossil fuel investment for the first time, according to Bloomberg New Energy Finance. All of this puts the spotlight on the technological supply chains involved in implementing this energy transition, and ultimately raises the question: what extra risks are businesses taking on to go green?

From the reputational risks of engaging with components suppliers located in countries with poor environmental and human rights records, to the financial risk of ploughing capital into new, relatively unproven technology, to the logistical challenges of relying on fragmented global supply chains, the energy transition can seem to be a minefield for companies that want to decarbonise in a way that protects the environment and their bottom line. What, then, can they do to protect themselves?

Luke Fletcher is a director at London-based firm Pollination, which advises clients shifting to lower-carbon services and investments. He says it is imperative that businesses "don't shoot themselves in the foot by solving one problem and causing others". He cautions that: "One piece of technology might help a business to decarbonise – but could prove disruptive from a nature or biodiversity perspective."

Businesses transitioning to low-carbon technologies such as energy storage batteries, solar panels or electric vehicles, for example, can find themselves in a complex situation where they are running on cleaner energy but have exposed themselves to the damaging impacts of the rare earth mining industries as a result. All three of these technologies rely on mined minerals to work.

Guy Robertson is energy director at engineering consultants Ramboll. He points out that switching to more sustainable energy sources can also involve broader operational hazards. These might include "disruption to business processes, upfront capital costs, and practical constraints on the availability of technology and infrastructure".

He continues: "For small to medium enterprises, these risks can be a major blocker. For instance, switching to biomass or hydrogen fuels can incur all these risks."

If these are the risks involved in going green, what then can businesses do to guard against them? Robertson recommends "constant checks in terms of which technological solutions make the most sense, from scientific, technical and financial perspectives".

He also advises businesses to look closer to home in the first instance to source heat and power. "In the short term, the least risky approach is to identify and focus on cost-effective opportunities for on-site generation and self-supply – such as sustainable biofuels and heat pumps."

Robertson adds that over the longer term supply chain surprises can be averted by "developing early partnerships with technology and energy service providers and developers. Ask suppliers about the life span of products, rather than focusing on price, quality and functionality. Probe deeper into how your suppliers source their raw materials – how and where they are produced, how far they are distributed and how they are disposed of at the end of their life. Be holistic."

Such are the risks here that even senior leaders will need to get proactive. At boardroom level, for instance, a smooth transition to cleaner energy "requires important changes on governance, on transparency and putting strong frameworks in place," Fletcher explains.

He adds that better supply chain practices could be encouraged through financial incentives. "Businesses can build rules about who they will engage with and offer preferential financing to suppliers that score better on that internal methodology. These expectations can be stipulated in a 'green supplier contract'. We're increasingly seeing organisations drawing these up."

Another, tougher option is to reject some options altogether. "If a business is serious about these issues, they might shift their business from specific commodities or industries," says Fletcher.

That might be easier said than done if your business is naturally energy intensive. Telecoms company TalkTalk, for example, sells internet and mobile services, as well as electronic devices such as broadband routers – all of which rely on mined components and significant energy levels. Its head of sustainability, Will Ennett, says the British telecoms industry has recently established a forum, in part to help mitigate these fundamental issues.

"We are competitors but when you share notes, you realise that our challenges are very similar," he observes. "It's better if as an industry we have a clear and consistent message for suppliers and make clear what we expect."

> **Making informed decisions now will distinguish which businesses survive**

Competitors are clubbing together to spread energy transition risk in other industries too. Fletcher cites a metals industry initiative called Responsible Steel. Under the scheme, "corporates such as automotive companies are committing that the steel they buy is not only lower-carbon but is produced in a way that aligns with other of the UN's sustainable development goals as well – for example, around labour practices," he explains.

Alessa Berg is co-founder of ESG360, which advises FTSE 100 clients on ESG strategies. She agrees that cross-industry collaboration will be key to cutting out the supply chain liabilities associated with decarbonisation. "The whole risk management process of companies is evolving," she says. "This is becoming part of core risk management."

