



Allianz Risk Barometer

Identifying the major business risks for 2023

The most important corporate concerns for the year ahead, ranked by 2,712 risk management experts from a record 94 countries and territories.

Methodology

The 12th **Allianz Risk Barometer** incorporates the views of 2,712 respondents from 94 countries and territories. The annual corporate risk survey was conducted among Allianz customers (businesses around the globe), brokers and industry trade organizations. It also surveyed risk consultants, underwriters, senior managers, claims experts, as well as other risk management professionals in the corporate insurance segment of both AGCS and other Allianz entities.

Respondents were questioned during October and November 2022. The survey focused on large- and small- to mid-size companies. Respondents were asked to select the industry about which they were particularly knowledgeable and to name up to three risks they believed to be most important.

Most answers were for large-size companies (>\$500mn annual revenue) [1,281 respondents, 47%]. Mid-size companies (\$250mn to \$500mn revenue) contributed 519 respondents (19%), while small-size enterprises (<\$250mn revenue) produced 912 respondents (34%). Risk experts from 23 industry sectors were featured.

Ranking changes in the **Allianz Risk Barometer** are determined by positions year-on-year, not percentages.

All currencies listed in the report are in US\$ unless stated.

[View the full regional, country and industry risk data](#)



2,712

respondents



94

countries and territories



23

industry sectors

Countries and industry sectors need at least 15 respondents to feature in the [Allianz Risk Barometer Appendix](#) results document

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The most important global business risks for 2023



Watch our short film about the top 10 risks for 2023



View the full Allianz Risk Barometer 2023 rankings here

Key

- ↑ Risk higher than in 2022
- ↓ Risk lower than in 2022
- No change from 2022
- (5%) 2022 risk ranking %

Source: Allianz Global Corporate & Specialty

- 1 Cyber incidents ranks higher than business interruption based on the actual number of responses
- 2 Changes in legislation and regulation ranks higher than natural catastrophes based on the actual number of responses
- 3 Shortage of skilled workforce ranks higher than fire, explosion based on the actual number of responses


1

→ 34%

2022: 1 (44%)

Cyber incidents¹

(e.g. cyber crime, malware/ransomware causing system downtime, data breaches, fines and penalties)



3

↑ 25%

2022: 10 (11%)

Macroeconomic developments

(e.g. inflation, deflation, monetary policies, austerity programs)



5

→ 19%

2022: 5 (19%)

Changes in legislation and regulation²

(e.g. trade wars and tariffs, economic sanctions, protectionism, Euro-zone disintegration)



6

↓ 19%

2022: 3 (25%)

Natural catastrophes

(e.g. storm, flood, earthquake, wildfire, extreme weather events)



2

→ 34%

2022: 2 (42%)

Business interruption

(incl. supply chain disruption)



4

↑ 22%

NEW

Energy crisis

(e.g. supply shortage/outage, price fluctuations)



7

↓ 17%

2022: 6 (17%)

Climate change

(e.g. physical, operational and financial risks as a result of global warming)



8

↑ 14%

2022: 9 (13%)

Shortage of skilled workforce³



9

↓ 14%

2022: 7 (17%)

Fire, explosion




10

↑ 13%

2022: 13 (9%)

Political risks and violence

(e.g. political instability, war, terrorism, civil commotion, strikes riots, looting)



Figures represent how often a risk was selected as a percentage of all survey responses from 2,712 respondents. All respondents could select up to three risks per industry, which is why the figures do not add up to 100%.

Allianz Risk Barometer 2023: Top concerns around the world

[View all country, regional and industry risk data here](#)

The graphics show the top three risks in **selected countries** and whether each risk is considered to be more or less important than 12 months ago or is in the same position.



Australia

- 1. Natural catastrophes ↑
- 2. Business interruption ↓
- 2. Climate change ↑

Natural catastrophes is the new top risk, driven by events such as flooding, which resulted in the country's costliest-ever nat cat in 2022



Brazil

- 1. Business interruption ↑
- 2. Cyber ↓
- 2. Macroeconomic developments ↑

Companies are worried about the increasing number of disruptive scenarios they face



Canada

- 1. Cyber ↑
- 2. Shortage of skilled workforce ↑
- 3. Climate change →

Cyber incidents is the new top risk concern for Canadian companies



China

- 1. Changes in legislation ↑
- 2. Business interruption ↓
- 3. Pandemic ↑

The Covid-19 pandemic dominates the risk agenda following the easing of rules and warnings of a surge in cases



France

- 1. Cyber ↑
- 2. Business interruption ↓
- 3. Energy crisis ↑

Cyber incidents is the new top risk, while impact of the energy crisis is in the top 10 for the first time



Germany

- 1. Business interruption →
- 2. Cyber →
- 3. Energy crisis ↑

Business interruption remains the top risk, while firms are also worried about the energy crisis



India

- 1. Cyber →
- 2. Business interruption ↑
- 3. Changes in legislation ↑

Cyber is the top risk for the sixth year in a row



Italy

- 1. Cyber →
- 2. Business interruption →
- 3. Energy crisis ↑

The impact of the energy crisis moves into the top three risks with a third of responses



Japan

- 1. Cyber →
- 2. Natural catastrophes →
- 3. Business interruption →

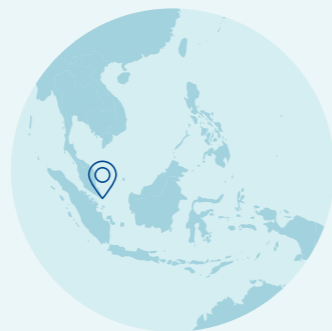
Cyber is the top risk for the third year in succession



Nigeria

- 1. Macroeconomic developments ↑
- 2. Political risks/violence →
- 3. Cyber ↓

The impact of inflation is the biggest concern for businesses



Singapore

- 1. Business interruption →
- 2. Cyber →
- 3. Fire ↑

Fire is a new top three risk, reflecting the costly impact an incident can have



South Africa

- 1. Critical infrastructure blackouts ↑
- 2. Cyber ↓
- 3. Business interruption ↓

Critical infrastructure blackouts or failures is the top risk for the first time



Spain

- 1. Cyber ↑
- 2. Business interruption ↓
- 3. Fire ↑

Cyber incidents is the new top risk, up from #2 in 2022



Switzerland

- 1. Cyber →
- 2. Energy crisis ↑
- 3. Business interruption ↓

The impact of the energy crisis is a new risk entry and a core concern for firms at #2



UK

- 1. Cyber →
- 2. Business interruption →
- 3. Macroeconomic developments ↑

Impact of inflation is weighing heavily on UK firms after it rose to 10%+ during 2022



USA

- 1. Business interruption →
- 2. Cyber →
- 3. Macroeconomic developments ↑

Macroeconomic risks such as inflation are a new entry in the top 10 risks year-on-year

Top global risks overview

Elevated levels of disruption look set to continue in 2023 as dangers from digitalization, the war in Ukraine, high energy prices and inflation, geopolitical and economic uncertainty, and climate change test already strained business models and supply chains, according to the **Allianz Risk Barometer**.

Despite positive moves to diversify business models and supply chains since Covid-19, businesses continue to experience significant disruption around the world. The pandemic came as a massive shock to business models, creating global shortages, delays and higher prices, while the war in Ukraine triggered an energy crisis, particularly in Europe, turbocharging inflation.

Unsurprisingly, given the current 'permacrisis', **business interruption and supply chain disruption** ranks as the second top risk in this year's **Allianz Risk Barometer** (34%). It is second only to **cyber incidents** (by just a few votes, also on 34%), whose top position reflects the importance of today's digital economy, the evolving threat from ransomware and extortion, as well as geopolitical rivalries and conflicts increasingly being played out in cyber space. Cyber risk and business interruption (BI) are closely linked, with cyber also ranking as the cause of BI companies fear most.

Indeed, the results show that a number of BI-related risks have climbed this year's rankings as the new economic and political consequences of the world in the aftermath of Covid-19 and the Ukraine war take hold. These include the impact of the **energy crisis**, a new entry in the 2023 survey at #4, while **macroeconomic developments**, such as inflation and potential recession, peaks at #3 – its highest position since the first **Allianz Risk Barometer** in 2012.

Political risks and violence is another new entry in the top 10 global risks at #10, **shortage of skilled workforce** rises to #8, while outside of the top 10, the prospect of **critical infrastructure blackouts or failures** (#12) is also of more concern to respondents than 12 months ago. Conversely, **pandemic outbreak** plummets down the list of concerns (#4 in 2022 to #13 in 2023) as vaccines have brought an end to lockdowns and restrictions in most major markets. The exception? China sees pandemic risk rise year-on-year (from #9 to #3) – the only country in the survey to do so – following its recent easing of long-in-place restrictions.



Digital danger

Cyber incidents, such as IT outages, ransomware attacks or data breaches, ranks as the most important risk globally for the second year in succession – the first time this has occurred. A data breach is the exposure which concerns companies most – reports show that even the average cost from such incidents reached an all-time high in 2022 of \$4.35mn and is expected to surpass \$5mn in 2023 – followed by ransomware attacks and failure of digital supply chains or cloud service platforms.

Severe business interruption can result from a wide range of cyber-related triggers, including malicious attacks by criminals or nation state-backed hackers, human error or technical glitches. Allianz claims analysis shows BI is the single biggest loss driver for cyber insurance claims. Hackers are increasingly targeting both digital and physical supply chains, which provide opportunities to simultaneously attack multiple companies and gain additional leverage for extortion, while one consequence of more large corporations investing in cyber security is that small- and mid-size businesses are increasingly targeted.

It is clear that organizations with good cyber maturity are better equipped to deal with incidents. Frequency of IT security training, cyber incident response plans and cyber-security governance are among the areas where many companies can improve. Incident response is critical as the cost of a claim quickly escalates once BI kicks in.

Macroeconomic malaise

First came Covid-19, then the war in Ukraine. Aside from the human tragedy, the economic and financial market volatility that these major events have caused looks set to continue in 2023. High inflation, and efforts by central banks to tame it, together with the energy crisis, have resulted in the cost-of-living soaring and the threat of recession. All three major economic areas – the US, China and Europe – are in crisis at the same time, albeit for different reasons.



Elevated levels of disruption look set to continue in 2023 with companies most concerned about the impact of mounting cyber risks and business interruption, which can be a consequence of many of the top risks identified by our customers in this year's **Allianz Risk Barometer**.

At the same time, the unexpected geopolitical crises and globally felt macroeconomic challenges of the last year have pushed threats such as inflation and the energy crisis into the top five risks worldwide and companies will need to take systematic precautions to strengthen their economic and physical resilience. At Allianz, even in such turbulent times, our goal remains unchanged: as a trusted partner, we want to work with our business clients and support them in staying on course for success.



Chris Townsend,
Member of the Board
of Management at
Allianz SE.

