



**CNA / HARDY**

Roundtable debate  
**Interconnected risk**

Taking the pulse  
of global business



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International Solutions Underwriting Director, CNA Hardy

The world is becoming smaller helped in part by greater regulatory alignment across territories. However, different markets, countries and cultures invariably provide different answers to the information requested and knowing how to navigate the information, what questions to ask and how to interpret the data is critical.

Too often, risk managers, insurance buyers and providers seek to address tangible property exposures at a local level thereafter addressing the less tangible tech and liability exposures on a remote basis, usually in order to save money or reduce the perceived administrative burden. Leaders of businesses with an international footprint need to think about protection in the round, the pre loss planning and risk mitigation solutions that are required, not just the financial risk transfer, in order to address the borderless challenges posed by interconnected risk today.

In light of all these moving parts, partnerships are key. At CNA Hardy we know that no two risks are the same, even across a single organisation. It's hard enough already to keep on top of the pace of change in the world we operate in; when organisations look to ensure they have the right controls and compliance structures in the regions they conduct business, a multinational programme can usually provide a simpler and more harmonious approach to these rather complex issues.

We live in a world which is becoming increasingly interconnected, so why wouldn't we look at our insurance coverage this way?

To download our latest Risk & Confidence Survey, visit [cnahardy.com/pulse](https://cnahardy.com/pulse)



## Participants:

**John Ludlow**  
Chief Executive Officer  
Airmic



**Jonathan Blackhurst**  
Group Head of Risk Management  
Capita



**Ailsa King**  
Chief Client Officer  
Marsh UK & Ireland



**Dave Brosnan**  
Chief Executive Officer  
CNA Hardy



**Rhonda Buege**  
VP International Specialty  
CNA Hardy

## Interconnected risk - risk management requires a rethink

In today's interconnected world, no company is insulated from what's going on in other parts of the world politically, economically or technologically.

Tangible and intangible risk proliferates, and inter-connectivity of risk is creating a daunting new risk landscape. At a recent roundtable debate hosted by CNA Hardy, the impact of interconnected risk and ways to navigate this new risk landscape were discussed. The consensus was risk management requires a rethink.



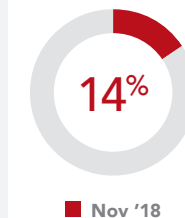
## Technology is shrinking the world

In many ways, technology is at the heart of interconnected risk. Not only is it giving us capabilities that we never dreamt of before, it is the facilitator that is driving businesses to outperform each other; to form more global relationships and deliver a cheaper, better and faster service.

"The inherent interconnectivity created by technology creates risk that really kicks in at a macro level," commented John Ludlow. Ailsa King agreed: "Technology is making the world much smaller in terms of interconnectivity, and clients' reliance on other regions and other parts of the world is changing business models, which creates a new set of risks both on a macro and micro basis."

One of these new areas of risk that really excited roundtable attendees was supply chain.

## Technology risk perception shifting



Global business leaders ranked technology as a top risk in Nov '18 and predicted that it would increase in importance by May '19.

## Supply chains are less resilient than we think

Rhonda Buege observed: "I think organisations are quite good at managing physical goods across international borders despite political challenges. The question now is how they manage the intangible supply chain risks – such as information and data. How do we regulate for new technology risk, which has no defined borders?"

Ailsa King described how technology risk can impact the supply chain.

"When you think about how goods move around the world, we are still reliant on large container ships. When these ships dock in harbours the majority of unloading is now automated and tech driven. If something goes wrong with the technology, this can create supply chain risk as goods won't reach their specified destination in the expected timeframe. So there are still traditional marine and cargo risks, but the tech liability and supply chain risks are new."

John Ludlow offered a positive view on how technology can contribute to the management of supply chain risk by enhancing management insight and enabling more rapid risk mitigation.

"Information is key. In a totally connected supply chain, technology can help you to see the goods, their condition, and alert the risk radar as soon as something is wrong. If you have your risk indicators in place and you are sharing information properly across your supply chain you can mitigate a lot of risk."

Jonathan Blackhurst, by contrast, chose to draw attention to the contagion risk that technology can create.