But what happens to all this risk as the energy transition accelerates? Looking to the next five years, Ennett predicts a corporate shift towards "dematerialisation – selling more products and services to customers that don't require hardware, thus cutting out the need for materials like rare-earth elements".

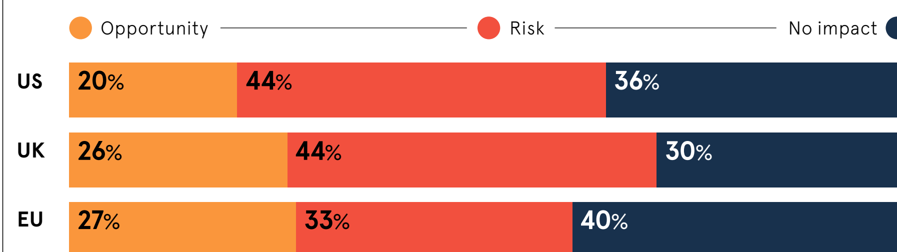
Berg expects that "some companies will go out of business by not considering these supply chain risks". She explains: "[The energy transition] is fundamentally reshaping certain industries. It's important to acknowledge that decarbonisation is tough. It's not easy. But making informed decisions now is what will distinguish which businesses will survive."

Despite the challenges, all agree that supply chain improvements are happening; they just need to happen faster. "My personal view is that people sometimes focus too much on the business risks [of moving to clean technology]," Fletcher says. "We perhaps need to focus more on the opportunity side."

If they handle this correctly, then, businesses could find themselves in a position to play a vital part in global decarbonisation. They might just have to be prepared to take on some of the risks in the process.

NEARLY HALF OF UK BUSINESSES CONSIDER THE ENERGY TRANSITION A RISK

Business leaders' expectations of the impact of stricter climate standards and regulations over the next five years



European Investment Bank, 2021

Commercial feature

How megatrends are reshaping the future of insurance

The insurance industry is on the verge of a profound shift as megatrends reshape the landscape. To thrive, insurers will need to embrace new talent, innovation and a culture of collaboration

The world is undergoing a dramatic shift. A collection of powerful, transformative megatrends across the social, political and economic spheres is poised to reshape the risk landscape, creating new and exciting opportunities for insurers.

Megatrends are far from new; forces of change shape the way we live, from the discovery of electricity to the invention of the internet. Today, however, the pace of change and synergy is relentless, with digital innovation, climate change and artificial intelligence transforming our world faster than predicted.

These megatrends will have profound implications across all industries and will drive the insurance markets of the future, creating demand for both traditional and new protection products as well as services that prevent and mitigate risk. For insurers that have tended to view large trends through the lens of risk rather than opportunity, this will require a step change in approach.

"For decades, the insurance industry has relied on descriptive analytics to assess and manage risk. But increasingly, we are seeing insurers recognise that they need to anticipate and respond to these driving forces as they unfold and evolve," says Wouter Bosschaart, strategic consulting director and ESG and climate change lead at global professional services firm Aon's Strategy and Technology Group.

"At a time when the value proposition of insurance is under growing pressure, megatrends present an opportunity for the industry to strengthen its relevance. But to do so, insurers will need to become more adept at harnessing advanced technologies, prescriptive analytics and innovation."

For example, the rapidly growing market for shared mobility is expected to reach almost \$1tn by 2030. This will have far-reaching implications for the insurance industry, with the shift to electric, autonomous vehicles set to create an insurance market of \$40bn by 2030 across not just motor but also cyber, casualty and aviation.

Intellectual property poses an equally lucrative opportunity, with the potential to generate gross written premiums in excess of \$20bn by 2030. The shift from tangible to intangible assets, with the emergence of digital assets that include non-fungible tokens, virtual real estate and avatars, is driving customer risk, yet the development of new products has so far been slow, leaving room for new entrants and the development of new products and revenue streams.

