Resetting risk management priorities amidst economic uncertainty

Global Technology Industry Risk Study 2023 –
Asia Perspectives

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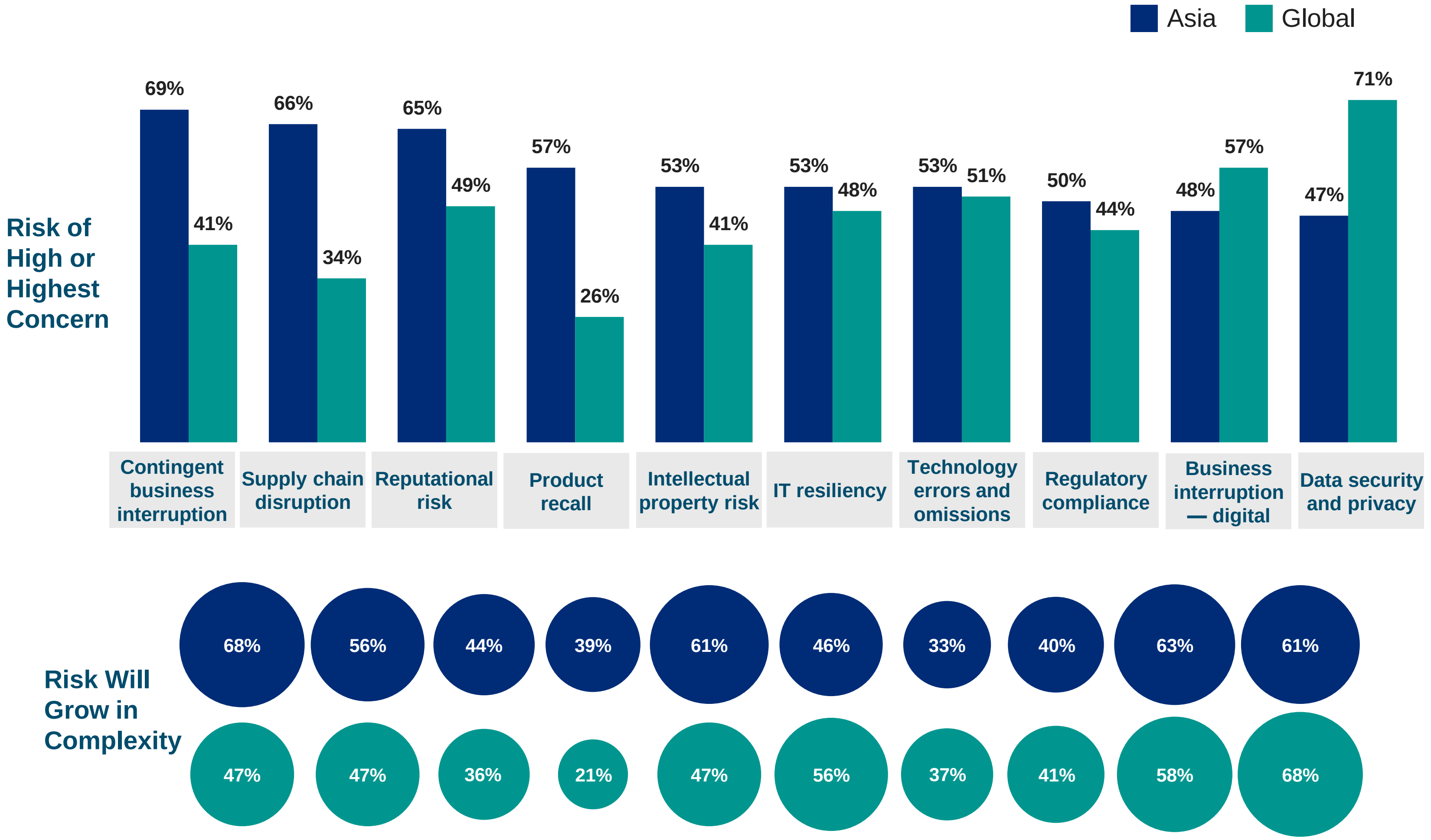
A business of Marsh McLennan

Based on Marsh's Global Technology Industry Risk Study 2023, this Asia Perspectives report showcases the top 10 risks perceived by technology companies in Asia responding to the survey versus their global counterparts, in addition to key industry trends and analyses.

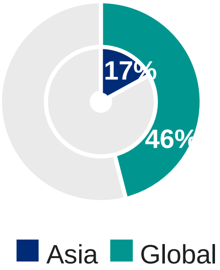
Major risks include contingent business interruption, which rose in prominence from 7th in the 2022 report to 1st this year. Supply chain disruption, which did not appear in the top 10 list in the previous year, came in 2nd this year, while reputational risk rose from 10th to 3rd in risks of highest concern.

