



Taking the pulse of global business

Future Trends Insight Report: Technology
January 2019

Contents

Introduction	1
Business leaders are investing in technology, despite growing risk concern	2
Technology is amplifying the inter-connectedness of risk	3
Cyber will shift the whole risk picture in 2019	4
Change is coming to the relationships between the owners and managers of risk	5



A handwritten signature in black ink, appearing to read 'Dave Brosnan'.

Dave Brosnan
CEO, CNA Hardy

The ripples spread in the pool of interconnected risk

In autumn 2018 we ran our fourth CNA Hardy Risk and Confidence survey, focused on tracking business leaders' changing levels of confidence and their associated risk perspectives across the globe. The predictions made by business leaders about how their environment will change in 2019 shine a clear light on future changes set to impact both insurers and their clients over the coming year.

Amidst all the uncertainty created around economic and political factors, one fact is steadfast in our predictions – technology risk is increasing. Back when we carried out this research in November 2018, 14% of our global respondents ranked technology risk as a top risk for their business. However, asked to consider how this might change in six months' time, this figure increased to 37%, clearly identifying an important shift in perception.

Advancements in technology continue to play a significant role in shape-shifting the global risk landscape at a rate which is hard to keep up with. Technology has proven itself time and time again to be the greatest of enablers, but by a touch of a button can also be disabled, or more sinister, misused. Dual-uses of technology are all around us, so as businesses prepare to ramp up on technology investment to drive future growth, so our data shows that the associated risks of doing business in today's intertwined global economies can fall through the gaps.

The host of complex, global, interconnected risks that flow from operating in the digital economy remain stubbornly below the radar, despite myriad examples of failure at the individual and sector level.

In this, our January 2019 Future Trends Risk Insight Report, we hope to help businesses build a deeper understanding of the technology risk set to headline this year.

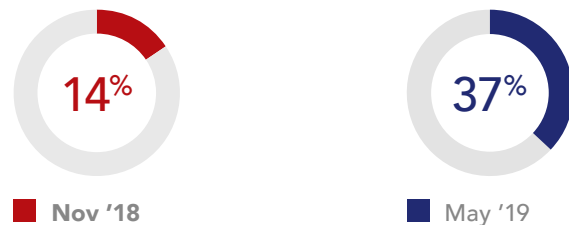
Prediction 1:

Business leaders are investing in technology, despite growing risk concern

The pace of innovation and organisations' ability to keep up with their competitors has placed a huge amount of emphasis on the ways in which companies are incorporating technology, particularly in consumer-facing industries. This was evident in our research when we asked business leaders where they would be prioritising their investment.

Globally, there is clear consistency of opinion: every region of the world is expecting to increase investment in technology and R&D to support topline sales growth in 2019, despite predicting a perception increase from 14% to 37% of the risks associated with technology.

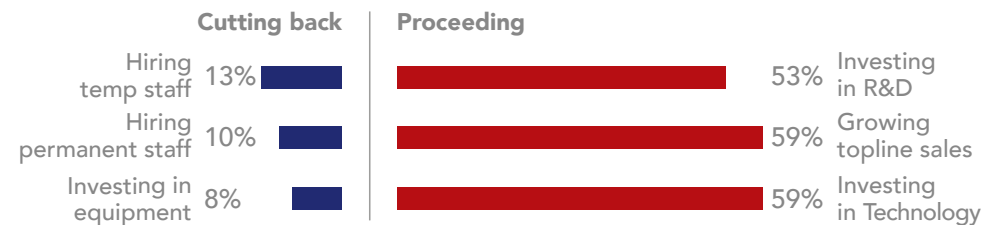
Technology risk perception shifting



Companies globally ranking technology as the top risk today and believing it is set to increase in six months

By contrast, companies are expecting to cut back investment on hiring staff (temporary and permanent) and on corporate development (eg M&A). This suggests to us a very clear trend - companies are confident and preparing for growth, but in a way which reflects the developing '4th industrial revolution'.

Expected investments May '19



Technology companies feel the strain

Although technology is essential to fuel the global expansion on which business growth depends, in many ways it is also the soft under-belly of the 4th industrial revolution, leading to multiple, interconnected new risk exposures.

Anxiety about the role of technology is also reflected within the sector's leadership. Well over half (59%) are confident about the future, but almost a fifth (17%) are cautious about the weight of expectation and the risks that they face.

