Top 10 Global Business Risks for 2015

To see full Risk Barometer 2015 rankings click here

Source: Allianz Global Corporate & Specialty. For methodology, see page 3

Allianz Risk Pulse

Allianz Risk Barometer
Top Business Risks 2015

Risk and reputation in the age of disruption

Business interruption (BI), cyber, political upheaval, tech innovation and climate change top risks for 2015 and beyond

- Traditional industrial concerns including natural catastrophes and fire head annual **Allianz Risk Barometer**.
- Businesses face new challenges posed by today's interconnected corporate environment.
- Increasing number of non-property damage risks – including cyber and geo-political disruption – can impact a company's balance sheet and reputation.

Business interruption (BI) and **supply chain, natural catastrophes** and **fire/explosion** are the major risks which occupy the attention of companies at the start of 2015, according to the fourth annual **Allianz Risk Barometer**, which surveys over **500** risk managers and corporate insurance experts from more than **40** countries.

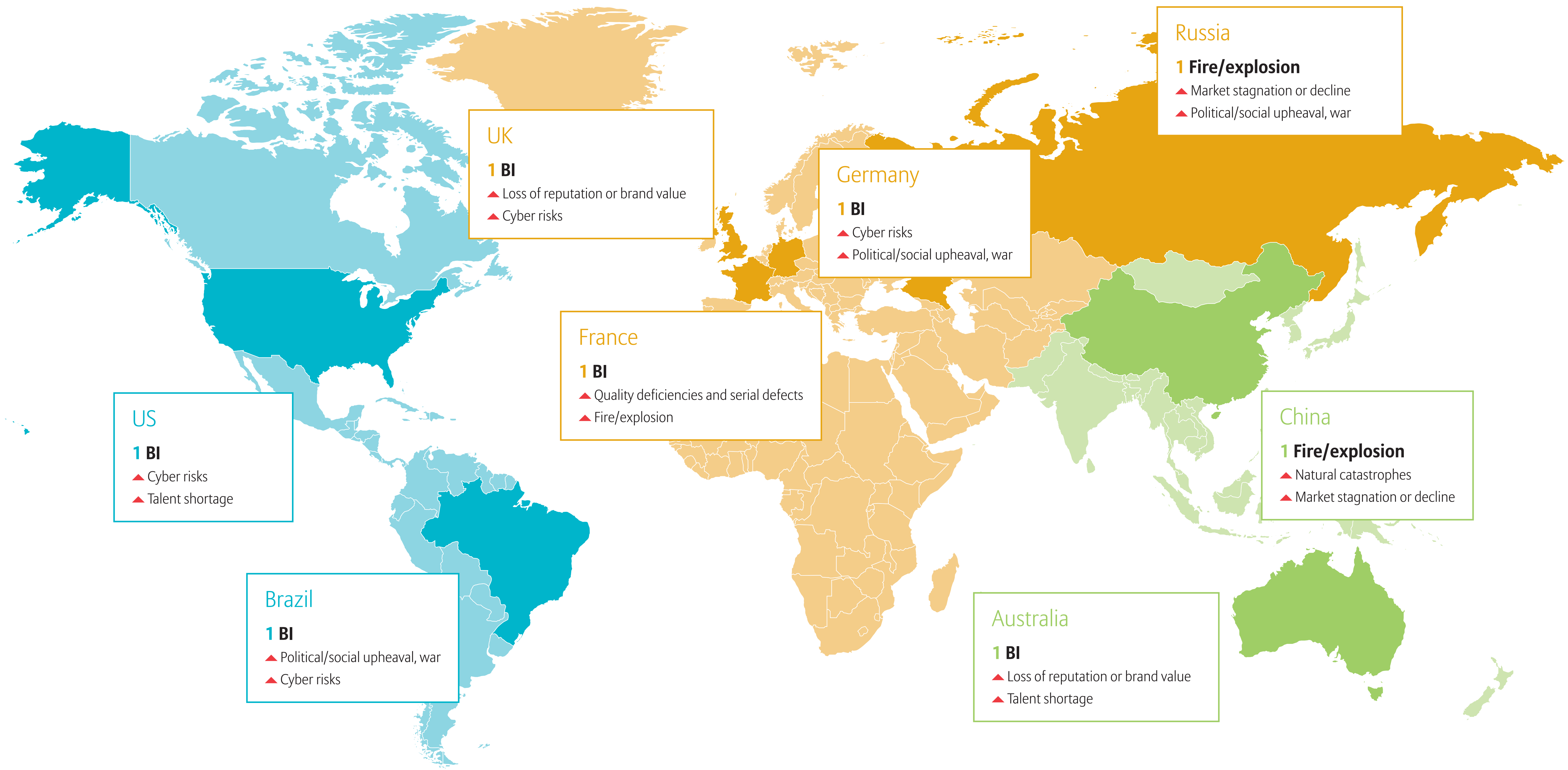
However, businesses are also increasingly concerned about a number of emerging perils from today's complex global business environment. "The growing interdependency of many industries and processes means businesses are now exposed to an increasing number of disruptive scenarios," says **Chris Fischer Hirs, CEO, AGCS**.

"Risk management must reflect this reality. The root cause of many losses can often be traced back to the planning phase. Identifying the impact of any interconnectivity early can mitigate or help prevent losses occurring. Fostering cross-functional collaboration within companies is essential to tackle modern interconnected risks."