Top 10 risks perceived by companies in Asia vs. Global



The **Asia Perspectives** edition of the Global Technology Industry Risk Report provides in-depth insights, analysis, and expert recommendations that empower Asia's technology companies to adopt the appropriate risk management and insurance solutions, as well as protect their top line revenue and profitability.

Asia's tech companies are taking a different workforce strategy amidst challenging macroeconomic conditions



17%

of technology companies in Asia responding to the survey are considering a reduction in workforce or slowdown in hiring, significantly lower than their global counterparts.

The war for talent is intensifying in the technology industry as businesses deal with the challenging global economic climate and the shift in employee expectations after the pandemic.

Other than grappling with an escalating talent shortage due to being heavily dependent on a highly skilled workforce, Asia's technology companies are being further challenged by an ageing workforce and intense global competition.

To ensure optimal business productivity and mitigate risk from workforce cost containment measures, companies need to ensure:

- A **clear employee communications plan** is in place to convey cost containment actions.
- The **necessary resources** are in place to execute emergency response plans.
- **Strategies and channels** to receive and address employee grievances are implemented.
- **Cyber controls** are established to prevent insider breaches arising from employee grievances.

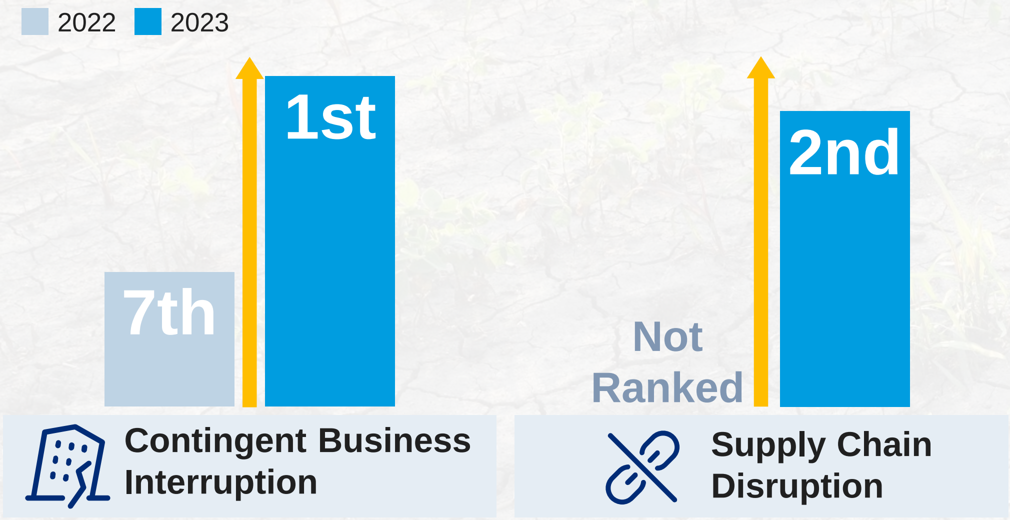
> Because of the high demand for skilled talent and inability to fill critical roles, companies are prioritising retention strategies,[1] such as mandatory unpaid leave and reduced working hours. With these measures, companies must double their efforts to mitigate people risks and address grievance to maintain a productive and motivated workforce.

Larry Liu
Communications, Media and Technology (CMT) Industry Leader of Marsh Asia.

[1]Noema. (2023). The Cost Of Deglobalization. https://www.noemamag.com/the-cost-of-deglobalization/

Key observations and solutions

Contingent business interruption (CBI) risk + Supply chain disruption: Asia tech's top two risks



A recent drought in Southern/Western China caused around $8 billion in damages and highlighted the severity of contingent business interruption and supply chain disruption risks.[2] Tech companies face substantial losses from physical asset damage, power instability, production cuts, shortages of critical rare earth metals, and the compounding uncertainty of political risks.

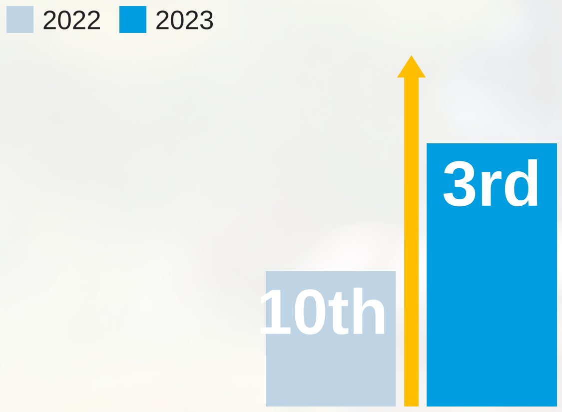
What companies should do

Asia's technology companies must extend their risk assessments to their entire ecosystem, including single-source suppliers, and justify investment in risk management based on the potential financial impact of CBI events.

