

New technological risk management and business interruption challenges

Global Technology Industry Risk Study 2022 –
Asia Perspectives

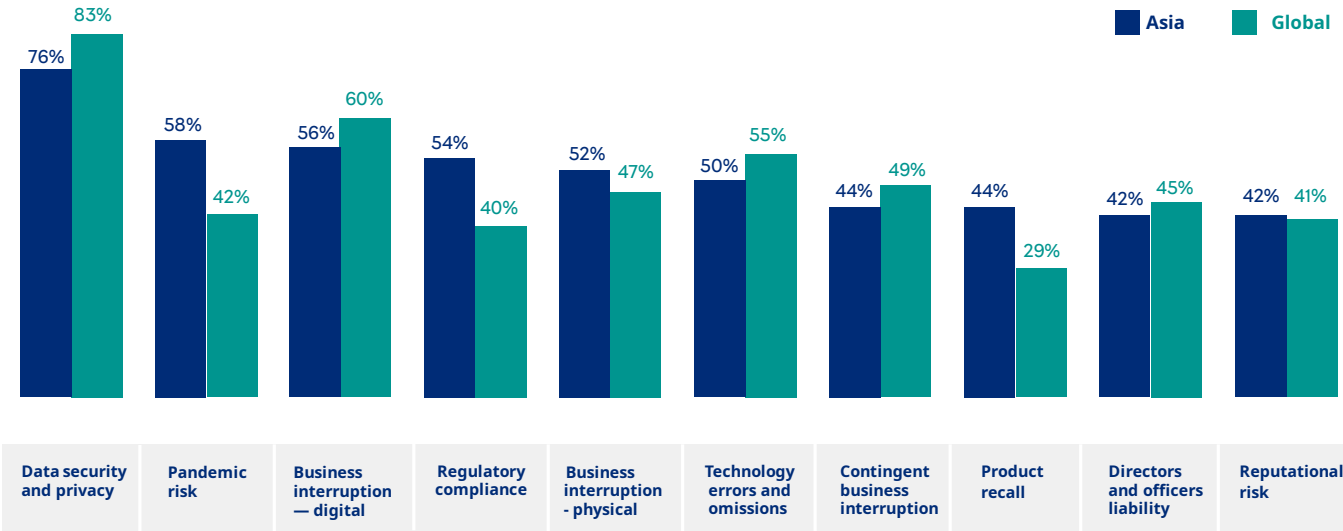


To achieve continued growth and resilience amid Asia's challenging insurance market and a constantly evolving risk landscape, tech companies in the region need to prioritise risk management as their **first line of defence, in contrast to the traditional insurance-only approach.**