Cyber risks is the most significant mover in this year's Risk Barometer and is also the top emerging risk for the next five years. Yet although awareness increases, it is still the top risk underestimated by business, with budget constraints cited as one of the main reasons why companies are not more prepared for the disruption caused. According to the Risk Barometer, loss to reputation or brand value is now the main cause of economic loss for businesses in the event of a cyber incident, even higher than costs resulting from the interruption.

Snapshot: Top Business Risks Around The World

Click here to see the full list of top 10 business risks for each region and for 16 different countries



This risk map shows the top risk for businesses per geographical region and in **selected** countries. It also shows the main changes in risk perception across these territories year-on-year.

Americas

1 **Business interruption and supply chain (BI)**
- Cyber risks
- Talent shortage

Europe, Middle East and Africa

1 **Business interruption and supply chain (BI)**
- Cyber risks
- Political/social upheaval, war

Asia Pacific

1 **Business interruption and supply chain (BI)**
- Loss of reputation or brand value
- Intensified competition

Source: Allianz Global Corporate & Specialty

Developing global networks means many businesses are increasingly exposed to the prospect of political upheaval or instability

Changes in risk perception

Globalization also means businesses are more interconnected than ever before. The number of multinational companies has grown from **7,000** to almost **104,000** over the past 50 years and is expected to reach **140,000** by 2020[1] causing additional risk complexity. One risk can lead to several others. For example, natural catastrophes and cyber attacks can cause business interruption, not only for one company but to whole sectors or critical infrastructure, such as power suppliers.

Developing global networks also means many companies are increasingly exposed to the prospect of **political/ social upheaval, war**, which is another significant mover in this year's Risk Barometer. There has been a notable uptick in geo-political tension of late, as has been well documented by events in Russia, Ukraine, the Middle East, Hong Kong and Thailand, for example.

Allianz Risk Barometer methodology

The fourth annual **Allianz Risk Barometer** survey was conducted among both global businesses and risk consultants, underwriters, senior managers and claims experts within both AGCS and local Allianz entities during October and November 2014, with a focus on the corporate insurance sector for both large industrial and mid-sized companies.

There were a record **516** respondents from a total of **47** countries. As multiple answers for up to two industries were possible **709** answers were delivered.

Participants were asked to name industries about which they are particularly knowledgeable and then name up to three risks they believe to be of most importance.

Most answers were for large enterprises **(over$600m/€500m revenue) [375 responses 53%]**; mid-corp enterprises **(€251m to €500m) [118 responses 17%]** and mid-sized enterprises **(up to €250m revenue) [216 responses 30%]**.

[1] UNCTAD

The disruptive impact of such instability – in addition to any direct damage caused – is also one of the major risks for which companies are least prepared. Today, country risk levels change more frequently than in the past, making risk assessment more volatile and, therefore, companies more vulnerable.

Click here to view Euler Hermes country risk map

Macroeconomic risks are deemed less important in 2015 compared with last year. Outside of the top 10 risks, concerns about the impact of **austerity programs** have significantly declined, as have fears over **credit availability** and **Eurozone disintegration**.

Click here to see full top business risk rankings

Nevertheless, recent developments such as a 50% drop in the price of oil between June and December last year and the knock-on effect of the turmoil in the Russian financial markets demonstrate new risks continue to emerge. Lower oil prices will be an additional source of political tension through 2015 due to the strain this will place on the budgets of those countries which are heavily dependent on its revenues.

Longer-term, companies face a dual challenge as they can expect further disruption from **technological innovations** while also being exposed to more volatile environmental conditions. Companies will have to address the business risks, as well as the opportunities, of so-called **"disruptive technologies"** such as 3D printing and nanotechnology, while also having to deal with **climate change** impact as an underlying risk which is not within their direct control.

"Individual best practice, along with collaboration across companies, industries and regions can help to mitigate environmental damage and create future safety, growth and innovation in a more sustainable world," says **Axel Theis, Member of the Board of Management, Allianz SE.**

Larger loss potential drives business interruption, natural catastrophe and fire concerns

At **$1.36m**, the average business interruption insurance claim is already **32%** higher than the average direct property damage claim **($1.03m)**[1]

For the third year in succession **business interruption (BI)** and **supply chain risk** ranks as the top peril in the Risk Barometer with almost half **(46%)** of responses rating this as one of the three most important risks for companies, **up 3%** year-on-year. The impact of **natural catastrophes** was ranked second overall **(30%)** while **fire/explosion** was third **(27%)**.

Given companies can sometimes take years to fully recover from the knock-on effect of a disturbance it is unsurprising this remains the number one concern across the **Europe, Middle East and Africa (EMEA), Americas** and **Asia Pacific** regions.

The fact catastrophe and supply chain risks still rank highly on the 2015 Risk Barometer shows companies are reminded of how devastating these extreme events can be on their balance sheet according to **Mark Mitchell, Regional CEO, Asia, AGCS**.

Although it was four years ago, the fact the Asia Pacific region suffered **$294bn** in economic losses from natural catastrophes, accounting for **80%** of all losses worldwide[2] continues to impact.

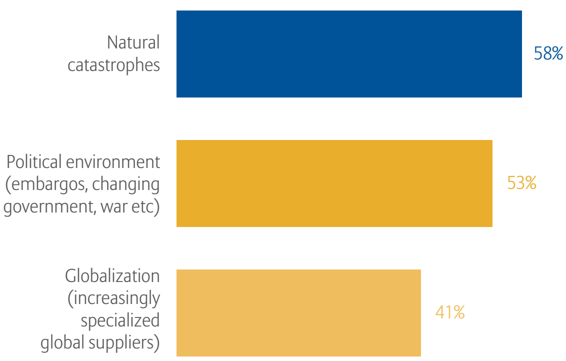
"The lessons of the Bangkok floods and Japan tsunami have resulted in growing awareness from businesses of the knock-on effects from BI and supply chain management. Companies now have a greater understanding of the need to monitor risk aggregations, not just geographically, but also in business interruption exposures," says Mitchell.