> "To prevent economic losses, companies can use tools like supply chain and risk mapping to identify critical suppliers alongside risk allocation and transfer strategies like contractual arrangements and contingency planning, which includes assessing political risk within supply chains. To protect against potential damages from disruptions or product defects, technology companies must ensure that their vendors/suppliers secure sufficient liability insurance coverage."

[2]The Guardian. (2022). China drought causes Yangtze to dry up, sparking shortage of hydropower. https://www.theguardian.com/world/2022/aug/22/china-drought-causes-yangtze-river-to-dry-up-sparking-shortage-of-hydropower

Reputational risk: Emerging threat for Asia tech



Reputational Risk

Almost two-thirds of technology companies surveyed in this region viewed reputational risk as an immediate concern, versus less than half of global respondents.

Increasing scrutiny are forcing Asia's technology companies to pay closer attention to reputational risk. For instance, 64% of consumers are more likely to buy from a company that they believe is environmentally friendly.[3]

A recent incident at a smartphone manufacturing plant in India demonstrated the consequence of inadequately managing reputational risk. The plant's employees allegedly rioted over unpaid wages and poor working conditions, resulting in extensive negative media coverage and loss of a plant's key client, causing significant financial loss.

What companies should do

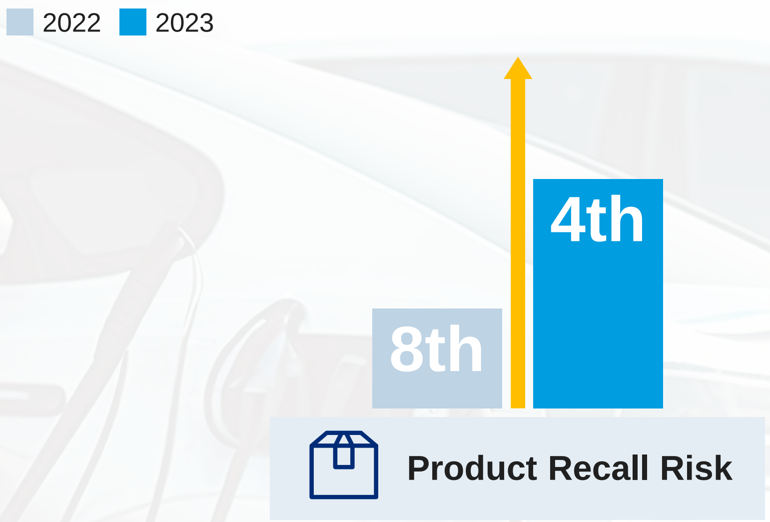
As part of the global value chain, Asia's technology companies must review and align their environmental, social, and governance (ESG) standards and be aware of ESG risks that could impact their reputation. Operationally, companies must ensure workers are fairly treated (no deployment of child labour) and adhere to health and safety standards (adequate protection from hazardous materials). Failure to do so could lead to a loss of customers, possible lawsuits, and irrecoverable financial losses in some cases.

> To address reputational risk, a comprehensive crisis management plan should be in place and should include steps to identify and mitigate potential reputational risks, as well as protocols for responding to a crisis should it occur.

In addition to a crisis management plan, Asia's technology companies should also obtain business interruption insurance coverage to help to cover potential costs associated with business disruption impacted by lost revenue, such as ongoing operation costs (e.g. employee salaries and financing costs).

[3]Business Wire. (2014). Global Consumers Are Willing to Put Their Money Where Their Heart is When It Comes to Goods and Services from Companies Committed to Social Responsibility. https://www.businesswire.com/news/home/20140616006605/en/Global-Consumers-Are-Willing-to-Put-Their-Money-Where-Their-Heart-is-When-It-Comes-to-Goods-and-Services-from-Companies-Committed-to-Social-Responsibility

Product recall risk: A rising challenge for new technology innovation



Concerns over product recall among Asia's technology companies likely increased due to the convergence of technology and automotive businesses, in particular electric vehicles (EVs) and autonomous vehicles (AVs). Through subsidiaries or partnerships, Asia's technology companies have pledged investments into the value chain of EVs as well as AVs.[4]

Amid the rapid growth of the EV sector in Asia, technology companies expanding into the automotive sector need to assess and quantify their product liability or product recall risk, and take appropriate steps to mitigate these risks. High-profile recall incidents involving EVs and batteries have brought product recall and liability insurance into focus for original equipment manufacturers (OEMs), who are requiring not only 1st tier, but also 2nd and 3rd tier component and battery manufacturers carry this insurance.