Such macroeconomic developments rank as the third top risk for companies in 2023 (25%), up from #10 in 2022. Inflation is a particular concern as higher costs can make certain business models uneconomic while it also has a direct relationship to the cost of BI. Recession is another likely source of disruption in 2023, bringing the potential for supplier failure and insolvency (a new entry in the top global risks at #17). Global business insolvencies are likely to rise by 10% in 2022 and 19% in 2023 as the cost of energy, rising interest rates and wages weigh heavily on profitability and cash flows.

Energy errors

Given its potential to cause widespread disruption through supply shortages or outages and price fluctuations, the **energy crisis** (22%) is the biggest mover at #4, appearing in the **Allianz Risk Barometer** for the first time.

The skyrocketing cost of energy has forced some energy-intensive industries to use energy more efficiently, move production to alternative locations or even consider temporary shutdowns. The resulting shortages threaten to cause supply disruption across a number of critical industries in Europe, including food, agriculture, chemicals, pharmaceuticals, construction and manufacturing. The results show that companies in Europe, which has been heavily dependent on Russian gas, are much more concerned about the impact of the crisis than elsewhere in the world, given its resulting shock to revenues and profitability.

ESG exposures and disclosures

Changes in legislation and regulation (19%) is a perennial top five peril in the **Allianz Risk Barometer** – appearing three times at #5 in the past five years. The growing corporate reporting and compliance measures around sustainability and other environmental, social, and governance (ESG) issues are high on the risk register for companies in 2023. Cyber security resilience; company working conditions; and increasing regulatory and disclosure requirements rank as the top three ESG risk trends for the year ahead. However, a lack of consistent standards and reporting frameworks is hindering ESG knowledge gathering, as is a lack of in-house expertise.

Changing climate for natural catastrophes

The fall of **natural catastrophes** (19%) and **climate change** (17%) to #6 and #7 respectively (down from #3 and #6 in 2022) is driven in part by the perception that, for many, there are more pressing developments to deal with on the risk landscape, such as economic and geopolitical uncertainty. Certainly, events evidence no room for complacency. Hurricane Ian in the US, widespread flooding in South East Asia and Australia, winter storms in Europe and the US, severe heatwaves and droughts around the world, and even record-breaking hailstorms in France all contributed to another \$100bn+ year of insured losses in 2022.

On a positive note the **Allianz Risk Barometer** results also show that companies are still taking action against climate change and are continuing their net-zero transition journeys despite these challenges. The top three actions firms are taking are: adopting carbon-reducing business models; developing a dedicated risk management strategy for climate risks; and creating contingency plans for climate change-related eventualities.

Talent travails and fire failures

Another consequence of the pandemic and rising wage inflation is a **shortage of skilled workforce**, which climbs one place year-on-year to #8 (14%). Some countries have experienced a reduction in the available workforce at a time of high demand for labor, as some older workers took early retirement. And while the cost-of-living crisis may bring some of these people back into the workforce, at the end of 2022 there were almost two unfilled positions in the US for every job seeker, while another study in 2022 reported that 40% of workers globally said they might leave their jobs in the near future.

Fire and explosion ranks #9 overall (14%), falling from #7 in 2022. Risks are often well understood and typically well risk managed. However, BI and supply chain disruption from fires remains a significant hazard, especially where companies rely on third party suppliers for critical components. Claims analysis by Allianz shows that fire is the largest single cause of corporate insurance losses, accounting for 21% of the value of 500,000+ insurance industry claims over the past five years (equivalent to €18bn).

Political problems

Driven by 2022 being another year of turmoil with conflict and civil unrest dominating the news around the world, **political risks and violence** is a new entry in the top 10 global risks at #10 (13%).

Given the Ukraine-Russia conflict alone fueled inflation, an energy crisis in Europe and threatened shortages and price volatility for key raw materials, it is unsurprising that war ranks as the top business exposure in this area according to respondents. However, strikes, riots and civil commotion (SRCC) also score highly, representing the real risk these present to businesses. Recent years have shown the huge impact a coordinated violent SRCC event can have on an economy and politics, such as the Black Lives Matter protests in the US or the South Africa Zuma riots of 2021, while in 2023 the rising cost of living could also bring an increased risk of disruption from such events.

Developing de-risking actions

There is little doubt that recent disruptions have increased awareness around BI and supply chain risk and that companies and governments are taking action to build resilience and de-risk.

The **Allianz Risk Barometer** results show that companies have begun to diversify their businesses and supply chains, as well as stepping up risk management. More time and money is being invested into looking into and documenting the supply chain strategies of businesses. Companies that have suffered disruption are now improving transparency and data on supply chain risks.

According to respondents, the most common action taken by companies to de-risk supply chains and make them more resilient is to develop alternative and/or multiple suppliers – although this can be a lengthy process and is not without its own pitfalls – while broadening geographical diversification of supplier networks in response to geopolitical trends is the third most common action. The war in Ukraine has been an eye opener for many, demonstrating how a conflict can result in shortages and price increases for raw materials, raising awareness of the need to be more sophisticated in understanding which components and materials are critical, where they are sourced, as well as how to secure them.

Another positive development is an enhanced focus on business continuity management. Initiating and/or improving this is the second most common action companies are taking to de-risk, according to the **Allianz Risk Barometer**. Whether it is planning for the fallout from a cyber-attack or a natural catastrophe, business leaders increasingly see the value in investing more time and money in understanding what business continuity planning can achieve. Companies need to constantly review this across the whole organization, given BI risk is not typically fixed on a particular trigger, location or product but can originate from various areas, crossing sites and continents.

Despite such progress, many companies have yet to improve supply chain transparency or are not able to provide good quality data or willing to engage with the relevant stakeholders to obtain it. This is usually due to a lack of awareness among companies that have not experienced disruption and still see this as a remote possibility. But when disruption happens, it can have catastrophic consequences, which is why insurers and brokers must continue to bring knowledge and raise awareness for companies and clients, given the growing connectivity between many organizations.



Transparency and quality data are key to developing solutions to BI, supply chain disruption and indeed many of the other risks identified in this year's **Allianz Risk Barometer**. Access to good quality structured data will help the insurance industry to be more creative and develop new solutions and products, aligning these with the pain points of customers, which continually change over time.

The good news! Although 2023 may prove to be a challenging year for many, the medium-term outlook is much brighter, despite – or rather because of – the energy price crisis. The consequences, beyond the expected recession in 2023, are already becoming clear: a forced transformation of the economy in the direction of decarbonization as well as increased risk awareness in all parts of society, helping to build resilience in the long run.



Top risks for small- and mid-size companies

Although large-size companies (>\$500mn annual revenue) account for the majority of **Allianz Risk Barometer** responses, collectively, small- (<\$250mn) and mid-size (\$250mn to \$500mn) businesses are responsible for half of all responses.

Business interruption (including supply chain disruption) maintains its position as the top risk year-on-year for mid-size companies, while for small-size companies, cyber incidents maintains its top position. Both business interruption (BI) and cyber rank as a top three risk in each segment.

For these companies the cyber risk landscape has changed significantly since the Covid-19 pandemic. Many had to quickly digitalize their businesses, and development of IT security has not always kept pace. Many smaller companies continue to be under the misconception that cyber-attacks won't happen to them but as many large businesses ramp up their cyber security investments the opposite is true.

More and more poorly protected smaller companies are being exploited as a consequence of this and they can be particularly susceptible to supply chain attacks. The reality is that if a small company suffers a significant cyber incident, and it hasn't adequately managed this risk, there is a chance it may not survive in the long run. Companies need to better understand their exposures, invest in cyber security, raise employee awareness and develop response plans.

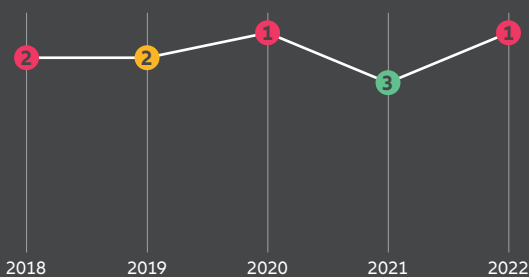
The **energy crisis** and adverse **macroeconomic developments** are also the big movers in the small- and mid-size company rankings. Both are new entries in the mid-size company risks (energy crisis at #3, macroeconomic developments at #4). For small-size companies, the energy crisis is a new entry at #4, while macroeconomic developments climbs from #8 in 2022 to #2. Inflationary pressures, monetary tightening, the soaring costs associated with the energy crisis, supply chain disruptions and noticeable staffing shortages are jeopardizing many of these companies' cash flows, which have not yet fully overcome the economic consequences of the Covid-19 pandemic. Half of the countries analyzed by Allianz recorded double-digit increases in business insolvencies in the first half of 2022. The top European SME markets (the UK, France, Spain, the Netherlands, Belgium and Switzerland) explain two-thirds of the rise. The outlook for 2023 is no better.

1 Cyber incidents

→ 34%

Ranking history:

● Up on previous year ● No change
● Down on previous year



Top risk in:



Cyber risks, such as IT outages, ransomware attacks or data breaches, rank as the most important risk globally (34% of responses) for the second year in succession – the first time this has occurred.

Given cyber crime incidents are now estimated to cost the world economy in excess of \$1trn a year¹ – around 1% of global GDP – it perhaps should come as no surprise that cyber risk is the top customer concern in this year's **Allianz Risk Barometer**, selected by more than a third of all respondents.

In addition to being voted the top risk globally, cyber incidents also ranks as the top peril in 19 different countries. It is the risk small companies are most concerned about (see page 35), is the cause of business interruption companies fear most (see page 14), while cyber security resilience ranks as the most concerning environmental, social, and governance (ESG) risk trend (see page 26).

“For many companies the threat in cyber space is still higher than ever,” says **Scott Sayce, Global Head of Cyber at AGCS and Group Head of the Cyber Center of Competence**. “The conflict in Ukraine and wider geopolitical tensions are reshaping the cyber risk landscape, heightening the risk of a large-scale cyber-attack, according to respondents. The frequency of ransomware attacks remains high, with losses increasing as criminals hone their tactics to extort more money, while the average cost of a data-breach is at an all-time high. At the same time, attacks are not just restricted to large companies, increasingly we see more small and mid-size businesses impacted. Then, there is also a growing shortage of cyber security professionals, which brings challenges when it comes to improving security.”