"Although AGCS has observed many global businesses are rapidly maturing in terms of risk awareness and risk management, there is still room for further improvement and close collaboration between businesses and insurers is needed."

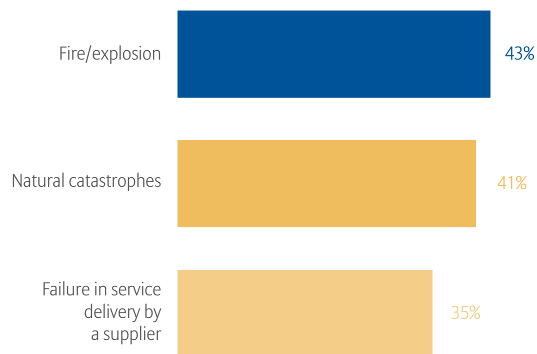
According to responses, overall **fire/explosion (43%)** is the major cause of BI companies fear most, closely followed by the impact from **natural catastrophes (41%)**. AGCS insurance claims analysis shows fire is the second top cause of loss for businesses overall[3] with the impact of the subsequent disruption often outweighing that of the damage itself. Fire accounted for eight of the 20 largest non-natural catastrophe insurance losses of 2013, collectively equating to almost **$4bn**.

Fire is the cause of business interruption companies fear most. AGCS insurance claims analysis shows it is also the second top cause of loss overall

Top risks that lead to supply chain disruption



Major causes of BI that companies fear most



Source: Allianz Global Corporate & Specialty.
Figures represent a percentage of all eligible responses to the questions (484 in total). More than one risk selected.

[1 3] Global Claims Review, Allianz Global Corporate & Specialty

[2] U.N Economic and Social Commission for Asia and the Pacific

More severe BI implications

The greater interconnectivity of the global economy is manifesting itself in increasingly more complex production processes with higher economic values. The end result is more severe BI implications.

For insurers this means potentially larger and more complex losses than in the past. It also means that one event – like a fire at a factory or a flood in one region – will generate many claims from large numbers of companies, who can often be affected by the same loss event.

Insurers are familiar with the potential for large losses in the **energy** industry where BI claims have been a significant feature for some time[1]. However, they are now beginning to see the potential for similar size claims in certain manufacturing industries such as the **semiconductor** and **automotive** industries.

In addition adequate mitigation of **contingent business interruption (CBI)** – which is when a business is unable to operate because of an event that damages one of its suppliers – and **business continuity management** remains a gap in many multinational companies' supply chain risk management programs.

Interdependencies between suppliers is often a big unknown. Many businesses still do not have alternate suppliers.

According to responses **natural catastrophes (58%), changes to the political environment (53%)** and **the impact of globalization including increasingly specialized global suppliers (41%)** are the main risks that can lead to supply chain disruption, with these also identified as the top trends that will increase the threat of business interruption in future. However, the increasing **impact of digitalization** including **internet-based supply chain management** was identified as an emerging risk in both of these categories.

For businesses it means an increasing need to analyze their production processes accordingly. "Collaboration between different areas of the company – such as purchasing, logistics, product development and finance – is necessary in order to develop robust processes which identify break points in the supply chain. Supply chain performance management analysis can enable early warning systems to be created," explains **Volker Muench, Global Practice Group Leader, AGCS Property Underwriting.**

"A detailed risk assessment of their supply chain risks can help businesses identify and plan an effective response that is integrated in their overall business continuity plan," adds Mitchell.

Risk Barometer Risers and Fallers

Risers

Political/social upheaval, war
+7% | 2015 Rank 9 | 2014 Rank 18

Cyber crime
+5% | 2015 Rank 5 | 2014 Rank 8

Business interruption and supply chain
+3% | 2015 Rank 1 | 2014 Rank 1

Fire/explosion
+3% | 2015 Rank 3 | 2014 Rank 3

Climate change
+3% | 2015 Rank 15 | 2014 Rank 23

Fallers

Market stagnation
-4% | 2015 Rank 7 | 2014 Rank 5

Technological innovation
-4% | 2015 Rank 19 | 2014 Rank 14

Changes in legislation and regulation
-3% | 2015 Rank 4 | 2014 Rank 4

Natural catastrophes
-3% | 2015 Rank 2 | 2014 Rank 2

Austerity programs
-2% | 2015 Rank 17 | 2014 Rank 12

The Risers and Fallers chart shows the changes in overall risk perception in the Risk Barometer year-on-year. Concerns over political/social upheaval, war have seen the biggest increase, climbing nine positions to 9th in 2015, up 7%. Conversely, businesses are much less worried about market stagnation this year, which drops two positions to 7th, down 4%. Companies are much worried about the impact of technological innovation (*see page 14*) long-term than they are short-term.

Non-damage BI events rise

Many of the major causes of BI identified in the Risk Barometer relate to the rising impact of non-physical damage events such as the impact of a **product quality incident (24%), a cyber attack (17%), civil unrest (11%), loss of talent 7%** and particularly **the impact of failure in service delivery by a supplier (35%, ranked 3rd),** reflecting the added complexity of BI risks.