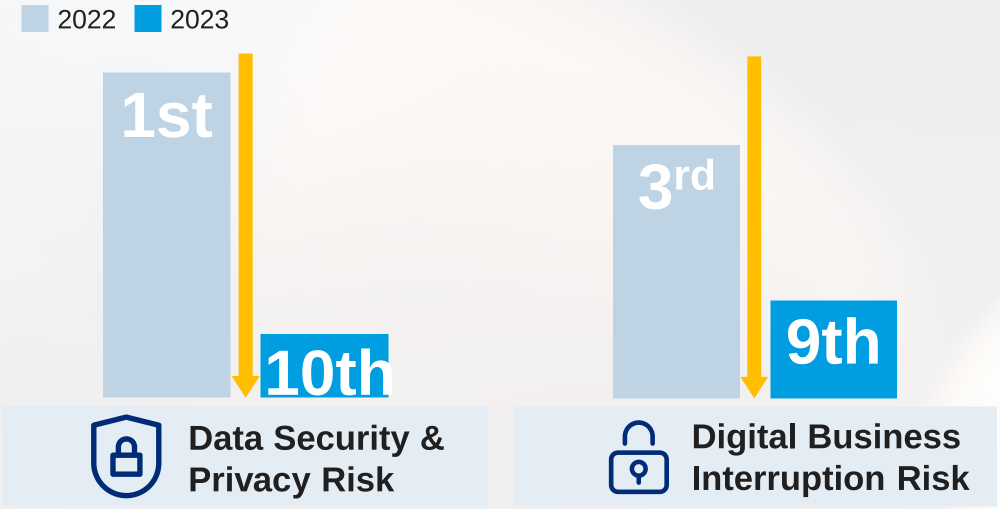
What companies should do

"As supply chains continue to diversify, more and more OEMs and manufacturers are mandating that all suppliers (new and existing) have product recall and liability insurance as part of their qualification process. This presents unique challenges for new entrants, who may require assistance in obtaining coverage as finding adequate insurance coverage for product recalls can be challenging due to limited insurer appetite for product recall insurance cover across Asia markets."

Partnering with an insurance broker and risk advisor can be key to obtaining sufficient capacity and tailored coverage. Beyond relying on product recall insurance, technology companies must begin to procure insurance based on accurate risk assessment and quantification to reduce their exposures.

[4]Protocol. (2021). Every Chinese tech company wants to make EVs. https://www.protocol.com/china/every-chinese-company-making-evs

Data security and privacy risk + Digital business interruption risk: Out-of-mind but not out-of-sight



The Asia-Pacific region was the target of over 31% of global cyberattacks in 2022 — the most targeted region worldwide.[5] This highlights the urgency of cybersecurity measures and the need for Asia's technology companies to continually ensure their cybersecurity measures remain robust, even as prevailing economic conditions have resulted a shift in focus towards more urgent, competing priorities such as enhancing supply chain resilience.