Top exposures

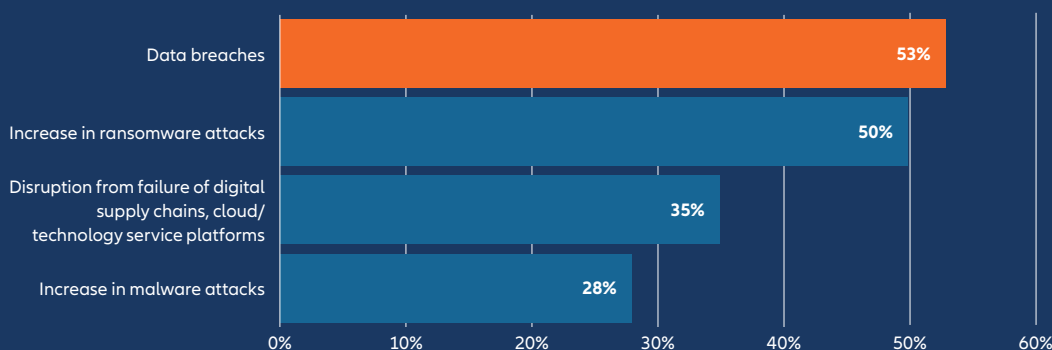
According to **Allianz Risk Barometer** respondents, a data breach is the exposure which concerns companies most (53%), given data privacy and protection is one of the key cyber risks and related legislation has toughened globally in recent years. Such incidents can result in significant notification costs, fines and penalties, and also lead to litigation or demands for compensation from affected customers, suppliers and data breach victims, notwithstanding any reputational damage to the impacted company. The average cost of a data breach reached an all-time high in 2022 of \$4.35mn², according to IBM’s annual cost of a data breach report, and is expected to surpass \$5mn in 2023, although these numbers constitute small change compared to the costs that can be involved in ‘mega breach’ events. An increase in data breaches is expected this year, cyber security firm Norton Labs predicts³, as criminals are finding ways to breach standard multi-factor authentication technologies.

An increase in ransomware attacks ranks as the second most important concern (50%). Around the world, the frequency of attacks remains high, as do related claims costs. The cost of ransomware attacks has increased as criminals have targeted larger companies, supply chains and critical infrastructure – in April 2022 an attack impacted around 30 institutions of the government of Costa Rica, crippling the territory for two months⁴. Double and triple extortion attacks are now the norm – besides the encryption of systems, sensitive data is increasingly stolen and used as a leverage for extortion demands to business partners, suppliers or customers.



Which **cyber exposures** concern your company most over the next year?

Top four answers



Source: Allianz Risk Barometer 2023
 Total number of respondents: 925.
 Respondents could select more than one risk.

Smaller companies increasingly impacted

Recent years have seen more large businesses and corporations boosting their investment in cyber security tools as awareness has increased and cyber risk has become a boardroom topic and a management responsibility. An unexpected consequence of this trend is that the number of small- and mid-size businesses being impacted by a cyber incident is growing as those with weak controls are easily hit by hackers in search of 'low hanging fruit' – bringing financial rewards for little effort, according to **Sabrina Sexton, Head of Global Cyber SME and Mid-Corporate, Cyber Center of Competence at Allianz.**

The consequences for these firms are often much more severe given the lack of financial and employee resources that they have access to compared with large corporations. During 2021, the FBI's Internet Crime Complaint Center received 847,376 complaints regarding cyber-attacks and malicious cyber activity with nearly \$7bn in losses⁵, the majority of which had targeted small businesses.

"Most cyber incidents in the SME sector are ransomware attacks but increasingly we also see social engineering scams and 'deep fake' attacks," explains Sexton. "Smaller companies can also be highly exposed to supply chain attacks as they often purchase software program licenses of much larger organizations or vendors." Failure of digital supply chains or cloud service platforms (35%) is the third most important cyber risk concern for **Allianz Risk Barometer** respondents.

Skill shortages and capacity issues

With all these challenges it is unsurprising that demand for cyber security experts is growing. More and more companies are looking to employ cyber security specialists, but supply is not keeping up with demand. According to Cybersecurity Ventures, the number of unfilled cyber-security jobs worldwide grew 350% between 2013 and 2021 to 3.5 million⁶ – enough to fill 50 large football stadiums.

At the same time, IT service providers and consulting firms that conduct forensic examinations of cyber incidents and restore systems are running out of capacity. In Germany, The Federal Office for Information Security (BSI)⁷ has warned of a "fundamental shortage" of personnel for incident response services. For those who are available to help, surging inflation is increasing their cost. Ultimately, such conditions will affect the ability of some companies to make improvements to cyber security or respond effectively to an incident.

Good cyber hygiene

"At AGCS our risk assessment experience shows that a number of companies still need to improve areas of cyber hygiene such as frequency of IT security training, cyber incident response plans and cyber-security governance," says Sayce. "Incident response is critical as the cost of a claim quickly escalates once business interruption kicks in.

"It is clear that organizations with good cyber maturity are better equipped to deal with incidents. It is not typical to see companies with strong cyber maturity and security mechanisms suffer a high frequency of 'successful' attacks. Even where they are attacked, losses are usually less severe."

The good news is that insurers are now having very different conversations with firms on the quality of cyber risk compared to just a couple of years ago. This means they are gaining much better insights which can, in turn, help to provide more value through offering useful information and advice to customers and companies of all sizes, such as which controls are most effective or where to further improve risk management and response approaches.

Today's insurers have a role that goes beyond pure risk transfer, helping clients adapt to the changing risk landscape and raising their protection levels. The net result should be fewer – or less significant – cyber events for companies and fewer claims for insurers.

READ MORE

- [Cyber business interruption trends](#)
- [Top ESG risk trends for companies](#)
- [Top risks for small- and mid-size companies](#)
- [Download our ransomware checklist](#)

Cyber business interruption

Cyber incidents are also the cause of business interruption (BI) that **Allianz Risk Barometer** respondents fear most (45%), reflecting ongoing concern for disruption caused by ransomware attacks, IT system and cloud outages and the threat of cyber war.

Severe BI can result from a wide range of cyber-related triggers, including malicious attacks by criminals or state-backed hackers, human error or technical glitches. According to Allianz analysis of cyber-related insurance industry claims that it has been involved with over the past five years, BI is the main cost driver for 57% of claims globally and is a significant driver for the rising severity of claims, including from ransomware attacks, which have proliferated in recent years. Hackers increasingly target both digital and physical supply chains providing opportunities to simultaneously attack multiple companies and gain additional leverage for extortion.

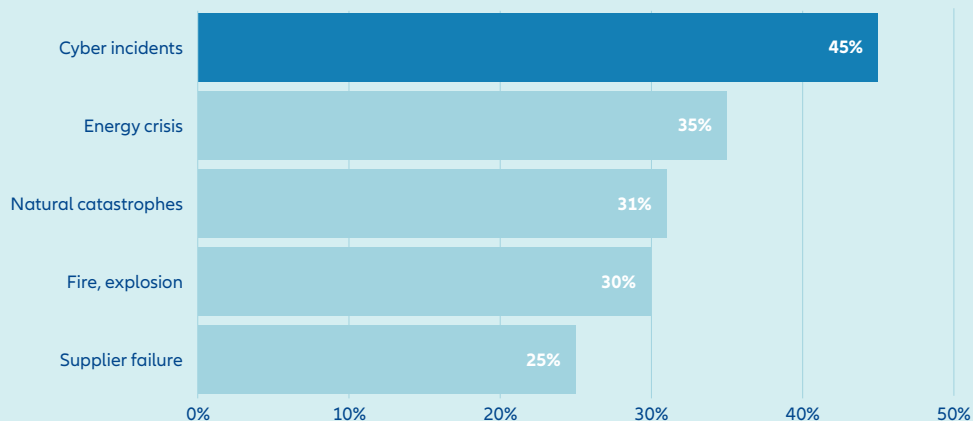
Cyber BI exposures are also growing with the trend for digitalization, as companies introduce new technology, as well as live with the legacy of aging IT infrastructure and software.

Fast-pace technology transformation can introduce new risks to business models without appropriate protections, says **Marianna Grammatika, a Regional Head of Risk Consulting at AGCS**: "Digital risks are intangible, often not well understood and can be difficult to quantify. While the drive to have more efficient processes is positive, companies need to implement technology with the right balance of protection against cost."



Which causes of business interruption does your company fear most?

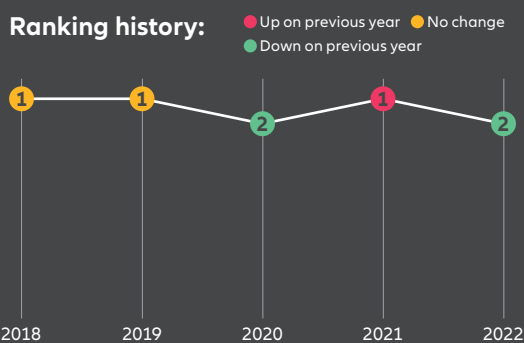
Top five answers



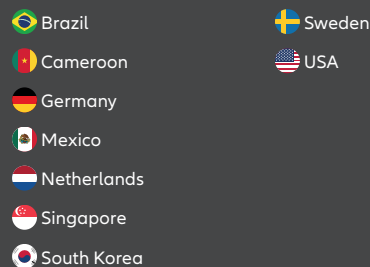
Source: Allianz Risk Barometer 2023
 Total number of respondents: 917.
 Respondents could select more than one risk.

2 Business interruption

→ 34%



Top risk in:



Following another year of global supply chain disruption, business interruption ranks as the second most concerning risk. A consequence of many of the other top risks in the **Allianz Risk Barometer** it is of perennial concern for companies the world over.

Despite positive moves to diversify business models and supply chains since the pandemic, businesses continue to experience significant disruption around the world. Covid-19 came as a massive shock, creating global shortages, delays and higher prices, while the war in Ukraine triggered an energy crisis in Europe, turbocharging inflation.

Given the current 'permacrisis', business interruption and supply chain disruption (BI) ranks as the second top risk in this year's **Allianz Risk Barometer** (34% of responses), second only to cyber risk, with which it is closely interlinked and separated by only a few votes.

Indeed a number of BI-related risks have climbed this year's rankings, reflecting the economic and political consequences of the pandemic and war in Ukraine. The energy crisis is a new entrant to the 2023 survey, while concerns for macroeconomic developments, political risks, shortages of labor and critical infrastructure failure all increased this year. However, pandemic plunged down the list of concerns as vaccines saw an end to lockdowns and restrictions in most major markets. The exception? China sees pandemic risk rise year-on-year (from #9 to #3) – the only country in the survey to see this trend – following its recent easing of long-in-place restrictions.



Despite dropping in the rankings year-on-year, natural catastrophes and climate change remain major concerns for businesses. In a year that included Hurricane Ian, one of the most powerful storms recorded in the US, and record-breaking heatwaves, droughts and winter storms around the world, these perils still rank in the top seven global risks, with storms, floods and extreme weather events at #3 when it comes to the most concerning triggers for BI (see graphic, page 14).