Prediction 2:

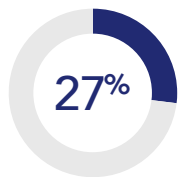
Technology is amplifying the interconnectedness of risk

The interconnectedness of risk isn't a new phenomenon, but the implementation of technology has exponentially changed the speed and dynamics of how more interconnected risks can impact organisations today. There is a natural tendency for organisations to focus more on the benefits of technology without fully accounting for how the integration is exposing them to other risk. But what has become clear from several well-publicised events in 2018, is that the tail is longer, the fall out is messier, and the recovery, more complex.

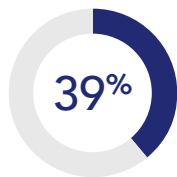
Our research also suggests that business leaders consistently under-rate the significance of the interconnected regulatory and reputation risks that flow from technology risk. In 2018 only 13% ranked regulatory and compliance risk top and a mere 6% were most concerned by reputation risk.

As we move into 2019, less than a third of company leaders think reputational risk will rise, and less than half think regulatory and compliance risks will increase. The role technology plays in defining companies' relationship with their customers, as well as with their regulators, where these exist, is simply not front of mind for executives.

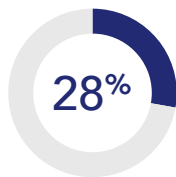
The 'misunderstood' (lowest-ranked) predicted risks in May '19



Corporate risk



Regulatory risk



Supply chain risk

Of course, as technology investment increases, so too does technology risk. We define technology risk in our research as the risk of making the wrong investment decision, or of allowing technology assets to age, making the business inefficient or uncompetitive and potentially open to wider and more sustained cyber attacks.

Prime examples

The UK banking sector is a prime example of technology risk in action. Despite investing billions to overhaul outdated and overloaded IT systems, high street lenders suffered a string of outages in 2018, most notably at TSB, but also at Barclays, RBS and HSBC. Customers were left unable to withdraw cash, access apps or pay their staff.

The experience of the UK banking sector in 2018 was a lesson, if one were needed, on the severity of technology risk and how it can lead to less obvious but equally severe interconnected risks.

As a result of the TSB failure, the UK House of Commons announced a public enquiry, the Financial Conduct Authority (FCA) and Information Commissioner's Office (ICO) launched investigations and there was widespread loss of consumer confidence and significant reputational damage. The incident also led to the departure of the chief executive.

Our results show that companies understand that technology risk is increasing. However, as with cyber, the connection from technology investment, to technology risk, to regulatory and reputation risks isn't being made.

Prediction 3:

Cyber will shift the whole risk picture in 2019

In recent times, hackers not only target organisations directly but through connections with key suppliers and technology partners. Last year's Petya strike, one of the largest attacks to date, used exactly this method by exploiting Ukrainian accounting software MeDoc as the point of entry to deploy malicious code that spread across corporate networks worldwide.

This high-profile example was not an isolated case. It is estimated that incidences of malware being injected into supply chains to infiltrate unsuspecting targets increased by 200% in 2017¹. The interconnected, interdependent nature of today's businesses and the emerging strategy of hacking into this web of relationships is multiplying the likelihood of cyber-attacks and means that organisations are only as strong as the weakest link in their supply chains.

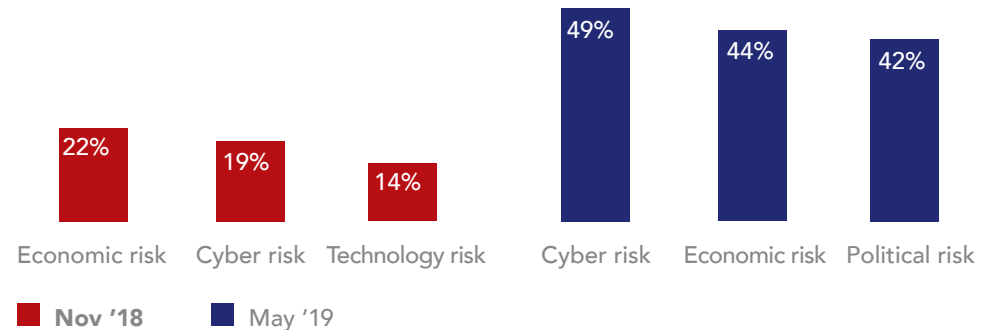
It is unsurprising then, that the most obvious consequence of greater technology dependence is greater cyber exposure. Our research shows that business leaders understand this – globally it was ranked the second most significant risk in November 2018, but it is expected to become the leading global risk in 2019 with 49% of respondents predicting it will rise.

