

‘A brave new tech-driven world requires an insurance rethink’

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This article first appeared in [Insurance Day](#) on 09/12/2019



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The 4th industrial revolution is bringing great promise to solve many business problems, enabling tasks to be accomplished faster, more efficiently and more economically.

But its **interconnectedness** creates significant risks for businesses and critical infrastructure which have the potential to undermine governments, commerce and society.

A new risk landscape is emerging, in which intangible and interconnected risks present a critical challenge for the insurance industry.

We need to create more dynamic insurer-broker-insured relationships and look at risk mitigation differently if we are to remain relevant to our clients and their fast-changing needs.

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Business leaders underrate risk in a tech-enabled world

From connected devices and international supply chains, to the global financial system, the potential for small problems to trigger unexpected cascading failures, is now a very real risk.

In addition to data loss, there are risks related to hardware or software failure: from a coding error to a system malfunction, to poor functionality.

Other emerging risks relate to the accuracy of data used in AI and the inability to interrogate the data driving it, and all are compounded by enhanced regulatory powers, including fines and litigation.

However, what is particularly concerning is that the connections between technology investment, technology risk, reputation and regulatory risk are often not being made by businesses.

The global business leaders that we surveyed for our Risk and Confidence research this year revealed that their focus is on tech and cyber risk, but they are underrating other risks that the new tech-enabled world creates.

In our research, only 11% of business leaders ranked regulatory and compliance risk as a top concern and just 7% ranked reputational risk as a significant risk – despite regulatory and reputational impact of a tech related incident.

Worryingly, corporate risk was ranked as concerning by just 10% of business leaders, despite the interconnectivity of technology creating cross jurisdictional risks such as directors' & officers' liability. Only 9% saw supply chain as a significant risk.

Underrated risks that the tech-enabled world creates:



10%
Corporate



11%
Regulatory



9%
Supply Chain

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UK banks reveal the impact of tech loss

The UK banking sector is a prime example of tech 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 tech risk and how it can lead to less obvious, but equally severe, interconnected risks.

- As a result of the failure, the UK House of Commons announced a public enquiry, the FCA and ICO launched regulatory investigations.
- There was widespread loss of consumer confidence and significant reputational damage.
- One of the affected banks estimates the whole debacle cost it over £330m in loss of revenue and customer compensation.
- The CEO stepped down and there was significant damage to reputation and customer trust.

Insurance needs to evolve

Intangible, interconnected risks, by their nature, are harder to identify, model and mitigate.

However, their potential scale and impact means that the insurance industry needs to get to grips with the full implications of globally interconnected risk. For example, a software error or service provided by a global technology provider would have widespread implications for numerous industries that make up the global economy.

There is a lot of good work under way in the provision of pre and post loss cyber breach services. We work in tandem with brokers and clients to create cyber business continuity plans and carry out staff training so that employees know what to look out and how to respond should a cyber-attack happen. Post loss, it is now expected that in addition to financial compensation, cyber policies will offer access to a set of pre-approved specialist service providers including forensic IT, legal and PR support, enabling businesses to get back on their feet faster and insurers to minimise the scale of the loss and their exposure.

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Insurance needs to evolve

Today more than ever, insurers need to work closely with brokers and insureds to understand the underlying nature of the risk their businesses face, their appetite to retain or transfer risk, and to help structure risk mitigation programmes that best suit their specific risk requirements. Although we are also starting to augment our own services with AI and other new technologies that can boost our risk analysis and enhance our ability to identify and manage key vulnerabilities, there is still more that we can be doing in this space.

Looking ahead, insurers will need to work differently as we are no longer just here to protect assets. Increasingly, businesses are expecting us to assess, mitigate, protect and respond. We need to better understand the changing risk environment and create products and services that support our clients both pre- and post-loss, and not just view insurance purchase as an annual transaction.



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