"Non-damage BI is becoming a much bigger issue as companies look to protect against a range of exposures, such as strikes, a government authority closing down an area linked to an outbreak of disease, or civil commotion and/or riots," adds Muench. "Questions to Allianz from companies around such issues are increasing."

[1] Global Claims Review, Allianz Global Corporate & Specialty

Loss of reputation main cost of cyber attack

The rise of cyber risks

2013
6%
Ranked 15th

2014
12%
Ranked 8th

2015
17%
Ranked 5th

As the recent hacking attack on Sony Pictures demonstrates, cyber crimes such as malware operations and data breaches now make headlines almost every day. Attacks are increasing, both in number and sophistication. On average the damage caused by a data security incident adds up to **$720,000**[1]. Damage caused by targeted attacks can even rise to **$2.54m**[2]

The increasing risk is reflected in the Risk Barometer with cyber risks continuing its rapid rise in the rankings – gaining five percentage points to move into the top five for the first time **(17%)**. In 2014 it ranked 8th and in 2013 just 15th.

All industries surveyed found cyber risks to be more of a concern than last year. The **financial services, manufacturing, power and utilities** and **engineering sectors** were the most influential in ranking cyber risks higher.

Loss of reputation (61%) is the main cause of economic loss followed by **business interruption (BI) (49%)** and **damages paid due to loss of customer data (45%)**.

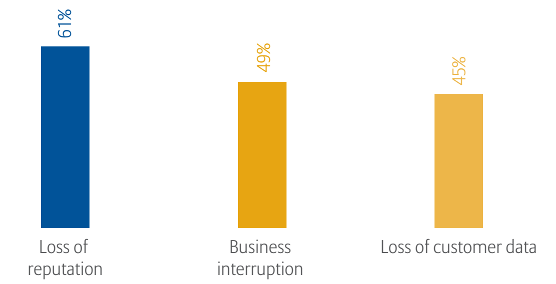
The almost automatic blow to a company's reputation following a cyber attack can have a dramatic impact on balance sheets. According to the Edelman Privacy Risk Index **71%** of customers say they would leave an organization after a data breach. Companies must be aware of such potential reputational risks and analyze them, making sure they assign values to the possible scenarios to minimize and assess the residual risk.

Meanwhile, **data theft and data manipulation (64%)**, **reputational loss (48%)** and **increased threat of persistent hacking (44%)** are the scenarios businesses fear most.

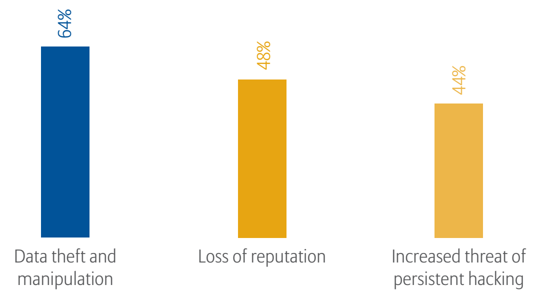
"However, companies should also not underestimate the 'human factor'," adds **Jens Krickhahn, Practice Leader Cyber & Fidelity at AGCS Financial Lines Germany & Central Europe**. "Employees can cause large IT security or loss of privacy events both inadvertently or deliberately."

[1,2] IT Security Risks Survey 2014, Kaspersky Lab

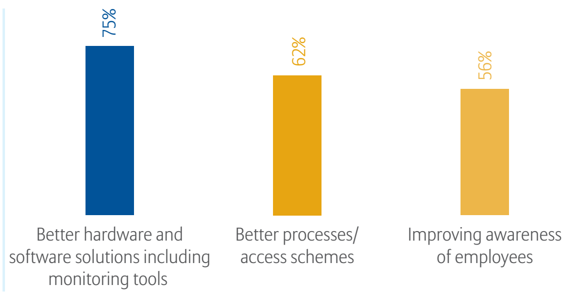
Which cyber risks are the main cause of economic loss?



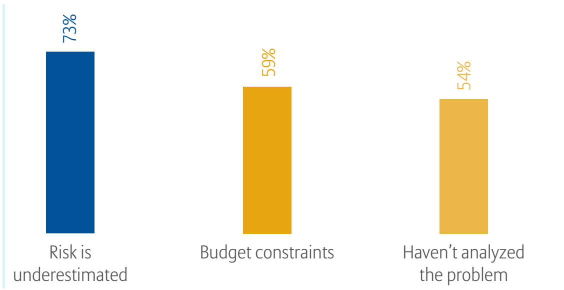
Which cyber risks do companies fear most?



Protecting against cyber risks – which areas are most important?



What is preventing companies being better prepared against cyber risks?



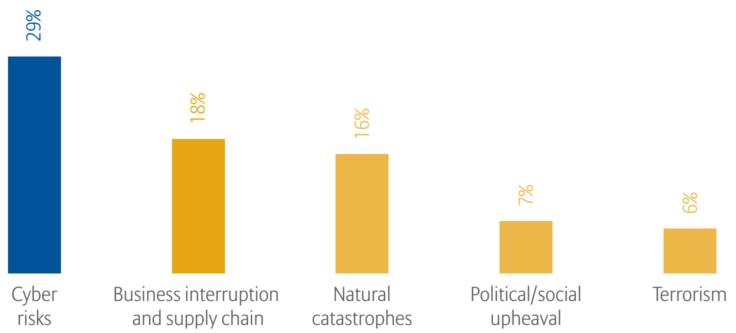
Source: Allianz Global Corporate & Specialty. Figures represent a percentage of all eligible responses to the questions (127 in total). More than one risk selected.