It seems that after two years of ever-larger cyber breaches, threats and cyber attack shutdowns, all sides recognise the power of cyber risk, and the need to tackle it with risk management protocols and insurance-led protection.

The involvement of technology in every area of business, however, means that cyber risk does not always fit neatly into one insurable package. Cover needs to be carefully considered – the topic is challenging, sometimes 'messy' and potentially difficult for corporate risk managers to get their arms entirely around.

Increased technology dependence and the associated cyber danger is impacting risk across all parts of business, and is changing the overall risk profile for companies as we speak, becoming a priority that ranks alongside (and sometimes above) the protection of a company's physical assets. This is a profound shift, and one that companies and insurers need to spend time analysing together.

Top 3 global risks



The recent move against the Marriot Hotel Group speaks to the need for better communication between businesses and their insurers. Following the theft of data, including passport details, from over 500 million guests, the Marriott chain now faces investigations from multiple US state attorneys general, plus European regulators, as well as the prospect of consumer litigation. It is reported the cost of managing the breach could be \$1b, including litigation, fines and the cost of replacing passports.

Significant time will also be required to settle legal claims, contact and make reparations to all affected guests, as well as to mend a damaged reputation. This represents a huge corporate focus for some time – and a significant distraction from strategic priorities – such as driving growth and increasing profitability.

Prediction 4:

Change is coming to the relationships between the owners and managers of risk

Our last prediction, and the conclusion of this report, springs from our own overview of all the data we have reviewed, and the overall expectations of our industry leaders for 2019.

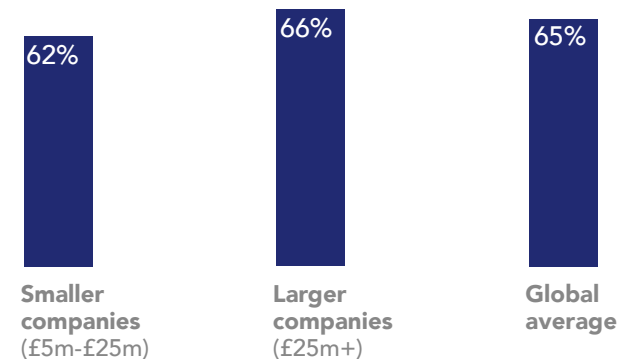
This year will see rapidly moving patterns of risk, and changing risk brings changing client demand. That much is a given.

Our plan is to work with clients to help evolve their corporate risk management – and their policies – around the challenges of a technology-led world. “In this work we must be careful to consider the differing financial abilities and needs of different types of clients. As the graph below shows, smaller companies often less confident about the future, both short and long term. They are more vulnerable to shocks, rapid changes or attacks, and sometimes lack the money to make the heavy investment in technology that the 4th industrial revolution will bring.

Their particular difficulty is to understand and shift their risk planning on a small budget and with smaller resources, and insurers must work hard to inform and support them in facing up to this challenge, not ignoring it. At the same time, we must also be aware of the particular challenges for larger corporates, who at times have their own difficulties in moving rapidly and decisively.

In short, we see ahead to an environment where physical risks remain for all corporate clients, but are extended by a range of hard-to-prevent technology and cyber risks. It is our task – in fact our mission – to build that critical umbrella of corporate protection against these interconnected and sometimes alarming issues.

Confidence in May '19 by company size



To download our latest Risk & Confidence Survey, visit cnahardy.com/pulse

CNA **HARDY**

20 Fenchurch Street London EC3M 3BY United Kingdom
Tel +44 (0)20 7743 6800

cnahardy.com/pulse

CNA Hardy is a trading name of CNA Insurance Company Limited ("CICL", company registration number 950) and/or Hardy (Underwriting Agencies) Limited ("HUAL", company registration number 1264271) and/or CNA Services (UK) Limited ("CNASL", company registration number 8836589) and/or CNA Hardy International Services Limited ("CHISL", company registration number 9849484) and/or CNA Insurance Company (Europe) S.A., UK Branch ("CICE UK", company registration number FC035780). CICL, HUAL and CICE UK are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (firm reference numbers 202777, 204843 and 822283 respectively). The above entities are all registered in England with their registered office at 20 Fenchurch Street, London, EC3M 3BY. VAT number 667557779.