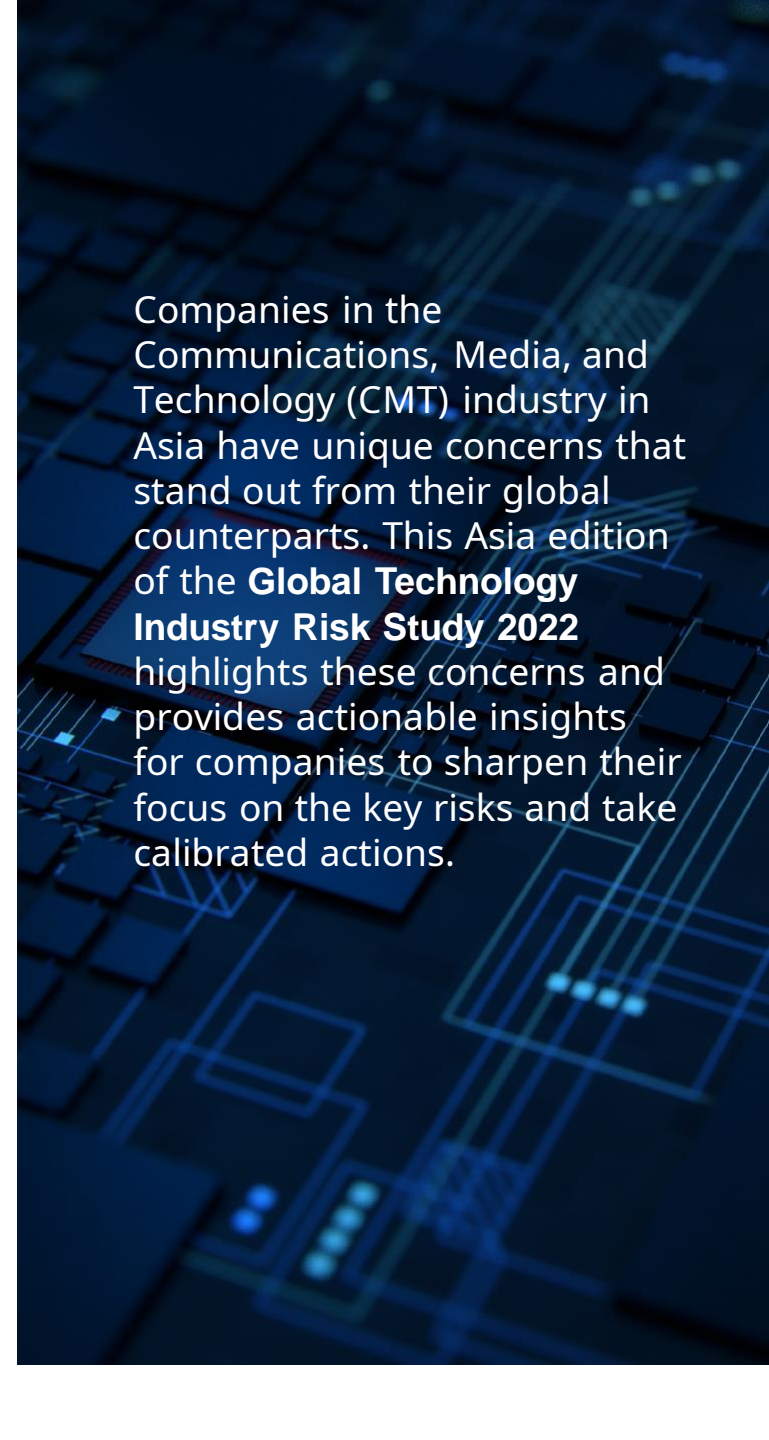
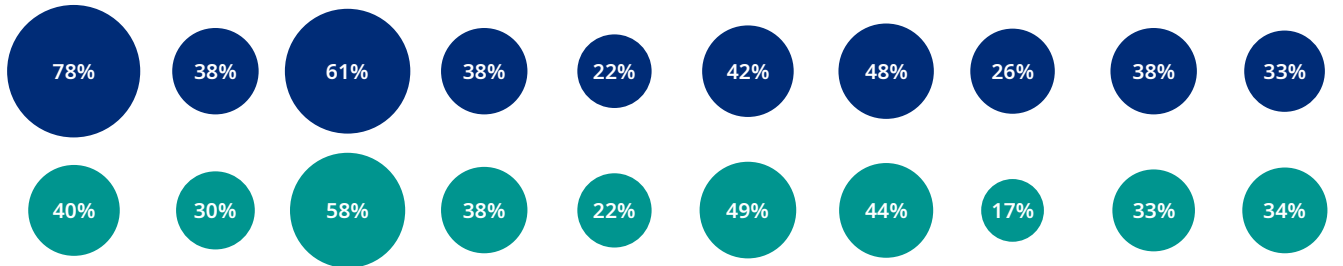
Larry Liu,
CMT Industry Leader, Marsh Asia

01| Top 10 risks for tech companies in Asia vs. Global

These are the **Top 10 risks of high or highest concern** for tech companies in Asia vs. globally...



...and how they expect the risk to **grow in complexity** in the next 3 to 5 years.



Companies in the Communications, Media, and Technology (CMT) industry in Asia have unique concerns that stand out from their global counterparts. This Asia edition of the **Global Technology Industry Risk Study 2022** highlights these concerns and provides actionable insights for companies to sharpen their focus on the key risks and take calibrated actions.