It comes as little surprise that BI and supply chain risks dominate this year's **Allianz Risk Barometer**, according to **Marianna Grammatika, a Regional Head of Risk Consulting at AGCS**. "Business interruption will always be a foremost concern given it is closely linked to profits and revenues and because business models are vulnerable to the geopolitical landscape. Lean supply chains are not always as good value as they appear and there can be a very high dependence on single geopolitical regions such as China for example for active pharmaceutical ingredients to processed lithium used in batteries, or Russia for energy.

"The biggest issue is whether organizations have the ability to transform their supply chain with local reinvestments for example or partners in safer geopolitical regions."

Another heightened year

2023 is likely to be another heightened year for BI and supply chain disruption, as companies navigate uncertain geopolitical, economic and climate risks, as well as long-term transformations, namely digitalization and decarbonization, according to **Georgi Pachov, Head of Portfolio Steering & Pricing at AGCS**.

"Businesses are now more vulnerable following recent macroeconomic turmoil and the war in Ukraine, which triggered shortages and price increases in energy, food and certain raw materials. The conflict added further pressure to supply chains already struggling with post-pandemic disruption, such as shortages in semi-conductors, which have yet to fully recover.

"How the war in Ukraine evolves, whether it ends or escalates, will have a severe impact on potential disruptions going forward. A number of countries, industries and companies have not yet found sustainable alternative sources for certain raw materials, while there is no easy solution for the energy crisis in the medium term."

Energy crisis fallout

As well as ranking as the fourth top risk globally, the energy crisis is the second most concerning cause of interruption (35%) for companies, given its potential to cause further widespread disruption. The skyrocketing cost of energy has forced some energy-intensive industries to temporarily cut production, find energy efficiencies, or move production to alternative locations. The resulting shortages threaten to cause supply disruption across a number of critical industries, including food, agriculture, chemicals, pharmaceuticals, construction and manufacturing, forcing companies to seek alternatives or cheaper sources of ingredients and raw materials.

Some industries, such as chemicals, fertilizers, glass, and aluminum manufacturing, can be reliant on a single source of energy – Russian gas in the case of many European countries – and are therefore vulnerable to disruption to energy supply or price increases.

“Because the energy crisis is affecting upstream energy-intensive industries, the repercussions are also felt further down the value chain,” says Grammatika. These industries produce key intermediates which are then processed downstream.

Ukraine impact an eye-opener

With war in Ukraine and growing tensions elsewhere around the world, political risks and violence jumps three places to #10 overall in this year’s **Allianz Risk Barometer**. Such events can also be a significant cause of BI.

“The war in Ukraine has been an eye-opener,” says Pachov. “With many companies and supply chains dependent on energy, raw materials and goods from Russia and Ukraine, this has demonstrated how a conflict can result in shortages and price increases. The situation has raised awareness of the need to be more sophisticated in understanding which components and materials are critical and where they are sourced, as well as how to secure them.”

Disruption from the rising cost of living

The combination of the war in Ukraine and Covid-19 has caused economic and financial market volatility, which looks set to continue into 2023. High inflation, and efforts by central banks to tame it, together with an energy crisis, have resulted in a cost-of-living crisis and the threat of recession. Inflation is a particular concern and has a direct relationship to the cost of BI, although this varies by industry sector.

“Inflation will affect business interruption exposures, especially in sectors that derive revenues from commodities or products that are seeing the biggest inflationary impact,” says Pachov. “Conversely, companies’ BI values may fall in sectors that are seeing reduced demand or squeezed margins in a high-inflation environment.”

The threat of recession is another likely source of disruption in 2023, with potential for supplier failure and insolvency, which is a particular concern for companies with single or limited critical suppliers. According to [Allianz Trade](#), global business insolvencies are likely to rise significantly in 2023 (see *Insolvency outlook on page 20*).

“Recession and inflation are a big source of uncertainty for companies, and a potential source of business interruption. Following the pandemic, some companies ramped up investment to meet the surge in demand. Now, if we see a recession and there is no market they might be in trouble, and this could have a huge impact in certain sectors, with a risk of supplier insolvency,” says Pachov.

The rising cost of living will also lead to an increased risk of disruption from strikes, riots and civil unrest in 2023: “Such events can disrupt industry, infrastructure and public services, affecting the ability of workers to get to work, as well as affecting production levels and transport,” Pachov concludes.

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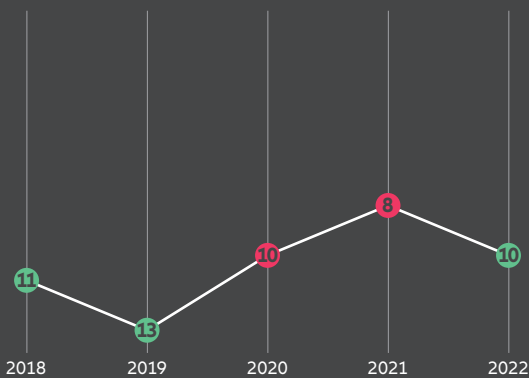
- [Inflation trends](#)
- [Energy crisis fallout](#)
- [Insolvency outlook](#)
- [Natural catastrophes review](#)
- [Political risks and violence trends](#)
- [Actions to de-risk](#)

3 Macroeconomic developments

↑ 25%

Ranking history:

● Up on previous year ● No change
● Down on previous year



Top risk in:

- Bulgaria
- Burundi
- Croatia
- Ghana
- Greece
- Madagascar
- Nigeria
- Poland
- Turkey



2022 started with high hopes for a continued global economic recovery after the Covid-19 crisis. The Russian invasion of Ukraine abruptly dashed these. Expectations for 2023 are correspondingly pessimistic, according to **Allianz Research**, ensuring a top three risk ranking for the first time since 2012.

The current situation is characterized by one peculiarity: all three major economic areas – the US, China and Europe – are in crisis at the same time, albeit for different reasons, according to **Allianz Research**.

In Europe, the Russian invasion of Ukraine and the ensuing energy crisis are at the forefront: exploding energy prices are driving inflation to ever new heights and “eating” into the entire price structure. The result is falling real incomes and corporate profits, with corresponding consequences for consumption, production and investment. Restrictive monetary policy to contain inflation expectations is rather counterproductive in this situation, but without alternative.

China, on the other hand, is much less affected by the war in Ukraine (and actually benefits from cheap energy supplies from Russia). The issues here are domestic, with two points particularly noteworthy: The easing of the strict zero-covid policy will stress-test the Chinese economy, while the weakness of the (huge) real estate sector remains a drag on consumer sentiment. As with the zero-covid policy, the latter owes itself to erratic economic policies that first allowed it to overheat and then brutally slammed on the brakes.



Like the real economy, the financial markets are facing a challenging year, even if the disaster of 2022 – with unprecedented price corrections in both equities and fixed income – should not be repeated. But, as central banks drain excess system-wide liquidity, and trading volumes even in historically liquid markets decline, financial accidents need to be watched out for. With rising rates, financial stability risks are back, complicating the task for central bankers who are determined to fight inflation and make sure that it does not become entrenched. While the current hiking path is about to moderate, central banks' independence will be tested either way, whether it's erring on the side of keeping their monetary stance more restrictive for longer despite a looming recession, or throwing in the towel too early and risking stagflation for good.

So if monetary policy is preoccupied with fighting inflation, could fiscal policy step into the breach? At the moment, it looks very much like a new policy mix, with fiscal policy taking over the old role of monetary policy in stimulating demand. Finance ministers are outbidding each other in announcing ever new billions in relief measures for the cost-of-living crisis and industrial policies. But in view of the already record-high debts and rapidly rising interest rates, the scope for fiscal policy is rapidly narrowing. The British drama surrounding the so-called "mini-budget" has made it clear that the patience of the markets is finite, even for debtors who are solid in themselves. More likely than an active, high-spending fiscal policy in the coming years is the flare-up of debt crises and risks to financial market stability. The new policy mix is likely to be characterized not only by a restrictive monetary policy but also by a fiscal policy aimed at debt consolidation.

"2023 will be a challenging year. In purely economic terms, it is likely to be a year to forget for many households and companies. Nevertheless, there is no reason to despair," says **Ludovic Subran, Chief Economist at Allianz**. "For one thing, the turnaround in interest rates is helping, not least for millions of savers. The medium-term outlook is also much brighter, despite – or rather because of – the energy crisis. The consequences, beyond the expected recession in 2023, are already becoming clear: a forced transformation of the economy in the direction of decarbonization as well as increased risk awareness in all parts of society, strengthening social and economic resilience."

The US is also struggling with a crisis primarily of its own making. The ill-timed and oversized fiscal packages during and shortly after the pandemic fueled inflation. This has – somewhat belatedly – brought the Federal Reserve onto the scene, which is now trying to put the genie back in the inflation bottle with hefty interest rate hikes. The accompanying tightening of financing conditions is forcing companies and households to cut spending and is leading the economy straight into recession. Nowhere is this more evident than in the US housing market, which has seamlessly transitioned from Covid-19-induced soaring to freefall.

Against this backdrop of widespread economic weakness, **Allianz Research** continues to forecast a recession both in Europe and in the US, expecting GDP growth to fall by -0.4 % (Euro-zone) and -0.3% (US), respectively. China, on the other hand, could grow by 4% in 2023, if the domestic post-Covid rebound starts to be felt in the second half of the year.

READ MORE

[➤ More on the impact of the energy crisis](#)

Insolvency outlook

Global insolvencies expected to rise by +19%, according to **Allianz Trade**.

Inflationary pressures, monetary tightening, the energy crisis and supply chain disruptions are jeopardizing corporates' cash flows. But many governments decided to tackle the current situation by deploying some strong fiscal policies. Will these measures be enough to contain a sharp increase in insolvencies at both global and local levels?

After two years of decline, a broad-based acceleration is expected, according to **Allianz Trade**. Global business insolvencies should rise in 2023 (+19%), after +10% in 2022, a significant rebound which may bring global insolvencies back above their pre-pandemic levels by the end of the year (by +2%) it predicts.

"The rebound in business insolvencies is already a reality for most countries – at a global level, half of the countries we analyze have recorded double-digit increases in business insolvencies in the first half of 2022 – in particular the top European SME markets (the UK, France, Spain, the Netherlands, Belgium and Switzerland), which explain two-thirds of the rise," explains **Maxime Lemerle, Lead Analyst for Insolvency Research at Allianz Trade**. "However, the US, China, Germany, Italy and Brazil are still registering prolonged low levels of insolvencies, but the trend should reverse in 2023."

Europe will be particularly impacted again by this anticipated surge: **Allianz Trade** expects significant rises in France (+37%), the UK (+9%), Germany (+16%) and Italy (+33%). In Asia, China is expected to register +15% more insolvencies in 2023 on the back of low growth and a limited impact from monetary and fiscal easing. In the US, an increase of +33% in business insolvencies is forecast in 2023 as a result of tighter monetary and financial conditions.

