

Top 3 risks to businesses in 2021

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Companies are facing a trio of Covid-19-related risks, which pose potential disruption and losses to business in 2021.



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The 10th [Allianz Risk Barometer](#) for African companies asked CEOs, risk managers, brokers and insurance experts around the world to name their top three risk concerns for the year ahead. For the 2021 study, a record 2,769 experts from 92 countries and territories participated, including more than 600 from across the Africa and the Middle East region.

Top three risks

1. Covid-19
2. Business interruption
3. Cyber incidents

Pandemic, business interruption and cyber risks are strongly interlinked, reflecting the growing vulnerabilities of our highly globalised and connected world, where actions in one place can spread rapidly to have worldwide effects.

Unpredictable and extreme events

The pandemic outbreak has added to the already growing concerns for business interruption and cyber risk exposures among risk professionals, given the increasing reliance on technology, online sales and global supply chains. Prior to the pandemic, business interruption had already finished at the top of the Allianz Risk Barometer seven times over the past decade globally and was the top business peril in the Africa and Middle East region in 2020. Meanwhile, cyber risk has regularly ranked in the top three corporate perils globally in recent years, finishing second in the region in 2020.

The pandemic also demonstrates just how vulnerable the world is to unpredictable and extreme events and has highlighted the downside of global production and supply chains. When container shipping was effectively grounded in spring 2020, with fleets taking numerous ships out of service in response to capacity shortfalls, global supply chains came under pressure. Subsequently, components failed to arrive and production came to a standstill in many industries, especially in the automotive sector.

Executive-level awareness

A study by Euler Hermes found that almost all (94%) companies surveyed reported a Covid-19- induced disruption to their supply chains. This means awareness of business interruption risk is now at the very top organisational level. It has become a discussion not just for risk professionals but for company boards and shows the need for businesses to build more resilient supply chains, as well as to find new ways to address uninsurable risks.

Covid-19 is a reminder that not all perils are insurable, and that risk management and business continuity planning play a critical role in helping businesses survive extreme events.

The outbreak has also shown that business interruption is highly correlated with many of the risks of most concern to businesses today as identified in the Allianz Risk Barometer, such as natural catastrophes and climate change, political risks and civil unrest, and even rapid changes in markets.

Digitalisation will bring new risks

One of the big lessons learned is that extreme business interruption events are not just theoretical, but a real possibility. While a “known risk”, the coronavirus pandemic was a surprise event of global magnitude, with many unexpected consequences. Other potential triggers for large-scale business interruption events in future could include environmental or natural disasters, further disease outbreaks, a large-scale cyber attack or blackout, or even a solar storm.

The consequences of the pandemic are also likely to heighten business interruption risks in other areas in coming years. Even as the immediate health risks of the pandemic ebb with vaccinations, the accelerated push to digitalisation will likely bring new risks, while the economic, societal and political repercussions of the pandemic could also bring sources of disruption for years to come, such as growing civil unrest.

One positive change to emerge from the pandemic is a growing recognition of the need to improve business continuity management. According to Allianz Risk Barometer respondents, this is the main action companies are taking in order to derisk their supply chains and make them more resilient in the face of pandemic risk. This is followed by developing alternative/multiple suppliers, investing in digital supply chains, intensifying supplier selection, auditing and risk assessment and inventory/safety stock management.

Business continuity planning

Business continuity planning has come into sharp focus during the pandemic. Many companies found their plans were quickly overwhelmed by the fast pace of the pandemic and changes in public health measures. However, many were also quick to set up war-rooms or dedicated Covid-19 response committees that brought together key corporate functions and senior management.

Business continuity planning needs to become more holistic and dynamic. Plans need to be constantly updated and tested,

including having alternative suppliers available for raw and intermediate materials. They need to be cross-functional and integrated into an organisation's risk management and strategic processes.

As companies prepare for future extreme business interruption events, they will need to consider a broader range of scenarios than they do at present. Identifying and understanding potential Black Swan" events will be challenging, but the key to survival will be the ability for businesses to respond quickly.

The best way for businesses to approach these types of situations is through business continuity scenario planning that challenges working environments and the ability of supply chains under various scenarios. The ability to understand and proactively handle potential business impact scenarios is better resolved when the crisis is not upon a business. Companies need to think ahead and consider how their business, market, customers and suppliers might change in a given scenario.

Business resilience

Meeting the challenge of business interruption risk will require risk professionals to find ways of quantifying exposures, including areas like non-physical damage business interruption and emerging risks.

The pandemic has shown there is still a lot of work to be done on business continuity and business resilience. In order to manage the risks and develop solutions, they will need to collect data, utilise analytics, and then consider what is insurable. Risk management today is very good at insurable risks, but could do better when it comes to the non-insurable risks, like intangible assets, supply chains and reputation.

Resilience will be critical to surviving future business interruption events. It needs to be embedded in the organisation's culture and helps to make the remaining business interruption insurable. Resilience is also good for insurance. The insurance industry cannot take away all challenges but we can work in partnership with clients. We are able to underwrite some of the biggest drivers of business interruption – such as natural catastrophes and fire, as well as some cyber – and offer risk engineering services and alternative risk transfer solutions to support our clients in these challenging times.

ABOUT THE AUTHOR

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