What companies should do

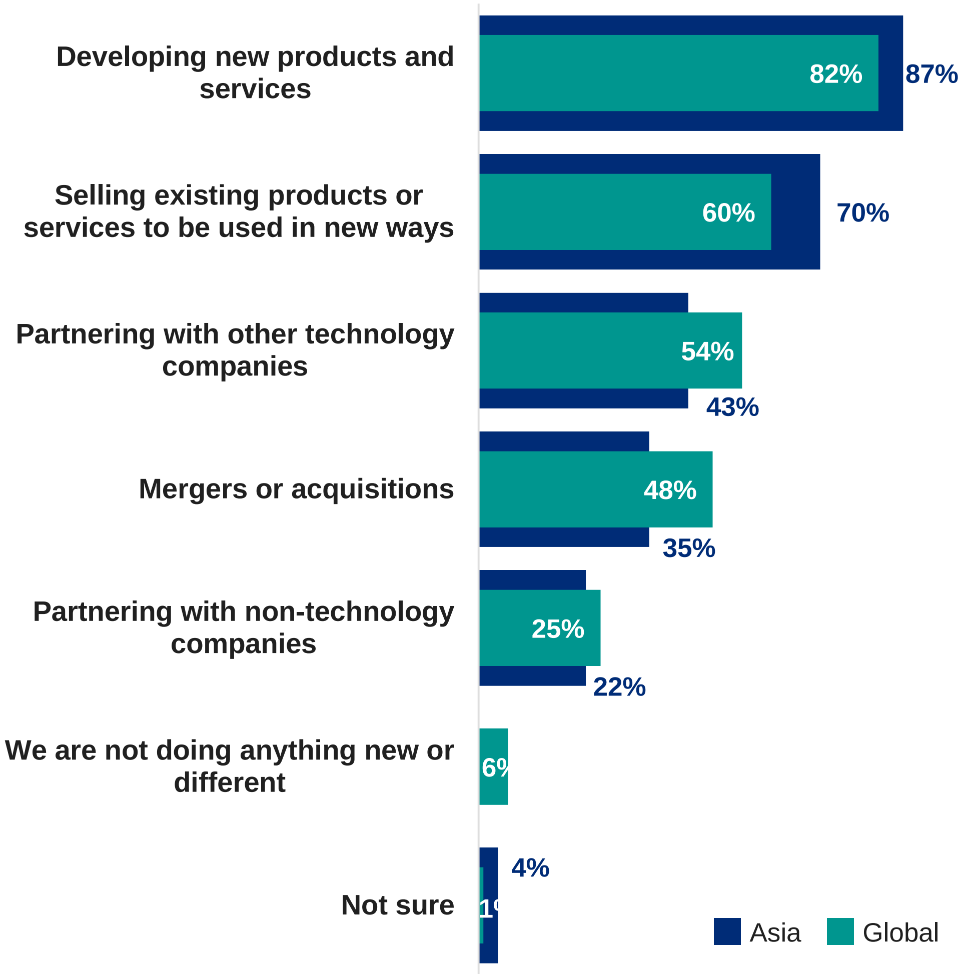
"In an evolving cyber risk landscape where new threats and attack vectors can emerge quickly, technology companies in Asia must not compromise their cybersecurity budgets and resources, and regularly review the effectiveness and breadth of their cyber controls across both IT and OT systems, with tools such as Marsh Cyber Self-Assessment and conduct employee awareness training," says Larry.

> Companies also need to remain wary of potential threats posed by insider breaches, which can inflict damage comparable to external cyberattacks while at the same time being highly difficult to detect and prevent.

[5]IBM. (2023). IBM Security X-Force Threat Intelligence Index. https://www.ibm.com/downloads/cas/DB4GL8YM

Adapting and transforming to capture new markets

How is your company expanding your products/ service offerings?



Facing economic challenges like inflation and sluggish market growth, 87% of Asian technology companies surveyed are pivoting their focus toward developing new products and services, according to our findings.

This shift is not without its risks as diversification can change existing risk profiles and exposures significantly. Companies that diversify and venture into new areas must ensure that they have adequate liability insurance to protect against potential legal claims or disputes.

Geographically, several Asia technology companies are branching out into emerging markets like India, Vietnam and Mexico, and are breaking new ground in sectors such as electric vehicles, industrial robotics, industrial internet of things (IoT), and artificial intelligence (AI).

> Amidst this backdrop of expansion and diversification into unchartered waters, due diligence becomes paramount, especially when new business partners are involved. Technology companies need to ensure risks are proportionately distributed and mitigated, including potential liability risks that can stem from new partnerships, new products, or new markets.

Emerging technologies: Identifying opportunity amidst risks

Is your company operating in or exploring opportunities related to:

Extended reality, from augmented reality to the metaverse?

Asia | Global

	Asia	Global
Operating in	29%	14%
Exploring opportunities	46%	34%
Not part of our current line of thinking	25%	52%

Digital assets and/or NFTs?

Asia | Global

	Asia	Global
Operating in	29%	18%
Exploring opportunities	46%	32%
Not part of our current line of thinking	25%	50%

Autonomous or next-generation mobility?

Asia | Global

	Asia	Global
Operating in	33%	19%
Exploring opportunities	50%	32%
Not part of our current line of thinking	17%	49%

With the World Economic Forum projecting the potential growth of the metaverse into a US$800 billion market by 2024,[6] it is not surprising to see Asia's technologies companies gearing up for investments in this digital frontier, with 46% of companies in the region exploring opportunities in augmented reality, metaverse, and in non-fungible tokens (NFTs). For NFTs, Asia is leading the growth with high adoption figures across the region.[7]

Novel emerging technologies carry the potential for higher returns, especially compared to traditionally capital intensive and low-margin sectors such as technology manufacturing. However, investments in the metaverse and NFTs may carry significant risks.