Three profitability shocks weighing heavily on corporates' cash flows

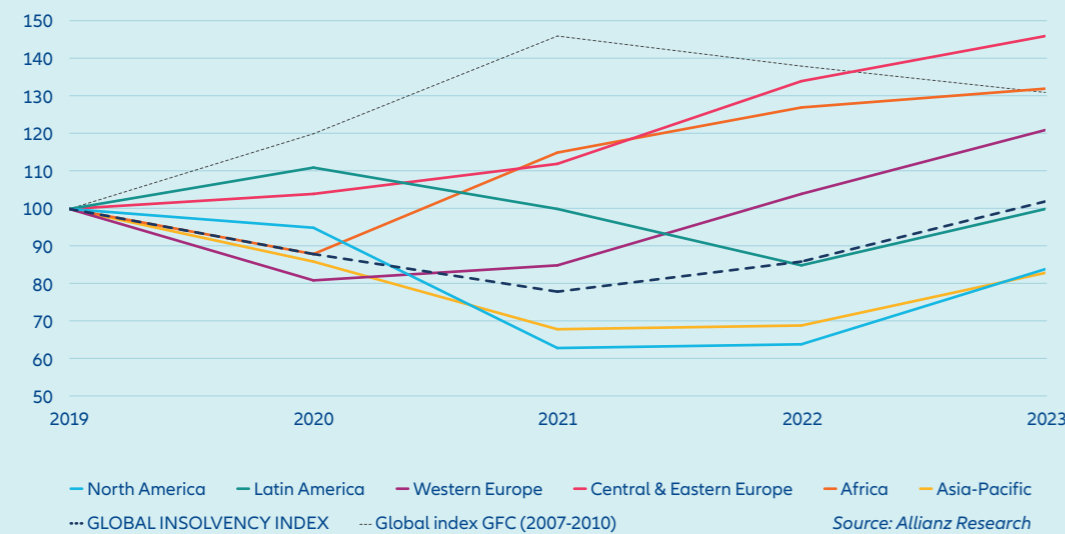
How to explain this generalized surge in business insolvencies? Three major shocks may have a significant impact on corporates' profitability:

The energy crisis will remain the largest profitability shock, in particular for European countries. At current levels, energy prices would wipe out the profits of most non-financial corporates as pricing power is diminishing amid slowing demand. If firms can pass one quarter of energy-price increases on to customers, they can withstand a price increase of below +50% and +40% in Germany and France, respectively.

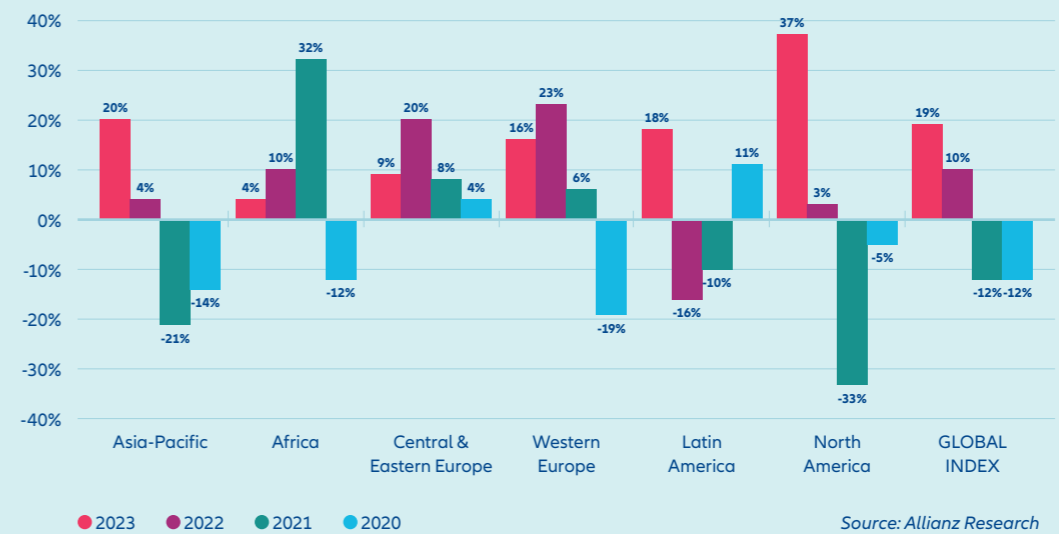
Additionally, the interest rate shock is looming in the first half of 2023, along with the acceleration in wages in the wake of unprecedented inflation. In Europe, this is likely to be equivalent to the Covid-19 profitability shock of -4pp. As expected, high cash balances for corporates (still 43% above pre-Covid-19 levels in the US, +36% in the UK and +32% in the Euro-zone) have provided a significant buffer against the monetary policy normalization in 2022, but the worst is still to come. Overall, the rise in financing and wage costs in a context of low economic growth puts the construction, transportation, telecoms, machinery and equipment, retail, household equipment, electronics, automotive and textiles sectors particularly at risk.

To continue to grow while maintaining profitability and cash flow, companies will need to be extremely vigilant in 2023. In the current economic and geopolitical environment, non-payment risk is definitely on the rise, Lemerle concludes.

Global and regional insolvency indices
Yearly level, basis 100 in 2019



Global and regional insolvency indices
Yearly level, change in %




4 Energy crisis

NEW 22%

Top risk in:

 Greece

 Hungary

 Romania



The energy crisis arrives in the top 10 global risks for the first time at #4, as the world grapples with spiraling fuel costs, supply disruptions, inflation, and the effects of Russia's invasion of Ukraine.

Even before the invasion of Ukraine, energy prices had been rising. The post-pandemic economy recovery in 2021 had seen demand surge, while supply chain blockages and delayed maintenance work caused widespread disruptions. Long winters in Europe and East Asia compounded the power crunch, along with a weak year for wind production, which particularly affected major European wind-power producers like the UK, Germany and Denmark.

The global energy market destabilized further with the invasion of Ukraine by Russia, the world's largest exporter of fossil fuels, in February 2022. There followed a drought in much of Europe, impacting hydropower capacities, while in France more than half the nuclear reactors were shut down for maintenance or because of technical issues.

The European Union’s dependence on imported, non-renewable energy sources was thrown into sharp relief by the Ukraine crisis – in 2021, a quarter of all energy consumed in the bloc⁸ came from Russia, including 40% of its natural gas⁹. Unsurprisingly, the energy crisis ranks highly among European businesses in this year’s **Allianz Risk Barometer**, at #3 (32% of responses), compared to #4 globally (22%), #8 in the Americas (14%) and Africa and the Middle East (16%), and #10 in Asia Pacific (11%).

The EU has banned the import of Russian crude oil and will ban other refined petroleum products from February 5, 2023. Various European governments have emergency plans in place in case of any controlled power cuts that need to be made over the winter – sometimes called ‘load shedding’ or ‘brownouts’. Gas stores in the EU are at around 90% [as of December 2022], but some analysts have warned against a short-term outlook when it comes to the current energy crisis, saying the winter of 2023-2024 could be even worse¹⁰.

“In response to the energy crisis, some businesses have been reducing gas consumption by switching to LPG (liquefied petroleum gas) or oil, or reactivating or upgrading redundancy systems that have long been unused,” explains **Stefan Thumm, a Regional Head of Risk Consulting at AGCS**. “This has the potential to increase the risk of technical failure and change a company’s risk profile. For example, switching from a coal supplier in Russia to another global source could cause issues for boilers because of differences in coal composition.

“Maintaining plants that were scheduled for decommissioning, or reactivating cold-reserve plants – those with capacity that is not yet ready for immediate use – puts maintenance staff under pressure, from shortage of skills and specialist services to lack of spare parts.”

Thumm adds that any business interruption loss could potentially be much higher as electricity prices have soared: “It is therefore more important than ever to assess and mitigate operational risks with a professional underwriting and risk consulting dialogue.”



Business continuity management essentials

What can businesses do to bolster their business continuity plans to prepare for outages and protect themselves against price fluctuations?

- ✓ Identify critical business processes that could be affected directly or indirectly by a gas or electricity shortage
- ✓ Consider how long it will take for operations to get back to ‘normal’ safely and how staff, customers or suppliers will be impacted
- ✓ Outline the measures that will be necessary for making your critical business processes resilient to gas or electricity shortages
- ✓ Undertake scenario testing of your business continuity management plan based on a loss of power
- ✓ Ensure the business continuity management process is regularly reviewed, particularly in the event of changes to the regulatory, political or energy market environment.

The energy crisis: moving forward

This year's #4 risk can be seen as an opportunity to fast-forward the green transformation but an increase in energy poverty could also undermine the acceptance of climate policy – a new social contract is needed.

The only thing that is not “bad” about the current energy crisis is its timing. Europe, as well as other locations, is on the threshold of a green transformation. This means that companies have a choice: they can rely on energy-cheap foreign countries – or progress towards the electrification of production processes and the hydrogen economy, which it will be critical to support through wise investment.

“The time and money currently being spent on the gas price brake would be far better spent on a forward-looking investment policy,” says **Ludovic Subran, Chief Economist at Allianz**. “Because one thing is clear: even the smartest energy price brake will not save Europe as an industrial location; at most, it can only buy time, which companies must use for the necessary green transformation.”

While the energy crisis could have a positive long-term impact on the decarbonization of the economy, the associated increase in energy poverty could also undermine the acceptance of climate policy – unless effective and lasting aid measures can be established.

“A new social contract is needed to address the long-term challenges of the higher energy prices likely during the green transformation,” says Subran. There are two channels of impact: via the generation of income (labor) and use (consumption). Overall, the employment effects of the green transformation are likely to be small, at least in net terms. In fact, there is likely to be a massive shift in jobs across sectors and regions. “Green” jobs will require different and higher skills, so lower-skilled workers are likely to be hit hardest by these upheavals in the labor market.

In the course of the green transformation, relative prices will also change. Carbon prices make energy consumption more expensive, and regulations and standards will drive up the prices of housing and food, for example. This will affect different income groups differently.

“Even if their energy consumption is generally lower, lower income groups will suffer particularly from rising prices. Therefore, more needs to be done over the long-term to protect the most vulnerable households,” says Subran. “Social justice demands that corrective action be taken here to ensure an equal distribution of the costs and benefits of the green transition. The mistakes made in globalization in the past should not be repeated: although the internationalization of value chains has significantly increased global prosperity and produced many winners (in all countries), there have also been many losers, whose welfare losses and difficulties in adjusting have been inadequately addressed by policymakers.”