Key observations



Like their global counterparts, CMT companies in Asia presently regard **data security and privacy** as the top concern. Concerns around privacy and data are also more likely to persist, with nearly 4 in 5 firms in the region anticipating data risks to grow in complexity compared to 2 in 5 globally.



Pandemic risk remains a top-of-mind concern in Asia, due to ongoing lockdowns at the time of this report and their economic and social impacts.



Digital business interruption risk is widely expected to grow in complexity. For tech manufacturing companies, the spotlight is on the resilience of their Operational Technology (OT) systems, which can be more vulnerable to cyberattacks compared to IT systems. OT systems, especially ageing or obsolete systems, can become loopholes for attackers to enter IT systems and spread malware across the entire organisation.



Tech companies in Asia also expressed greater concern over **regulatory compliance risk** compared to their global peers (54% vs. 40%), driven by persistent worries over restrictions due to geopolitical trade wars and resource protectionism, as well as increased governmental scrutiny in areas such as environmental, social, and governance (ESG), foreign direct investment, and data privacy.



The prevalence of manufacturing operations across Asia reflects companies' greater concern over **product recall risk** compared to the global average. The risk is especially relevant for manufacturers in the automotive and electric vehicle (EV) value chain.



For **directors and officers (D&O)** liability risk, the exposure for Asian firms listed in the US is significantly greater. This is reflected by the recent pricing increases for D&O coverage for US-listed companies, in some cases experiencing a triple-digit year-on-year increase.

Compared to Western countries, tech companies in Asia still regard data security and privacy risks as big unknowns. Some are taking the right steps to adopt risk mitigation and transfer solutions to improve their cyber posture and resilience.

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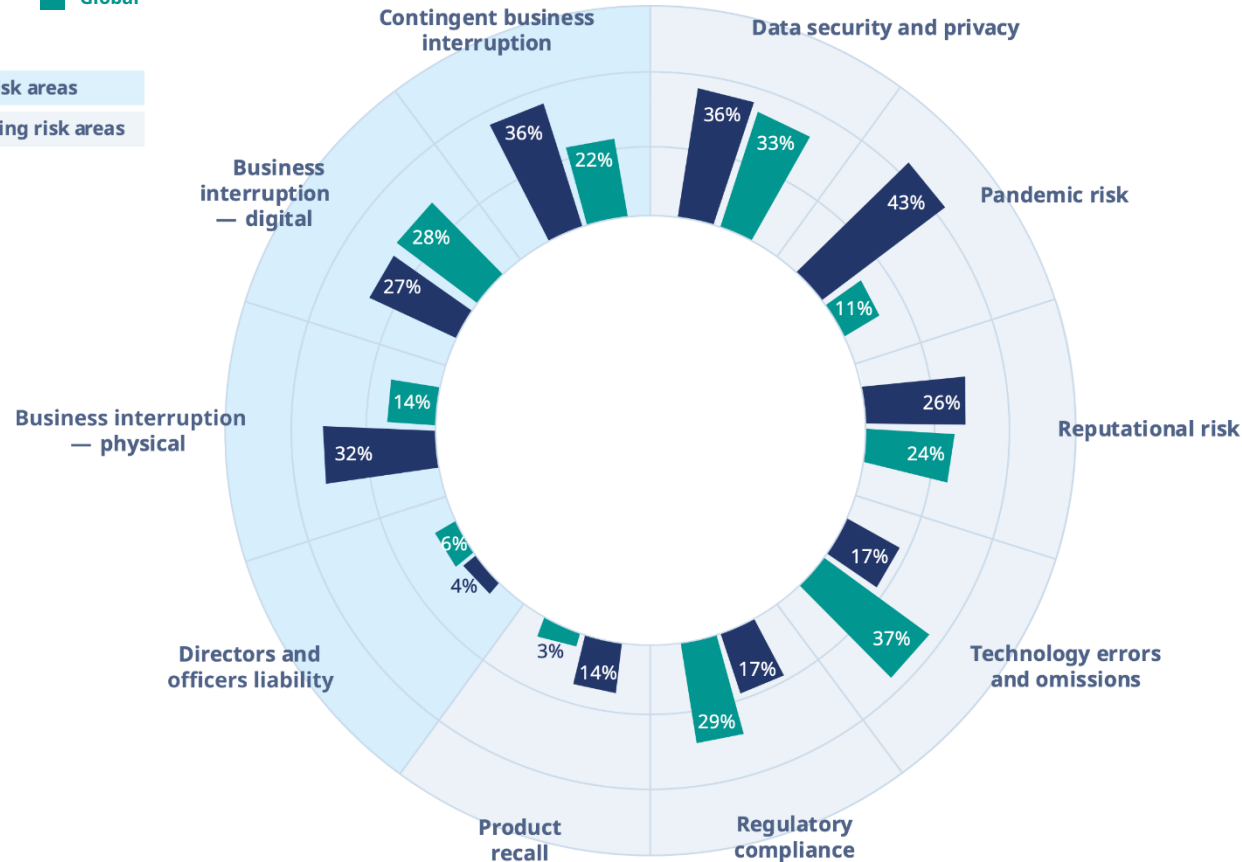
02| Risk transfer solutions inadequate in some areas