"I see a big shift as we try to change as an organisation, the supply chain has become easier to get real time performance measured and monitored, but what we don't see is the recognition that this reliance on technology increases the speed of contagion. You cannot sit back and wait to see how a potential problem develops. Instead as soon as indications show something is not quite right you need to investigate immediately, or it could be too late. Executives are waking up to supply chain risks, but we need to drive home to them that speed is of the essence," commented Jonathan Blackhurst.

Dave Brosnan summed up the thinking round the table with a perspective on how to build true resilience into the supply chain.

"I think a really resilient supply chain is one that takes into account the tangible and intangible risks. In my experience, and what comes up time and again in our research, is that everyone tends to focus on the tangible problem in front of them and lose focus on the more hidden intangible risks that emerge when a tech-enabled supply chain has failed."

### Low ranking global risks

Back in Nov '18 supply chain was one of the lowest ranking concerns, of global business leaders.



Supply chain

## Interconnectivity breeds complexity, creating blind spots

An inevitable consequence of a tech-dependent, more interconnected world is complexity in risk management. Participants at the roundtable agreed this was particularly taxing for modern management teams.

"Interconnectivity brings blind spots that can cause problems and business failures. If something has gone wrong, it's not the tried and tested area of risk that problems will have come from, it's something connected to the risk they thought they had protected against that has crept in below the risk radar. Today's risk could come from a supplier, or an element of technology or a seemingly unconnected risk in the outside world that caused the issue," commented Jonathan Blackhurst.

John Ludlow highlighted that there is a danger that risk managers can get distracted by the new risk frontier and overlook more 'traditional' risks that can create reputational damage.

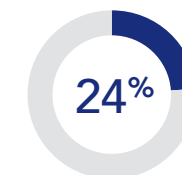
"Once you have fundamental risks well-managed, then you can turn your attention to the new and less understandable risks. If you just try and manage the new risk frontier you will be let down by traditional risks."

Dave Brosnan agreed, and he shared a good example of interconnected loss created by a fire earlier this year in Ocado's state of the art warehouse in Andover.

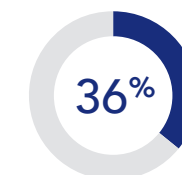
The fire happened in the firm's 30,000 sq.m warehouse that was run by robots. It started within the robotic packaging machine and quickly spread throughout the facility. The damage to the firm's main supply warehouse knocked the firm's share price, created reputational damage in the local community, as well with customers across the UK who suffered cancelled orders as a result of the fire and, suppliers who had contracts to supply Ocado. So, despite having a high-tech factory and futuristic business model, a simple risk like a fire created a host of interconnected issues for the firm.

In Jonathan Blackhurst's view: "All too often senior management focus on cyber or another 'new' risk but overlook the basic question of business continuity. We need to evolve a tried and tested model, rather than try and rewrite the risk management rule book. It's easy to forget that your old risk management plan gives protection, mitigation and controls. These elements need to be applied to all areas of risk management."

Global business leaders forecast that boardroom risks would be a major concern by May '19



Corporate



Regulatory



## Silo mindset must be challenged

This new, more interconnected world clearly has huge implications for risk management teams.

"All too often risk managers are siloed, and risk management plans are fragmented, not cohesive or aligned. The risk community in a firm needs to come together so that the insurance manager, the business continuity manager, the security manager, the health and safety manager are a coordinated active community. Together they have a more joined-up view of the business, and this is particularly important in this increasingly complex, dynamic risk environment," said John Ludlow.

Jonathan Blackhurst agreed: "This is a challenge for the risk profession. Enterprise risk management (ERM) is a great concept, but if it is implemented by an organisation with a silo mindset then it will just be another silo. ERM offers the opportunity to pull things together. However, an organisation can easily segment when the board wants one conversation, the operational manager another – and they do not meet until they have a quarterly meeting, which breaks the interconnectivity of the plan. That is not enterprise risk management – it is risk management of the enterprise. The right words but not in the right order!"

"I think it is getting more difficult for businesses to manage these complex and interconnected risks, and it's difficult for them to keep up with the pace of change," observed Ailsa King. "As business models get more connected, they become more complicated and risk managers and the board have less of a handle on the intangible risks or how they impact the organisation."