Interconnected security issues

"In addition many businesses' computer systems are connected via different interfaces or platforms such as "clouds". Companies need to ask themselves whether their business partners' systems are as robust as their own, as there have been a number of instances where hacking has occurred," Krickhahn adds.

The sharp increase in the use of mobile devices is only expected to exacerbate this problem. For example, the amount of mobile malware or malicious software for Android platforms skyrocketed by **400%** compared with 2012[1].

Top risks for which businesses are least prepared



Source: Allianz Global Corporate & Specialty. Figures represent a percentage of all eligible responses (292 responses in total). More than one risk selected.

Cyber risks is also the risk most underestimated by businesses according to the **Allianz Risk Barometer**.

"Companies need to be clear about the impact a cyber attack could have on their supply chain, the liability they could face if they cannot deliver their products in time or if they lose customer data, any jurisdictional laws which might apply, as well as the costs for hiring lawyers, IT experts and public relations experts to resolve any issues," explains **Jens Krickhahn, Practice Leader Cyber & Fidelity at AGCS Financial Lines Germany & Central Europe**.

"There is still the misconception that larger companies are more frequently the target of cyber attacks because of the bigger financial rewards for criminals. But cyber attacks have become an almost daily event, affecting small, medium and large businesses."

Business interruption (BI) is the second most underestimated risk. "Businesses still need to spend more time examining their potential contingent business interruption (CBI) and supply chain risk exposure," explains **Paul Carter, Global Head of Risk Consulting, AGCS**. "A lot of time is spent assessing direct damage and looking at their own BI impact but more work needs to be done analyzing the risks associated with suppliers and customers. Business continuity planning should be an integral part of any company's procurement and selection process."

Cyber risks "think tank" needed

Although awareness of cyber risks is increasing, the different impacts are still **underestimated**. This was the top reason given **(73%)** for why companies are not better prepared to combat cyber risks, followed by **budgetary constraints (59%)** and **a lack of understanding** about the inherent complexity such risks bring **(54%)**.

"Identification and evaluation of threat scenarios is not easy," explains Krickhahn. "Different stakeholders from the business need to share knowledge – IT experts can identify the scenarios, business continuity managers can quantify the duration, and finance the cost. Previously siloed knowledge need to be incorporated in one 'think tank', which also includes the set-up of IT, processes and risk transfer. Everything must be closely interlinked."

Better hardware and software solutions including monitoring tools (75%), better processes (62%) and **improving awareness amongst employees (56%)** would also help companies to be better prepared for the eventual outcomes, according to the Risk Barometer.

However, improvements in these areas will not result in 100% IT security. Indeed, no such thing exists, according to **Christopher Lohmann, CEO of Germany and Central Europe at AGCS**.

"Each company has to decide what to do with their residual cyber risks," he says. "You can avoid some risks, you have to accept some risks, you need to control some risks and other risks need to be transferred. Everything needs to work hand-in-hand to ensure a modern risk management process."

[1] Global Security Report 2013, Trustwave

Ongoing war, insurrection, revolution and civil unrest across the Middle East and North Africa continue to pose a significant risk to foreign companies operating in the region. Organisations such as the the Islamic State of Iraq and al-Sham (ISIS), al-Qaeda in the Islamic Maghreb, al-Qaeda in the Arabian Peninsula, and al-Shabaab pose a high risk of political violence

Geo-political situation continues to deteriorate

Combating political risk and terrorism are identified as two of the top five risk management challenges for businesses over the next five years.

Political/social upheaval, war is a much bigger concern for businesses in the 2015 Risk Barometer, rising nine positions to 9th overall. A year ago, it fell one position to 18th so the past year has altered risk perception significantly, particularly events in the Ukraine, Russia, the Middle East, Hong Kong and Thailand, which have impacted respondents in multi-industry businesses and the marine and shipping, transportation, aviation and oil and gas sectors in particular.

Political/social upheaval, war appears in the top 10 risks in the **EMEA region** for the first time in 8th position. It is also a new entrant in the top 10 risks for Brazil, has become one of the top three risks in Russia and Switzerland and, unsurprisingly, is ranked the top business concern in Ukraine.

"Outside of the Russian/Ukraine situation which does not seem to be easing, one source of political tension in 2015 could come from the lower oil prices which are going to put some strains on the budget of countries heavily dependent on oil revenues," says **Isabelle Girardet, Global Head of Transactional Cover Unit, at Euler Hermes World Agency**, a sister company of AGCS. "In addition the rise of the US dollar is not going to help countries that have contracted debts in this currency."

On the issue of political violence and terrorism, according to **Christof Bentele, Head, Crisis Management, AGCS,** the geo-political situation continues to deteriorate "More and more countries experience political situations which pose a massive challenge for companies' people and assets," he says. "Country risk levels change more often and more frequently than they did in the past, which makes risk assessment more volatile and businesses more vulnerable. "

Whether it is war, acts of terrorism or protests, political and social risks are inherently unpredictable. Ongoing war, insurrection, revolution and civil unrest across the Middle East and North Africa continue to pose a significant risk to foreign companies operating in the region.

"Even the best companies can suffer asset losses because of political risk," adds **Mark Mitchell, Regional CEO, Asia, AGCS**.

"A number of companies that enter into developing countries have only a very basic understanding of the new environment. It's important to have an ear to the ground."