Amid the hardening insurance market, companies in Asia are facing constraints in obtaining adequate cover for the Top 10 risks they are most concerned about.

% who rated available insurance solutions as inadequate

■ Asia ■ Global

Core risk areas
Emerging risk areas



Sector-specific challenges for companies in Asia



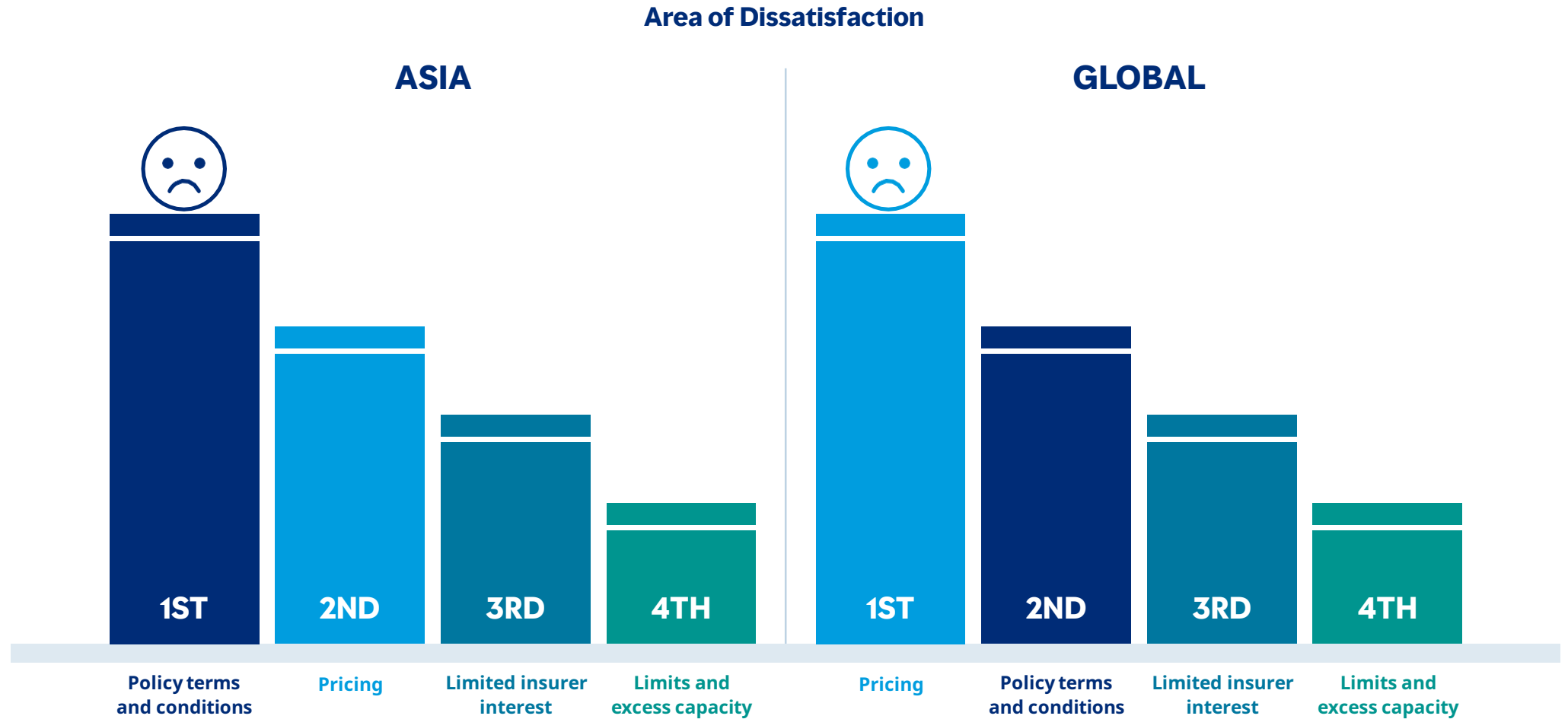
Companies in the **telecommunications sector** are facing limited insurer interest with regards to electromagnetic field (EMF) bodily injury coverage. At the time of this report, only one insurer in Asia provides coverage for this risk as a sub-limit.