Rhonda Buege added: "The new risk environment requires an overarching change in culture, with a focus on risk from an organisational perspective."



## Risk realignment required

Against this backdrop it seems clear that businesses need to align their risk management to the purpose of the company. If risk management is piecemeal, then the board will not recognise the importance of it.

"If you talk to sales and marketing about a disaster recovery plan for an IT platform, they will say – "that's not my problem – that's an IT problem. But, if they understand that the continuity plan is designed to enable the firm to continue to service its customers, they can start to see how it relates to them. This way the Board will start to value the plan and include it in their strategic thinking. Risk managers need to understand they are managing the resilience, governance and safety of their business and they should have a strong voice so that they are listened to and the company can come together behind a plan," said John Ludlow.

Dave Brosnan pointed out the value of this more joined-up approach shines through in the regular risk and confidence surveys conducted by CNA Hardy.

"We find that businesses tend to focus on the obvious – such as a current economic issue like Brexit. What they fail to recognise or they de-prioritise is the potential implications of regulatory and compliance challenges in working in this interconnected, more and more complex world. They also don't consider the brand and reputational ramifications of failing to put a plan in place that specifically manages all their risk challenges."

## Brand and reputation risk are becoming more significant

Realignment of risk is particularly critical in a world where the media and social platforms can spread news and opinion globally at the touch of a button. In an environment where speed is more important than accuracy, impressions more prevalent than rational argument, it can be very hard for global organisations to get ahead of the news curve and manage the dialogue.

Ailsa King commented: "Consumers want the brands that they are investing their hard-earned money in to make statements that go way beyond the business they provide. For example – making ethical statements that are not connected with the actual products they produce or sell. This is making businesses aware that they need to keep a handle on what their messaging means for their reputation and the loyalty of their customers."

"Consumers can comment on just about everything, from hotel reviews to complaining on Twitter whilst standing in a queue at an airport. Companies need to consider how they manage their brands and reputation in this new environment where information is instantly accessible 24/7," said Rhonda Buege.

Against this backdrop, Jonathan Blackhurst was concerned that the risk assessment processes were not always up to the challenge of protecting that most important corporate asset: reputation.

"From my experience, over the past couple of years, when I mention reputational risk, the response is: 'Our communication plan and PR team is robust and can handle our reputation.' What they overlook is the credibility issue and the drain on senior management time when handling a reputational crisis. This drags their attention away from running the business, and in an outsourcing world, a split second when your foot is off the pedal is noticeable to clients and their customers. This exaggerates the reputational risk and damages brand credibility. There is a danger when management only view their reputational risk through a narrow PR lens they overlook the operational credibility impact too."



John Ludlow added: "In my experience you earn trust in three ways. Through people experiencing your brand, by transmitting your corporate message and via what other people are thinking and saying about it. The shift in balance has moved heavily towards what people say about your brand on social media, and the communities linked to it. Companies need to stop looking inwards and stop just transmitting corporate messages on social media, instead use it to get more connected with their stakeholders, in particular their customers, and become a listening business and not a preaching one."

Concerns over corporate risks ranked low with global business leaders in the November '19 Risk and Confidence report.





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**Dave Brosnan.**

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**Rhonda Buege.**

### **Insurance services are offering a lifeline**

In a complex, tech-enabled, interconnected and fast-moving world, the roundtable participants were agreed that management teams and insurance businesses have their work cut out for them.

"We need to forget the about traditional insurance submissions. Instead we need to look at what services we are providing to customers to help them manage and assess their risk. Take cyber as an example. It's about cover, but also a wrap-around service package that can scan networks to assess the propensity for an attack; conduct IT systems' audits; offer security training, dark web monitoring and make high-level recommendations both from an organisational and a technology perspective. The insurance industry is starting to wake up to the fact that pre and post loss services, rather than just cover, are what really make the difference," commented Rhonda Buege.

"The new generation of insurance products is designed to step in when the absolute worst has happened and help the business get back up and running. The world of risk is changing and so as underwriters and brokers we need to make sure that the words on paper are designed to meet the evolving needs of an organisation. We also need to wrap pre and post loss services around that contract, and this will be key as we look to manage more intangible and interconnected risks going forward," concluded Dave Brosnan.

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