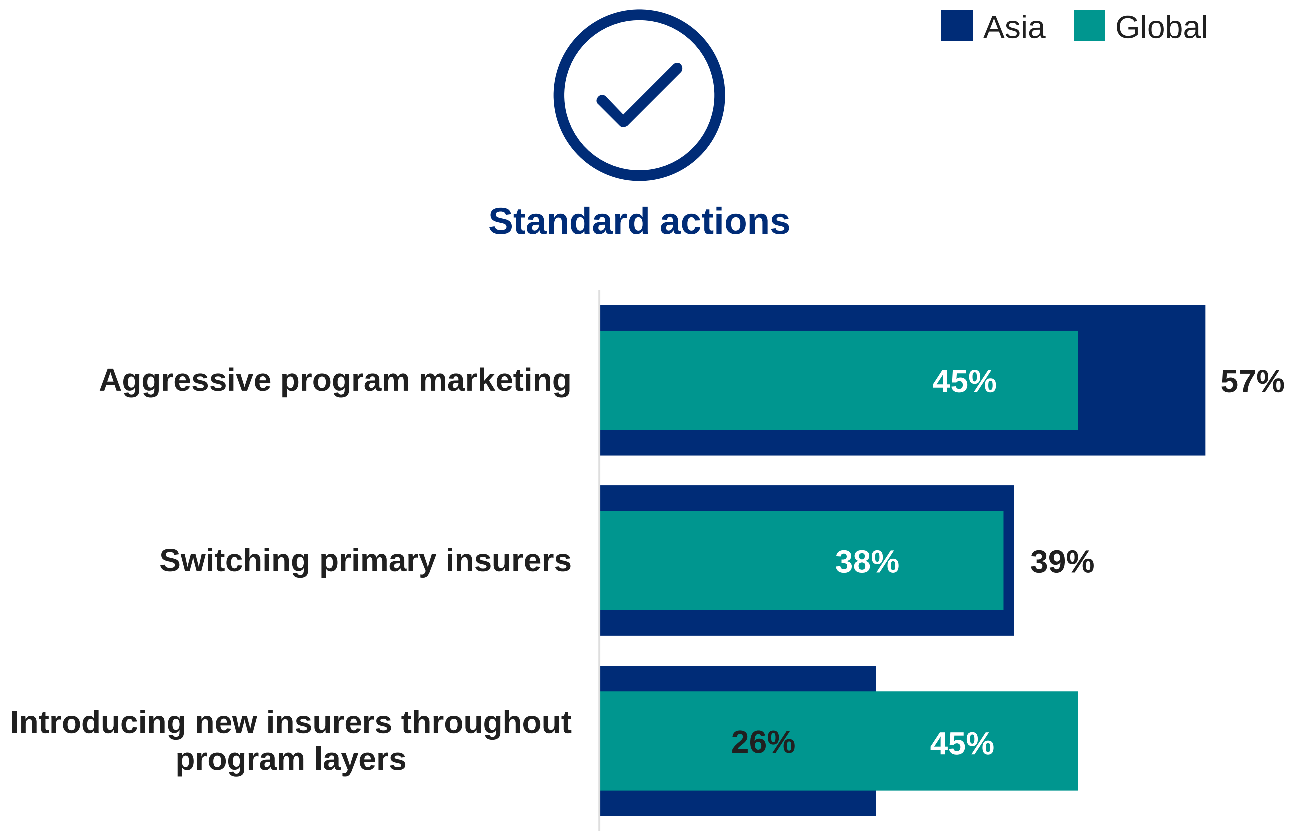
> "Shortcomings in governance resulting in high profile fraud cases is a clear example of the high risks involved, particularly in decentralised finance (DeFi). At the same time, the lack of a developed regulatory landscape creates ambiguities and uncertainties that may lead to unexpected losses and sanctions, whereas the lack of clarity concerning ownership and rights to use digital assets may also result in potential legal conflicts and reputational damage."

[6]World Economic Forum. (2023). Landmark Reports on Future of Metaverse. https://www.weforum.org/press/2023/01/landmark-reports-on-future-of-metaverse-focus-on-interoperability-and-value-creation
[7]Forkast. (2022). Why Asia is poised to be the next big market for an NFT boom. https://forkast.news/nft-asia-market-boom-expected-2022/

Is your risk management and transfer strategy effective?

What actions has your company taken or considered in order to deal with the ongoing premium increases and reduced capacity in the market?

Standard actions



Beyond aggressive program marketing

Asia's technology companies are focused on aggressive program marketing and are pushing their brokers to find ways to reshuffle their insurance panel. Instead of taking on higher deductibles, the preference is to look at the composition of their local versus international capacity and find a more favourable combination to reduce their dependencies on strictly international insurers that may cost more. However, prudent risk transfer strategies must go beyond attempting to contain costs.