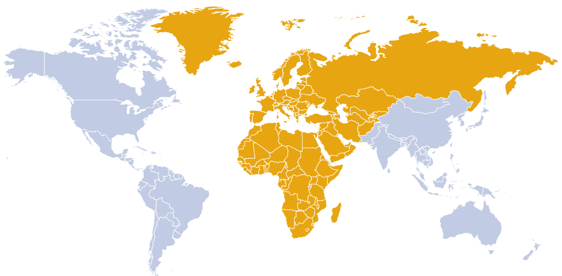
Regional Analysis: Talent shortage fears rise, as do product recall concerns

The 2015 **Allianz Risk Barometer** analyzes responses from a record **47** countries around the world. Although the top three risks business interruption (BI)/supply chain, natural catastrophes and fire/explosion are identical across the **Europe, Middle East and Africa (EMEA), Americas** and **Asia Pacific** regions for the third successive year (*see charts*) there are both differences and further similarities elsewhere.

Cyber risks is the big mover in **EMEA's** top 10 risks, climbing from 9th to 5th, driven by increasing concern in **Germany** (2nd top risk), the **UK** (3rd top risk) and becoming a new entry in the top 10 risks in markets such as **Spain** and **France** for the first time.

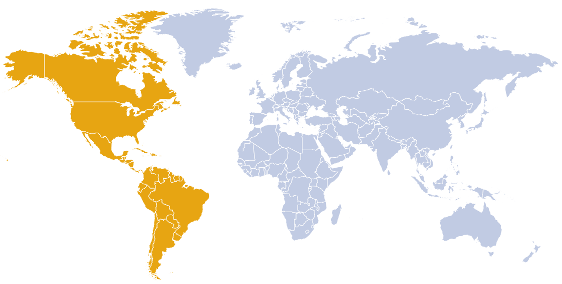
Across the **Americas** region although cyber risks is again the big mover, rising from 8th to 4th position, a combination of shortage of skilled talent, together with an aging workforce is deemed an increasing concern and a new entry in the top 10 risks in the **US**.

Top 10 business risks by region in 2015: Europe, Middle East and Africa (EMEA)



	Top 10 business risks		2014 Rank	Trend
1	Business interruption and supply chain	44%	39% (1)	-
2	Natural catastrophes	28%	29% (2)	-
3	Fire/explosion	27%	24% (3)	-
4	Changes in legislation and regulation	20%	22% (5)	▲
5	Cyber crime, IT failures, espionage, data breaches	17%	11% (9)	▲
6	Market stagnation or decline	17%	22% (4)	▼
7	Loss of reputation or brand value	15%	14% (7)	-
8	Political/social upheaval, war	13%	NEW	▲
9	Intensified competition	13%	16% (6)	▼
10	Theft, fraud and corruption	11%	12% (8)	▼

Top 10 business risks by region in 2015: Americas



	Top 10 business risks		2014 Rank	Trend
1	Business interruption and supply chain	55%	56% (1)	-
2	Natural catastrophes	35%	53% (2)	-
3	Fire/explosion	27%	26% (3)	-
4	Cyber crime, IT failures, espionage, data breaches	25%	11% (8)	▲
5	Changes in legislation and regulation	17%	15% (5)	-
6	Loss of reputation or brand value	16%	16% (4)	▼
7	Talent shortage/aging workforce	10%	9% (9)	▲
8	Intensified competition	10%	9% (10)	▲
9	Commodity price increases	9%	NEW	▲
10	Quality deficiencies, serial defects	8%	NEW	▲

Source: Allianz Global Corporate & Specialty. Figures represent a percentage of all relevant responses. Responses for Europe, Middle East and Africa: 491; Americas 139. More than one risk selected.

Top 10 business risks by region in 2015: Asia Pacific

	Top 10 business risks		2014 Rank	Trend
1	Business interruption and supply chain	42%	46% (1)	-
2	Natural catastrophes	34%	30% (2)	-
3	Fire/explosion	25%	25% (3)	-
4	Loss of reputation or brand value	23%	21% (5)	▲
5	Intensified competition	22%	12% (9)	▲
6	Market stagnation or decline	17%	NEW	▲
7	Market fluctuations (eg, foreign exchange rates)	14%	13% (8)	▲
8	Talent shortage/aging workforce	13%	9% (10)	▲
9	Changes in legislation and regulation	10%	22% (4)	▼
10	Quality deficiencies, serial defects	9%	NEW	▲

Source: Allianz Global Corporate & Specialty. Figures represent a percentage of all relevant responses. Responses for Asia Pacific 79. More than one risk selected.

Concerns over quality deficiencies and serial defects and commodity price increases are higher year-on-year across the Americas, compared with 2014, replacing theft, fraud and corruption and market stagnation and decline worries in the top 10. However, businesses across the region are still concerned about intensified competition across the board, with this issue judged to be more of a concern than 12 months ago.

Across the **Asia Pacific** region companies are more concerned about the trading environment than 12 months ago with the prospect of market stagnation or decline a new entry in the top 10 risks. A shortage of skilled talent also remains a concern, with awareness of this risk even more pronounced than a year ago. Competition remains fierce to secure the best talent and poaching is common practice, particularly in the insurance industry.

One concern about poaching is the risk of artificially inflating the cost of talent.

As in the Americas region concerns over quality deficiencies and serial defects are higher year-on-year reflecting the fact a product quality incident is one of the top five causes of business interruption according to risk managers and corporate insurance experts.