For **electric vehicle (EV) and EV battery production** risk, there are limited solutions available as insurers do not yet have the critical amount of data required to perform actuarial modelling with a high level of confidence. Amidst this backdrop, Marsh is committed to helping insurers assess and adopt alternative solutions, such as mutuals.

03| Dissatisfaction with available insurance solutions

In general, the study found that companies in Asia are more likely to be dissatisfied with policy terms than their global counterparts.



Key observations and possible solutions



For **emerging risk products** such as data security and privacy, the inadequacy of insurance solutions may be due to the gaps in understanding (e.g. severity and frequency of the risk) and the lack of historical loss data needed for scientific pricing and underwriting of these risks. Where products are available, pricing may be high as insurers understandably choose to be cautious.



To address this, Marsh works closely with companies to identify and evaluate these emerging risks, as well as use proprietary data to bridge the knowledge gap between insurers and the risk. This results in increases in capacity and new, competitive solutions for the market.

The first step that companies might take may be to undertake a business impact review.



For **core risk products** such as contingent business interruption (CBI), the inadequacy may be due to current trends (e.g. supply chain issues) that have led to increased insurer scrutiny and conservativeness in underwriting.

Marsh's risk engineers can help companies conduct loss scenarios analysis to quantify business interruption (BI) declared values and articulate their contingency plans and risk mitigation measures to the market, so as to facilitate the review of policy wordings (e.g. supplements) that ensure comprehensive and cost-effective coverage for risk areas such as CBI.



Risks are also evolving and becoming more complex within established product categories such as **physical business interruption**. The perceived inadequacy of solutions here may partly be attributed to the current market cycle (i.e., limited capacity, pricing) as well as heightened volatility on both economic and geopolitical fronts. Companies that have relatively low tolerance towards disruptive events — such as natural disasters, public utility outages, and delayed/uncertain procurement lead times due to lockdowns — may find that these incidents fall under policy exclusions.

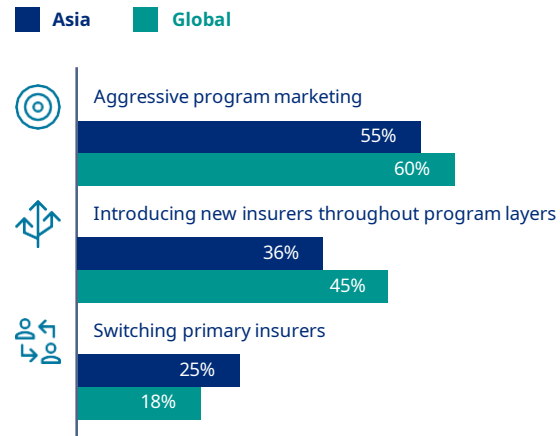


In particular, companies that are dependent on licensed supply of equipment or raw material from a single country should prioritise risk management solutions that strengthens and diversifies their supply chains, given the ongoing economic and geopolitical uncertainties.