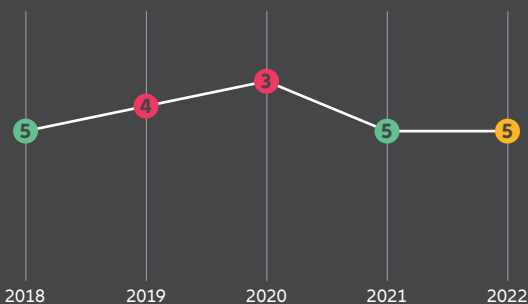
In view of these long-term requirements for a just transition, the current ad hoc measures to cushion the impact of the energy crisis on households and companies do not inspire much confidence, says Subran. For example, in Europe they are not targeted or coordinated and threaten to damage solidarity among EU members: “What is needed is a coordinated fiscal policy response, for example, repurposing the €200bn+ of Next Generation EU funds still remaining and/or setting up a new crisis fund at the European Commission, using SURE (the EU’s temporary Support to mitigate Unemployment Risks in an Emergency program) as a blueprint (backed by government guarantees). The sooner governments can agree on a common and targeted approach to the energy crisis, the less collateral damage there will be, both in terms of fiscal hang-over and acceptance of socially sustainable climate policies.”

5 Changes in legislation and regulation

→ 19%

Ranking history:

● Up on previous year ● No change
● Down on previous year



Top risk in:

- China
- Kenya
- Namibia

The energy crisis has made it clear: there is no way around decarbonizing the economy. This requires not only billions in investments in new technologies, but also a comprehensive redesign of corporate reporting, helping to ensure compliance challenges remain a top five risk.

In Europe, this aspiration is crystallized in the Corporate Sustainability Reporting Directive (CSRD), which was finally adopted in November 2022 and will become binding for all companies over the coming years – demanding a great deal of additional effort from them. This is because the CSRD not only targets the environmental aspect of economic activity, but also covers the entire spectrum of sustainability, including social aspects.

This brings the non-financial factors to the forefront of reporting, in line with the logic that it is precisely these factors that become financially material in the long-run. “The preservation of natural and social foundations is the basis for all economic activity, and undermining these foundations will hamper economic success sooner rather than later,” says **Ludovic Subran, Chief Economist at Allianz.**

Extending the reporting scope beyond the current focus on financial risks makes the disclosure of information a much more complex and challenging exercise, not least as the CSRD follows a “double materiality” approach: it requires assessing both impact directions. While the “financial materiality” is concerned with the impact of environmental, social, and governance (ESG) issues on the financial performance of assets (outside-in perspective), the “impact materiality” concentrates on the environmental and social impacts that an asset causes (inside-out perspective). Furthermore, in addition to the risk assessment, the CSRD requires a reporting of opportunities related to both sides of materiality. With the CSRD, the EU is taking the lead in sustainability reporting, in line with its claim to be a regulatory superpower.



In the coming years, the International Sustainability Standards Board (ISSB), based in Germany, will decide to what extent the European standards will also gain global acceptance. For the time being, there can be no talk of a level playing field.

In other areas, sustainability and the green transformation are likely to lead to more fragmentation for the time being. The EU has set the course for the Carbon Border Adjustment Mechanism (CBAM). Even if the logic of a CBAM can hardly be criticized – without an appropriate mechanism, there is a risk of carbon leakage and a permanent impairment of European competitiveness – it represents an additional burden on international trade flows. And this at a time when geopolitical upheavals are casting their long shadows on the progress of globalization.

“More and more new rules, standards, levies and sanctions will not bring the international flow of goods to a standstill, but they throw a spanner in the international division of labor, rendering it less efficient,” says Subran. “For companies, the new regulations go hand in hand with a considerable amount of additional work. Reporting and compliance are increasingly becoming strategic functions within companies.”

“

More and more new rules, standards, levies and sanctions will not bring the international flow of goods to a standstill, but they throw a spanner in the international division of labor

ESG outlook: cyber, talent and regulation exert pressure

The war in Ukraine, the changing labor market post-Covid-19, and sustainability concerns are helping to ensure environmental, social, and governance (ESG) concerns are high up the corporate agenda, but a lack of expertise is an issue.

Nearly half of respondents cited cyber-security resilience as their foremost ESG concern in the **Allianz Risk Barometer**. For many, the war in Ukraine has heightened the risk of a large-scale cyber-attack, which can have wide ESG implications, including the failure of a business to protect its information network, the social consequences of disrupted supply chains, and damage to a company’s reputation.

“Embedding cyber resilience in any enterprise risk management program or ESG framework is key,” says **Denise De Bilio, ESG Director at AGCS’ risk consulting unit**. “These must contain clear policies on ransomware and address the workplace impact of cyber-attacks on employees and their stress levels, as well as the risks to critical public infrastructure.”

With two in five workers reported to be considering changing jobs in the next three to six months, company working conditions also rank highly on the ESG risk list. “The pandemic shifted the social contract between employers and their people,” says De Bilio. “Companies are now expected to address a broad set of labor and employment issues, ranging from health and safety to wellbeing and diversity, while being accountable for driving societal impact, environmental stability and inclusive growth. The ‘S’ in ESG will gain momentum as companies strive to acquire and retain an environmentally and socially conscious talent pool.”

This momentum will be given greater urgency as ESG disclosure requirements are ramped up in major jurisdictions, such as with the Corporate Sustainability Reporting Directive (CSRD) in the EU (see page 24).

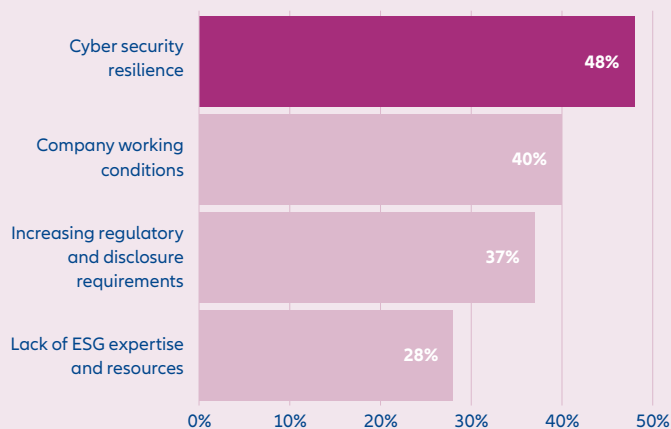
The list of ESG issues companies face is fueling demand for skills and resources in this area yet demand far outstrips supply. A lack of consistent standards and reporting frameworks has hindered ESG knowledge gathering, training and certification. It also drives up costs. However, as ESG becomes more established, a talent pool will emerge, as will a prioritization of resources that support sustainability initiatives.

“The sustainability imperative is clear,” says De Bilio. “Integrating ESG considerations across all aspects of business has become the key performance indicator of a company’s financial health and its ability to meet increasing stakeholder expectations to support the transition to a green economy, access capital, raise financing, meet heightened regulatory and compliance requirements, and attract and retain talent.”



Which ESG risk trends are of most concern to your company?

Top four answers



Source: Allianz Risk Barometer 2023

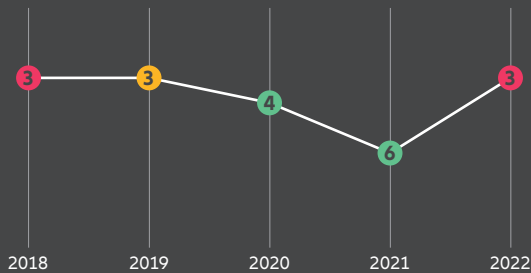
Total number of respondents: 2,712. Respondents could select more than one risk.

6 Natural catastrophes

↓ 19%

Ranking history:

● Up on previous year ● No change
● Down on previous year



Top risk in:

Australia



Nat cat falls three positions, overshadowed by seemingly more pressing developments on the risk landscape, but there is no room for complacency, as events in 2022 showed single events continue to cause losses in the billions of dollars.

Perhaps the drop in rankings for nat cat is no surprise – war in Ukraine, an energy crisis, and the fallout from the Covid-19 pandemic, including inflation and supply chain disruptions, have tested business resources and commanded attention.

Although the Atlantic hurricane season for 2022 was near average after six years of above-average activity, estimates show insured losses from natural catastrophes continue to be above the 10-year average of \$81bn, at \$115bn¹¹. Hurricane Ian, which struck Florida in September, was the year's costliest nat cat event, with an estimated insured loss of \$50-\$65bn, which would rank as the second costliest hurricane of all-time.

Other notable events included widespread flooding across South Asia from January to October, which led to the deaths of over 3,500 people, the devastating heatwaves suffered by Europe and China in the sixth warmest July and August since 1880¹², while winter storms in Europe at the beginning of the year and in the US at the end of it both incurred billions of dollars of insured losses.

As a reminder that secondary perils are not to be underestimated, France suffered record-breaking hailstorms, which are expected to cost the insurance industry \$6bn-\$8bn¹³, while floods in eastern Australia resulted in insured losses around \$4bn¹⁴, the country's costliest ever nat cat.

"This year's lower ranking for nat cat illustrates how it can recede from public awareness when other events dominate the headlines, as it can be influenced by longer-term processes such as climate change," says **Mabé Villar Vega, Catastrophe Risk Research Analyst at AGCS**. "It is important for it to stay high on companies' risk agendas, with business continuity plans remaining updated and tested, even in times of economic or geopolitical turbulence."

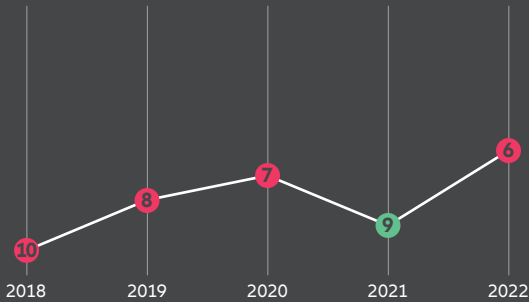
Villar Vega notes nat cat remains in the top three risks for Asia Pacific while climate change is a top four risk in Africa/Middle East: "These regions are frequently exposed to different types of natural catastrophe, including meteorological, geophysical, climatological and hydrological. "However, they suffer a large 'protection gap' – the difference between total and insured losses. This is 92% in Asia¹⁵, compared to 70% in the US and Western Europe. In Africa, insurance penetration is seldom above 1% of national GDP¹⁶. The combination of low insurance coverage and high hazard has ensured nat cat remains a priority business risk in those regions.

"The shortfall in protection represents an opportunity for insurers to close this gap and help to build more resilient societies in vulnerable regions for the future," Villar Vega concludes.

7 Climate change

↓ 17%

Ranking history: ● Up on previous year ● No change ● Down on previous year



This critical risk has also declined in importance year-on-year as the war and economic crisis factors such as inflation and the energy crisis again take precedence, but the **Allianz Risk Barometer** results also show that companies continue to take risk mitigation action.

Climate change and global warming threaten companies in a number of different ways. First and foremost, higher property damage and business interruption risks as a result of natural hazards and extreme weather events such as floods, storms, thunderstorms or droughts. Then there is the threat of legal and liability risks due to the comprehensive regulatory framework around the world, increasing disclosure requirements, and the threat of greenwashing accusations or climate lawsuits.