Interestingly, the Asia Pacific region is the only region where cyber risks does not appear in the top 10, suggesting many companies are not grasping the full possibility of the risks involved.

For the first time this year the Risk Barometer includes the top 10 risks in the Asia Pacific region's most powerful economy, **China**. Fire/explosion was ranked as the top risk, with natural catastrophes 2nd. Market stagnation or decline ranked 3rd.

To see the full appendix of the top 10 risks per country in each region click here

Industry analysis: Competition worries shipping, regulation concerns financial services

The top three risks in the Risk Barometer differ markedly – by the industry sectors analyzed and compared with 12 months ago (*see charts page 12*). However, for those businesses whose services cover a "broad range of industries", business interruption (BI) is still the top risk **(56%)** followed by natural catastrophes **(34%)**. However, cyber risks jumps to third position **(30%)**:

Engineering and Construction: The impact of natural catastrophes **(42%)** remains the top risk for the sector. According to AGCS insurance claims analysis, **earthquakes** are the top cause of engineering losses by value **(65%)**[1].

Manufacturing (including automotive): BI **(68%)** remains the top risk with manufacturers even more concerned than 12 months ago **(60%)**, driven by the fact that the potential for large claims in certain sectors such as **semiconductor** or **automotive** is increasing. Quality deficiencies and serial defects is a new entry in the top five risks.

Financial Services: Changes in legislation and regulation **(33%)** remains the top concern, reflecting increasing supervisory intervention around the globe. Meanwhile, cyber risks appears in the top five risks for the first time. Prospect of market stagnation or decline is ranked third, another new entry in the top five.

Power and Utilities: BI is the number one risk **(47%)** replacing changes in legislation and regulation. Market stagnation or decline is a rising concern as the third top risk, after not appearing in the top five last year.

Marine and Shipping: Intensified competition **(29%)** is the new top risk after not featuring in the top five last year while market fluctuations is another new entry in 2nd. According to AGCS the increasing cost of large hull (ship) insurance claims in recent years has been fuelled in part by the rising cost of port facilities, labor and materials. Political/social upheaval, war is also a new entry in the top five risks for the sector due to the impact it can have on shipping routes.

Transportation: Theft **(47%)** remains the main concern in the sector with companies still uncertain how to best solve or mitigate this issue due to a number of thefts being unreported. Companies are more concerned about BI and supply chain **(37%)** and political/social upheaval, war **(20%)** than a year ago.

Meanwhile, in the **Aviation, Aerospace and Defense** sector terrorism is the number one risk, with companies much more concerned about this threat than last year, driven by events such as the shooting down of the MH17 flight over Ukraine in July last year.

The **Oil and Gas** sector is most concerned about BI and fire risks. According to AGCS the increasing cost of BI claims is linked to the complex and sometimes concentrated supply chains in the sector, while **fires** are the top cause of losses by value according to insurance claims analysis **(65%)**[2].

Meanwhile, loss of reputation **(55%)** is the number one risk in the **food and beverage** sector, the only industry analyzed where this risk appears in the top five risks.

[1 2] Global Claims Review, Allianz Global Corporate & Specialty

Top business risks in 2015 by industry

Engineering /Construction			*2014 Rank*	*Trend*
1	Natural catastrophes	**42%**	40% (1)	-
2	Business interruption and supply chain	**39%**	35% (2)	-
3	Fire/explosion	**36%**	27% (4)	▲
4	Talent shortage/aging workforce	**16%**	NEW	▲
5	Market stagnation or decline	**16%**	33% (3)	▼

Manufacturing (including automotive)			*2014 Rank*	*Trend*
1	Business interruption and supply chain	**68%**	60% (1)	-
2	Fire/explosion	**42%**	36% (3)	▲
3	Natural catastrophes	**41%**	42% (2)	▼
4	Quality deficiencies, serial defects	**16%**	NEW	▲
5	Market stagnation or decline	**14%**	24% (4)	▼

Financial Services			*2014 Rank*	*Trend*
1	Changes in legislation and regulation	**33%**	39% (1)	-
2	Cyber crime, IT failures, espionage, data breaches	**31%**	NEW	▲
3	Market stagnation or decline	**23%**	NEW	▲
4	Business interruption and supply chain	**23%**	18% (4)	-
5	Market fluctuations (e.g, foreign exchange rates/interest rates)	**21%**	25% (3)	▼

Power & Utilities			*2014 Rank*	*Trend*
1	Business interruption and supply chain	**47%**	53% (2)	▲
2	Changes in legislation and regulation	**34%**	53% (1)	▼
3	Market stagnation or decline	**21%**	NEW	▲
4	Fire/explosion	**18%**	15% (5)	▲
5	Natural catastrophes	**18%**	21% (4)	▼

Marine & Shipping			*2014 Rank*	*Trend*
1	Intensified competition	**29%**	NEW	▲
2	Market fluctuations (e.g, foreign exchange rates/interest rates)	**27%**	NEW	▲
3	Natural catastrophes	**27%**	38% (1)	▼
4	Theft, fraud and corruption	**27%**	24% (2)	▼
5	Political/social upheaval, war	**21%**	NEW	▲

Transportation			*2014 Rank*	*Trend*
1	Theft, fraud, corruption	**47%**	46% (1)	-
2	Natural catastrophes	**37%**	25% (2)	-
3	Business interruption and supply chain	**37%**	NEW	▲
4	Political/social upheaval, war	**20%**	NEW	▲
5	Fire/explosion	**20%**	25% (3)	▼

Source: Allianz Global Corporate & Specialty.
Figures represent the number of responses as a percentage of all responses (between 30 and 90 responses per industry). More than one risk selected.