04| Responses to a hardening insurance market and recommendations

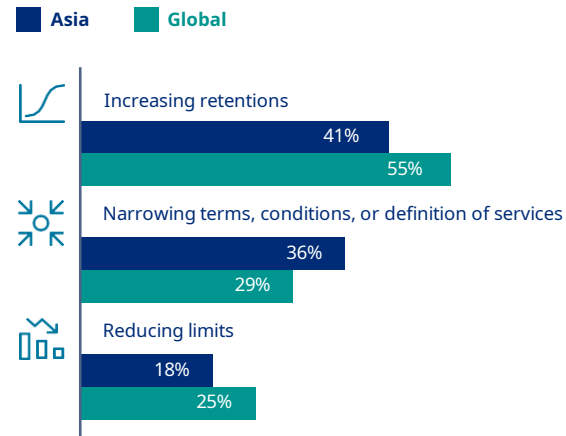
Foundational shifts in risks and the insurance market are leading many CMT companies to reassess their risk transfer approach. To what extent are companies thinking about the following?

Standard actions



Compared to their global counterparts, companies in Asia are less likely to introduce new insurers throughout program layers and switch primary insurers. **“In light of limited insurer appetite, companies should prioritise contractual risk allocation and try to manage the risk through the contract, transferring risks to suppliers and avoiding risk accumulation on customers’ and clients’ side,”** Larry said.

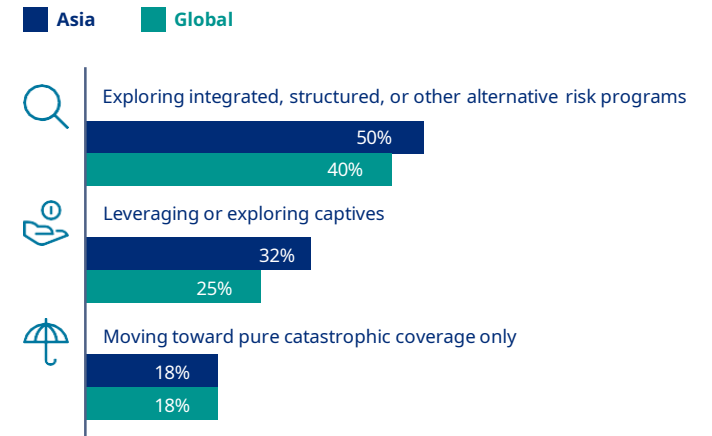
Retaining more risk



Companies in Asia are more likely to opt for narrower terms and conditions in response to rising premiums. At the same time, companies are also facing narrowing terms imposed by insurers due to geopolitical volatility, such as BI exclusions on losses directly arising from inability to obtain industrial gases (e.g. neon) from Ukraine and Russia. “This highlights the need for companies to prioritise supply chain risk management,” Larry added.

To avoid significant losses arising from narrowed terms, companies’ risk retention strategies should be informed by detailed reviews — such as a declared value review, a loss scenario/loss expectancy review and/or a policy wording review — conducted by a trusted risk advisor.

Taking more control



Companies in Asia are more likely to explore innovative risk programs with the help of a risk advisor. Alternative risk programs include parametric cover, which is sought after by clients with operations and assets in locations (e.g. Japan, Taiwan, Hong Kong) that are prone to natural catastrophes such as earthquake and typhoon.

An increasing number of larger clients who find that their insurance needs cannot be met by the commercial insurance market are initiating captive feasibility studies, as captives may provide them more options when negotiating pricing and terms with insurers and/or reinsurers.

Leveraging Marsh's regional and global networks, local market knowledge, and data capabilities, taking a risk-focused approach can:

1



Protect and enhance your company and brand reputation.

2



Mitigate the impact of catastrophic risk events on your organisation.

3



Provide data and analytics to negotiate with insurers and support management decision making.

To assess your risk exposures and discover the possible solutions that can be tailored to your company's unique needs and challenges, contact a Marsh representative today.



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