Last, but not least, companies are confronted with a wide range of transformation risks resulting from new market conditions or product requirements, or from changes in business strategy. All these effects of climate change are increasingly felt by companies. Nevertheless, those risks which are more immediately experienced such as cyber, high inflation or the energy crisis in the wake of the Russian invasion of Ukraine ultimately determine the risk perception of companies in 2023, whether it is multinational corporations or small enterprises. Climate change remains in the top 10 global risks but slips from #6 in 2022 to #7.

There are some differences regionally. In Europe, it drops further (from #4 to #7), while in the Americas it remains at #7. However, elsewhere it is a different picture. Across Africa and Middle East, climate change rises to #4 from #10 year-on-year. In Asia Pacific it climbs to #5 from #6.

The **Allianz Risk Barometer** results also show that companies are still taking action when it comes to risk mitigation. According to respondents, the top three actions firms are taking to combat the direct impact of climate change are: adopting carbon-reducing business models (e.g. switching to renewable energy sources); developing a dedicated risk management strategy for climate risks; and creating contingency plans for climate change-related eventualities, such as assessing critical systems and resources.

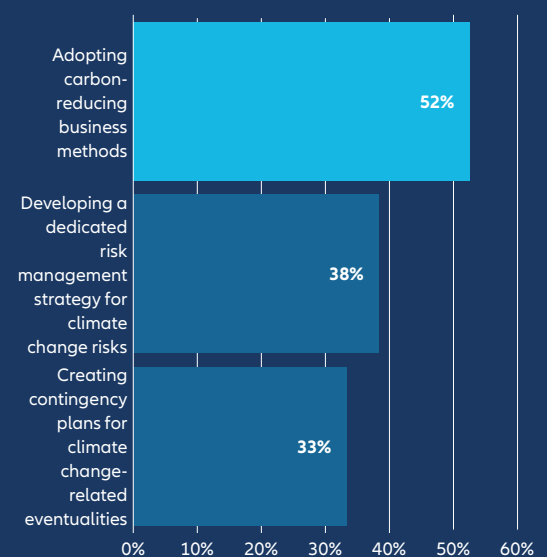


“Companies have an important role to play in the transition to a low-carbon economy and the speed of global warming doesn’t allow for any pausing,” says **Line Hestvik, Chief Sustainability Officer at Allianz**. “Against this backdrop this year’s **Allianz Risk Barometer’s** findings provide a mixed picture. On the one hand, climate change is somewhat pushed into the background by more pressing crises. This must be seen in the context of double-digit inflation rates, surging energy costs and the risk of power outages and blackouts, especially in Europe, which call for immediate action from companies, such as adjusting their production or implementing austerity measures.

“However, companies are still taking action and are continuing the net-zero transition journeys they have embarked on. From what I see at Allianz, as well as at our customers and partners, I am confident that we will manage to address the current issues without compromising on pathways to limit global warming to 1.5°C.”



Which actions is your company taking to mitigate the direct impact of climate change?



Source: Allianz Risk Barometer 2023

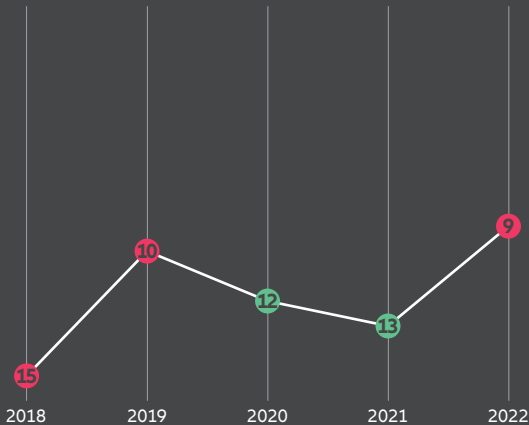
Total number of respondents: 474. Respondents could select more than one risk.

8 Shortage of skilled workforce

↑ 14%

Ranking history:

● Up on previous year ● No change
● Down on previous year



Talent and workforce issues climb one place year-on-year to #8.

Another consequence of the Covid-19 pandemic and rising wage inflation is a shortage of skilled workforce. Many countries have experienced a reduction in the available workforce at a time of high demand for labor, as some workers took early retirement. And while the cost-of-living crisis may see some of these people return, at the end of 2022 it was reported that there were almost two unfilled positions in the US for every job seeker¹⁷.

At the same time, a study by consultant McKinsey reported that 40% of workers globally said they might leave their jobs in the near future¹⁸. Clearly attracting and retaining skilled workers has rarely been more challenging – a Manpower Group survey noted that 75% of companies globally had reported talent shortages and difficulty hiring over the past year, a 16-year high¹⁹. **Allianz Risk Barometer** respondents rank talent shortage as a top five risk concern in the aviation and aerospace, engineering and construction and professional services sectors.

Company working conditions also rank highly on the environmental, social, and governance (ESG) risk list, according to the **Allianz Risk Barometer**. Issues such as staff engagement rank as the second top ESG risk trend of most concern to companies (40%) behind only cyber security resilience. There is little doubt that the pandemic shifted the social contract between employers and their people. Companies are now expected to address a broad set of labor and employment issues, ranging from health and safety to wellbeing and diversity, while being accountable for driving societal impact, environmental stability and inclusive growth (see *ESG top risk concerns page 26*) in order to develop their talent pools.

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➔ [Top risks by industry sector](#)

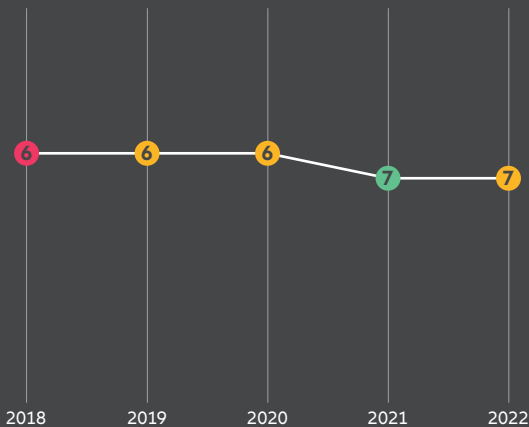
➔ [Top ESG risk trends](#)

9 Fire and explosion

↓ 14%

Ranking history:

● Up on previous year ● No change
● Down on previous year



Fire perils, excluding wildfires, rank #9 overall, falling from #7 in 2022.

Fire risks are often well understood and typically well risk managed. However, fire remains a significant cause of business interruption (BI) and supply chain disruption, especially where companies rely on third party suppliers for critical components. Claims analysis by Allianz shows that fire is the largest single cause of corporate insurance losses, accounting for 21% of the value of 500,000+ insurance industry claims over the past five years (equivalent to €18bn).

Aging property and infrastructure, such as in the energy industry for example, is a worrying cause for fire and BI-related losses, as is a lack of trained personnel.

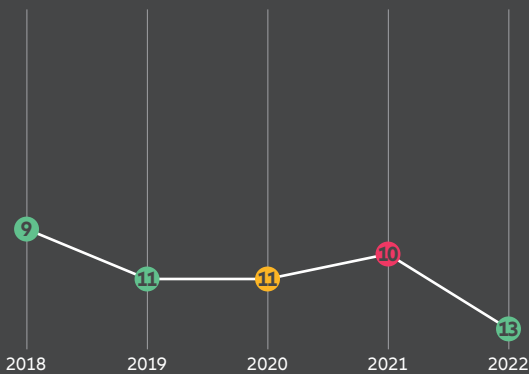
“Aging assets and processes are harder to maintain, and these can be contributory factors impacting fire and explosion losses,” says **Marianna Grammatika, a Regional Head of Risk Consulting at AGCS**. “A number of claims were caused by human errors in the first instance, but these errors also occurred because of production pressures and the hiring of third-party contractors to maintain works, who may not have had the same expertise and knowledge of the permanent workforce.”

Regularly assessing and updating prudent fire mitigation practices, including preventative measures, fire extinguishing methods and contingency planning, remain essential for all businesses to lower the risk of loss from an incident.

10 Political risks and violence

↑ 13%

Ranking history: ● Up on previous year ● No change ● Down on previous year



2022 was another year of global turmoil, with conflict and civil unrest dominating the news, ensuring political risks and violence ranks as a new entry in the top 10 global risks. Activity is expected to continue in 2023.

The invasion of Ukraine by Russia in February 2022 intensified a febrile risk landscape as economies around the world contended with the post-Covid recovery, inflation, and the rising cost of living.

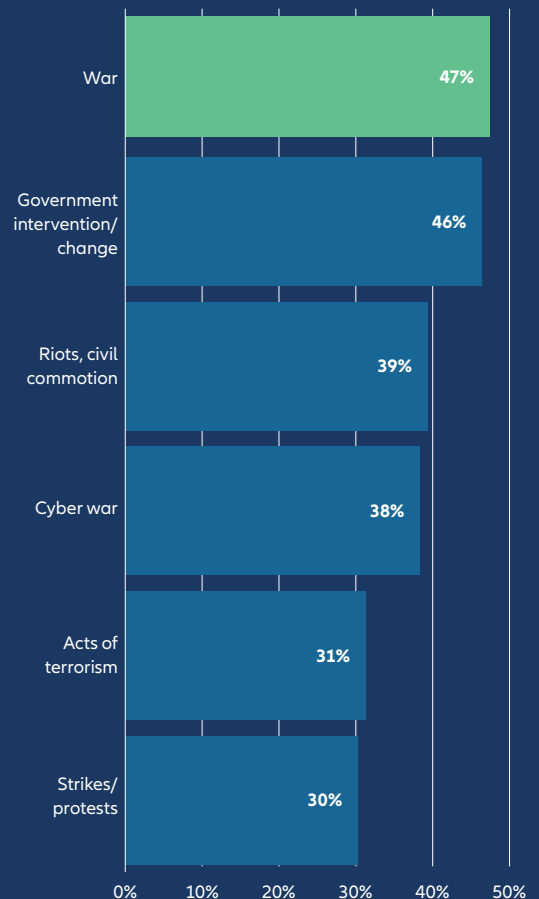
Unrest and protests in the last year ignited over the rights of women and minorities in Iran, fuel prices in Kazakhstan, economic failures in Sri Lanka, abortion rights in the US, corruption in Argentina, and Covid restrictions in China. The end of the year saw multiple strikes across Europe over pay and working conditions, and even the foiling of a far-right plot to overthrow the German government.

While recent protests have disparate causes, they share common themes, says **Srdjan Todorovic, Head of Political Violence and Hostile Environment Solutions at AGCS**. These include resentment at governments perceived to ignore the people and their will, groups emboldened to stand up for their beliefs, empowered unions, and cost-of-living concerns, leading to desperation and opportunism: "In countries with wide financial discrepancies, ethnic issues are on the rise. So is a sense of grievance around specific events and longer-term systemic injustice. Environmental issues also come into play. Resentment can be further fueled if a government is seen to respond inadequately or with excessive force."