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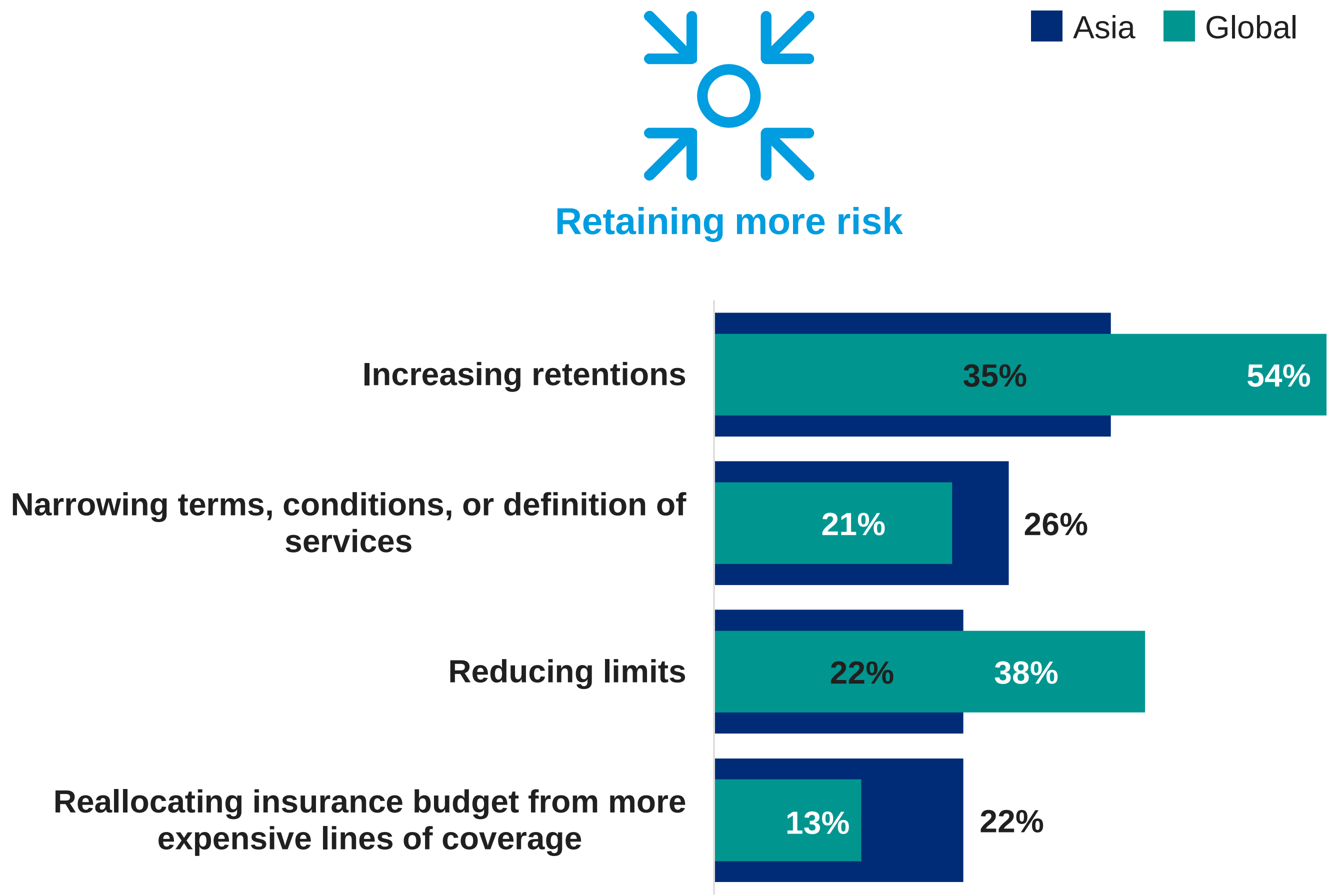

The need to explore alternative risk transfer approaches

Amid a hard insurance market, there is a stark difference between Asia and Global preferences for increasing retention and reducing limits: Asia's technology companies may not be sufficiently considering alternative risk allocation and transfer approaches.

Aside from changing insurers to contain costs, Asia's technology firms may also be inclined to reallocate insurance budget towards physical risks that are less costly to insure, at the expense of obtaining coverage against more pressing risk concerns such as CBI and product recall. Such an approach can potentially expose technology companies to considerable losses and erosion of stakeholder confidence when an adverse event occurs.