Insured losses from weather events alone as a proportion of global GDP increased by **327%** between **1974-1983** and **2004-2013**

Future risks: Climate change dominates long-term risk agenda

Insurance is a means of pre-financing the financial impact of natural catastrophes. However, it is often governments that end up as the financiers. There is a growing need for insurers and governments to develop partnerships to create sustainable disaster financing structures

For the first time, the 2015 Risk Barometer also examines the emerging risk environment for businesses over the short- and long-term future.

Technology, economic growth, climate change and political and societal change are already impacting businesses' risk management in a number of different ways and will do so further in future.

While many of the risks contained in the top rankings (*see charts, page 14*) for the short- and long-term outlook are already priority concerns, issues such as climate and environmental concerns and worries about the impact of technological innovation become much more of a risk management priority long-term.

Preliminary insured losses from natural catastrophes may have declined year-on-year in 2014 at **$29bn** compared with **$37bn**[1] a year earlier, but there is little doubt natural catastrophes are having much greater financial impact over the long-term, as values at risk have increased significantly.

Insured losses from weather events alone as a proportion of global GDP increased by **327%** between **1974-1983** and **2004-2013** from **0.018%** to **0.077%**[2]. If natural catastrophe risk management procedures are not in place or have not been regularly reviewed the magnitude of such losses can increase significantly.

"Weather is becoming more volatile and less predictable at a time when cities and populations are growing in areas exposed to natural catastrophes," according to **Michael Bruch, Head of Emerging Trends, AGCS**.

And this trend could accelerate further with **climate change**, which is ranked as the number one long-term emerging risk for businesses in the Risk Barometer. Business concerns about the impact of the changing climate have also increased significantly year-on-year with climate change doubling its share to **6%**, climbing eight places to 15th in the 2015 Risk Barometer.

According to the IPCC, the last three consecutive decades have been the warmest worldwide since records began in 1850. Additionally, the sea level has risen by 3.2 mm every year for the past 20 years.[3]

Without additional climate protection measures, average global temperatures are expected to increase by over 2°C this century, and sea levels could rise by a further 20-60 cm – with dangerous consequences for both populations and the environment.[4]

"Climate change is moving coastlines, affecting rainfall patterns and storm frequencies and is expected to increase the exposure of cities to floods, windstorms and heatwaves," adds Bruch. Companies will have to deal with the impact of climate change as an underlying risk which is not within our direct control.

However, individual best practice, along with collaboration across companies, industries and regions can help to mitigate environmental damage and create future safety, growth and innovation in a more sustainable world.

[1] Swiss Re

[2] Allianz financial impact weather briefing, May 2014

[3][4] IPCC

Technological innovation to cause further disruption

Technological innovation appears in the top five long-term risks facing businesses, ranking 4th, the only time this appears in a top five of all risks analyzed.

"Faster trains, taller skyscrapers, long-span bridges, ships in ever-larger dimensions or highly automated factories – we are moving into new technological dimensions in almost every industry," says **Michael Bruch, Head of Emerging Trends, AGCS**.

The challenges of delivering goods and services on an increasing scale triggers the need for innovative, sometimes even **"disruptive technologies"**, so-called because such innovations help to create a new market and value network, eventually "disrupting" the old one.

New technologies such as **3D printing** and **nanotechnology** are just two examples of disruptive technologies.

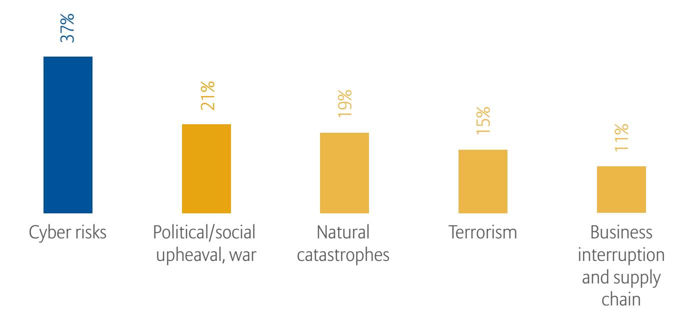
"While these technologies undoubtedly bring new opportunities, they also entail new risks," says Bruch. "Technology is pushing our systems to new limits. Safety margins are shrinking as developments in safety and human behavior are often not aligned with technological advances.

"Negative effects of failure are further multiplied as interconnectivity is expanding along with global supply chains, digital logistics and automation.

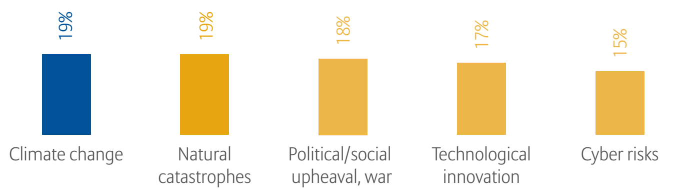
"A collaborative approach will strongly contribute to safety. The insurance industry can support this process by not only providing financial assurance for risks, but also by sharing its risk engineering and risk management expertise to avoid losses from occurring in the first place." concludes Bruch.

Click here to see the risks associated with 3D printing and nanotechnology

What are the top risks for the next five years?



What are the top risks for the long term future (5-10 years +)



Source: Allianz Global Corporate & Specialty.
Figures represent a percentage of all eligible responses to the questions (280 and 225 responses in total). More than one risk selected.

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