What type of political risks and violence are of most concern to your company?

Top six answers



Source: Allianz Risk Barometer 2023

Total number of respondents: 357. Respondents could select more than one risk.

War ranks as the top political risks and violence exposure in this year's **Allianz Risk Barometer** (47% of responses). "As well as Ukraine, there is concern over potential conflict between other nations," says Todorovic. The impact of war in Ukraine has been amplified because it affected the post-Covid recovery and damaged growth, with sanctions on Russia intensifying inflationary pressures.

"Strikes, riots and civil commotion (SRCC) have a combined score of 69% (see graphic), representing the real risk these present to businesses," Todorovic continues. "The last few years have shown the huge impact a coordinated violent SRCC event can have on an economy and politics, such as the Black Lives Matter protests in the US and South Africa Zuma riots of 2021."

Industries at risk – particularly government departments, industry, and the retail, transport and mining sectors – should monitor local activity carefully and identify their supply chain vulnerabilities. They should then review their insurance policies and update business contingency plans as necessary.

Potential flashpoints in 2023 will include countries with polarized politics and those holding elections, says Todorovic. "As inflationary frustrations grow, I expect a number of SRCC incidents to occur on most continents, based on economic, ethnic and political grounds."



Top risks for small- and mid-size companies

The most concerning perils may mirror the global list in the **Allianz Risk Barometer** with business interruption, cyber, macroeconomic developments and the energy crisis leading the rankings but any potential consequences can be much more severe for these firms.

Collectively, small- and mid-size companies account for half of **Allianz Risk Barometer** responses (1,400+). For mid-size companies business interruption (including supply chain disruption) maintains its position as the top risk year-on-year (35%). For small-size companies, cyber incidents maintains its position as the top risk as well (31%). Both business interruption (BI) and cyber rank as a top three risk in each segment.

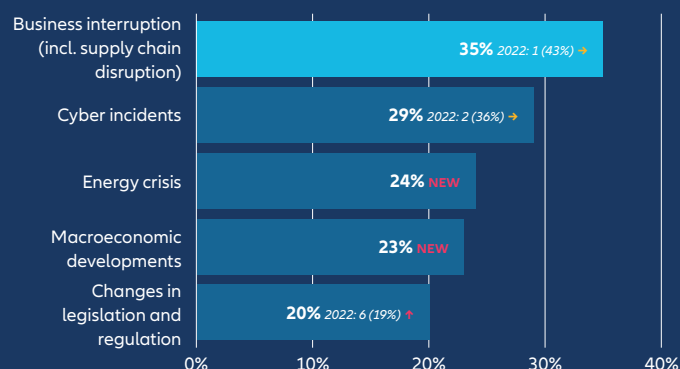
For both small- and mid-size companies the cyber risk situation has changed significantly in the wake of the Covid-19 pandemic. Many had to quickly digitalize their businesses or enable remote working. Development of IT security has not always kept pace.

Smaller companies lack the financial and employee resources of large corporations with IT security often outsourced. Many continue to be under the misconception that cyber-attacks won't happen to them but as more large businesses ramp up their investments in cyber security tools, more poorly protected smaller companies are being exploited. Smaller companies can be exposed to supply chain attacks in particular, given they often purchase software program licenses of much larger organizations or vendors.



Top 5 risks for mid-size companies in 2023

US\$250mn to US\$500mn annual revenue

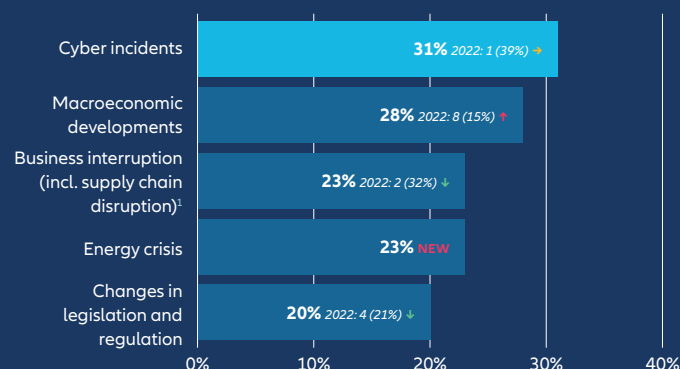


Source: Allianz Risk Barometer 2023. Total number of respondents: 519. Respondents could select more than one risk.



Top 5 risks for small companies in 2023

<US\$250mn annual revenue



Source: Allianz Risk Barometer 2023. Total number of respondents: 912. Respondents could select more than one risk.

¹ Business interruption ranks higher than energy crisis based on the actual number of responses

"If a small company with poor controls or inadequate risk management processes suffers a significant cyber incident, the reality is there is a chance it might not survive in the long run," says **Sabrina Sexton, Head of Global Cyber SME and Mid-Corporate, Cyber Center of Competence at Allianz**. "In recent years we've seen progress, and there has been good collaboration between insurers, brokers and clients, but ultimately more awareness of, and risk management education about, cyber risk is still needed and the insurance industry has a responsibility to help smaller companies with this process.

"Companies need to gain a greater understanding of their exposures, invest in cyber security to mitigate risks, raise employee awareness and develop business interruption and incident response plans to be able to more effectively handle the impact of a cyber incident should one occur."

Macro and energy crises bring insolvency fears

As is the case with the top global risks list in the **Allianz Risk Barometer**, the impact of the energy crisis together with macroeconomic developments are the big movers in the 2023 small- and mid-size company risk rankings. Many respondents from these segments are much more concerned about these trends than 12 months ago, given these companies typically have fewer financial resources and less resilience. Both are new entries in the top 10 mid-size company risks in 2023 (energy crisis at #3, macroeconomic developments at #4). Among small-size companies, the energy crisis is a new entry year-on-year at #4, while macroeconomic developments climbs from #8 in 2022 to #2.

Inflationary pressures, monetary tightening, the soaring costs associated with the energy crisis, supply chain disruptions and noticeable staffing shortages are jeopardizing many companies' cash flows, which have yet to fully overcome the economic consequences of the Covid-19 pandemic. Half of the countries analyzed by **Allianz Research** recorded double-digit increases in business insolvencies in the first half of 2022. The top European SME markets (the UK, France, Spain, the Netherlands, Belgium and Switzerland) explain two-thirds of the rise. The outlook for 2023 is no better.

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[Insolvency outlook](#)

Developing de-risking actions

Covid-19 and subsequent disruption has increased awareness around business interruption and supply chain risks, with companies and governments taking action to build resilience and de-risk.

The **Allianz Risk Barometer** results show that companies have begun to diversify their businesses and supply chains, as well as stepping up risk management. According to respondents, the most common action taken by companies to de-risk supply chains and make them more resilient is to develop alternative and/or multiple suppliers (64% of responses, see *graphic*). Broadening geographical diversification of supplier networks in response to geopolitical trends is the third most common action (40%).

“Companies are now looking at ways to transform business models, making them more flexible, adaptable and dynamic than previously,” says **Georgi Pachov, Head of Portfolio Steering & Pricing at AGCS**. “Organizations need to be more agile in the current environment and be able to adapt their business models depending on the risks of the macroeconomic, political and competitive landscape.”

A shorter business cycle should be positive for mitigating business interruption (BI) and supply chain risks. “The time it takes to create and execute business models for products and services will shorten significantly in coming years, which should help build resilience in the long run,” Pachov adds. “Change creates awareness and transparency within businesses, which are key denominators for a good risk philosophy and good risk management.”

Another positive development is an enhanced focus on business continuity management. Initiating and/or improving this is the second most common de-risking action according to the **Allianz Risk Barometer** (48%).

“Increasingly we see that business leaders see the value in investing more time and money in understanding what a business continuity plan can achieve, even if in the first instance it only raises awareness on vulnerabilities to critical suppliers,” says **Marianna Grammatika, a Regional Head of Risk Consulting at AGCS**.



Companies need to constantly review business continuity planning across the whole organization, not only at headquarter level, but down to the various subsidiaries and sites.

“Business interruption risk is not typically fixed on a particular trigger, location or product, it can originate from various areas and cross sites and continents. As such you need holistic measures,” advises Pachov.

Following the disruption caused by the pandemic, and more recently the war in Ukraine, many organizations are looking to better understand their supply chain and BI exposures, improving transparency, identifying critical suppliers and understanding pinch points. Intensifying supplier selection, monitoring, auditing and risk assessment is the fourth most common de-risking action (39%).

Companies have not only been surprised by recent disruptions, but also where they came from and the impact they had on their business operations, according to Grammatika: “Many businesses did not realize until their supply was interrupted that they had single critical suppliers, and that the impact of disruption to those suppliers was so significant.”

“Finding alternative suppliers is just a first step, not the final solution,” adds Pachov. “If alternative suppliers are not secured with proper engagement and contractual terms, in times of crisis or peak demand, suppliers can pick and choose which clients to serve, or increase price and lead times, creating uncertainty.”

Despite such progress, many companies have yet to improve supply chain transparency or are unable to provide good quality data or engage with the relevant stakeholders to obtain it. This is usually due to a lack of awareness among companies that have not experienced disruption and still see this as a remote possibility.

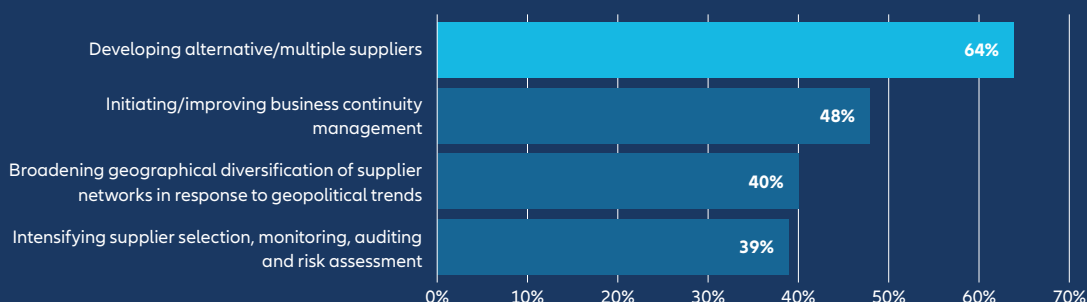
“But when disruption happens it can have catastrophic consequences, which is why insurers and brokers must continue to bring knowledge and raise awareness for companies and clients, given the growing connectivity between many organizations,” says Pachov.

Transparency and quality data are key to developing solutions for BI, supply disruption and indeed many of the other risks in this year’s **Allianz Risk Barometer**. Access to good quality structured data will help the insurance industry to be more creative and develop new solutions and products, aligning these with the pain points of customers, which continually change over time.



Which actions is your company taking in order to de-risk supply chains and make them more resilient?

Top four answers



Source: Allianz Risk Barometer 2023

Total number of respondents: 917. Respondents could select more than one risk.

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January 2023