The metaverse presents a similar opportunity to drive growth for the insurance industry, with an estimated insurance market value in excess of \$30bn by 2030. There are few insurance products which serve the metaverse, creating untapped potential for insurers to design solutions to cover virtual assets and cyber attacks in this space.

But, of course, in a rapidly changing world, understanding and quantifying the impact of megatrends can be challenging.

"Not all megatrends have the potential to unleash new opportunities and revenue streams for insurers," explains Bosschaart. "Some are simply too vast or uncertain. The challenge is to analyse the broad range of megatrends and sub-trends to determine the new and evolving risks and identify the ones that will be most relevant to the insurance industry."

> **Product innovation will require being comfortable with analysing vast quantities of data, adopting a forward-looking view to assess and price risks and create products that meet the evolving needs of customers**

Aon's Strategy and Technology Group has analysed more than 80 megatrends to pinpoint those that present the biggest opportunities for the insurance industry, and a series of deep dives to better understand trend drivers, time horizons and the required response. While technology emerges as the biggest driver of megatrend insurance opportunities, environmental trends are also notable, accounting for half of the top 10.

The impacts of global warming are increasing in frequency and intensity, with average temperatures forecast to rise by more than 2 degrees before 2100. Against this backdrop, companies across all industries face increasing regulatory and investor demand for greater transparency and climate change strategies.

According to Bosschaart, the growing pressure on companies to transition to low-carbon technologies will create new forms of risk that insurers must be prepared for.

"The physical risks attached to climate change are well known but the transition risk is also huge. Although insurers can continue to offer traditional property and casualty cover, there is significant scope for insurers to address these risks through innovation."

Carbon capture, decommissioning carbon-intensive assets, biodiversity, resilient infrastructure and electrification are estimated to have a combined premium potential as high as \$25bn, according to research by Aon. Carbon capture storage, which involves capturing CO2 in the ground, is attracting particular attention and investment globally, with market expenditure set to reach \$180bn by 2030.

\$180bn+

The potential combined market for prescriptive analytics, shared mobility, the metaverse and IP for insurers by 2030

56%

of that figure is attributed to prescriptive analytics

Aon, 2023

But to unlock the full potential requires a systematic and disciplined approach to identify and assess both risks and opportunities. Insurers will need to establish a strong framework to understand the future landscape, using intelligence and insights to anticipate global market trends and foster a culture of cross-team collaboration.

"Customers will expect a single point of entry for a project, replicating the customer journey they experience in the consumer world. Insurers will need to break down silos and work collaboratively both internally and externally to improve information-sharing and decision-making," says Bosschaart.

Equally important to the success of insurers will be the ability to reskill and upskill talent. The importance of talent can no longer come second place to business strategy; for insurers to keep pace and respond to the onslaught of new and emerging liability risks and new technology, it needs an injection of new technical skills across areas such as data science, analytics and artificial intelligence.

Bosschaart explains: "More than ever, insurers will need people with diverse skills and subject-matter expertise across a range of risks and industries, from biotechnology through to green energy.

"Product innovation will require being comfortable with analysing vast quantities of data, adopting a forward-looking view to assess and price risks and create products that meet the evolving needs of customers."

He adds: ""The insurance industry is so dynamic that we constantly need to be reviewing how best we can engage with the appropriate talent, skills and resources that together allow us to understand and manage new and evolving risks. It's not simply about trying to find the right talent to plug the gap, it's also about evolving, expanding and developing as an industry, with an open mind and desire to learn, creating working cultures that value employee engagement and spur innovation."

What is clear is that the insurance industry is at an inflection point; rapidly evolving megatrends are shaping the future risk landscape, driving demand for new product solutions. Responding to megatrends will not be without its challenges but fast-moving markets won't wait for insurers to get comfortable with the risks. To thrive, insurers must get on the front foot and ensure they are positioned to capture the wealth of opportunities ahead.

For more information, please visit aon.com/transformative-trends

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