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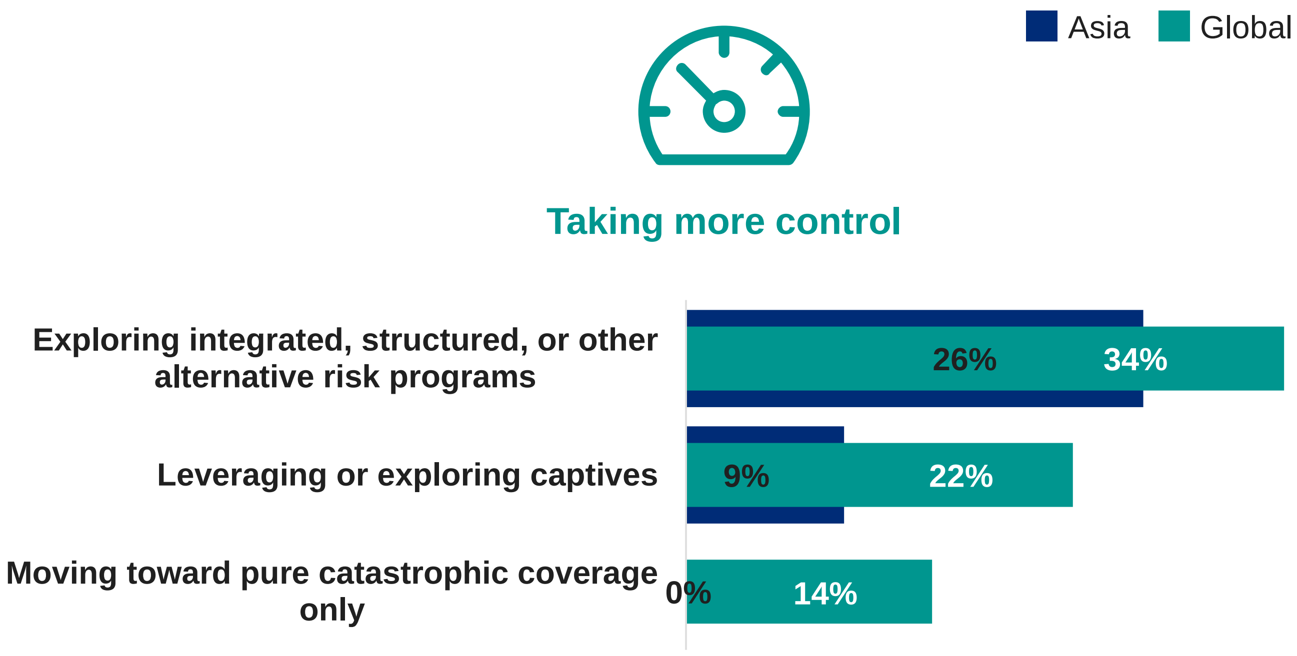

Recalibrating insurance strategies for more favourable outcomes

Exposures to multiple risks imply that Asia's technology companies' existing risk transfer strategy has ample room for optimisation. "Rather than buying insurance from the ground up and historically maintain very low deductibles, a better approach would be to re-evaluate risk bearing (risk appetite and tolerance) capacity, re-configure the program, and complement traditional cover with alternative risk transfer solutions such as parametric cover and natural catastrophe cover," says Larry.

"For captives, technology companies should also look beyond the 'cons' — such as the long duration of captive feasibility studies and the need for capital injection — to see its benefits, especially in today's hard market."

> Although there is a learning curve to adopting a mature and sophisticated insurance strategy, risk advisors can provide businesses with information about different approaches. For example, instead of taking on high deductibles, they can look into rebalancing the composition of international and local capacity. Clients can consider utilising the potential value gained from different insurance pricing and currency exchanges to supplement their insurance needs in areas previously overlooked.

Key takeaways

In today's tightly-knitted risk environment, any single risk event inevitably impacts other areas, across different locations and industries. This is how Asia's technology companies can manage their risk exposures and gain a competitive advantage:

Enterprise Risk Management (ERM)

Robust Risk Analysis

Predictive Analysis

Scenario Planning

Rather than viewing risks in isolation, or 'silos', businesses should favour an **Enterprise Risk Management (ERM) approach**. This methodology offers a broader perspective on risks that could impact the entire business, fostering an integrated perspective that considers the interplay between multiple risk factors.

A **robust risk analysis** should not only uncover key risks as part of an organisation-wide enterprise risk assessment, but it must also be able to classify the risks as insurable or non-insurable so that the right follow-up actions can be calibrated with informed strategies.

Incorporating **predictive analysis** and **scenario planning** in risk management is also becoming increasingly vital for effective ERM. With the help of a trusted insurance broker and risk advisor, these exercises allow companies to anticipate potential risks and develop suitable and timely responses, turning uncertainty into a strategic advantage.

Marsh

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