



Implications for businesses: Technology

Ukraine: A conflict that changed the world

July 2022

The impact of the crisis on macroeconomic themes will be felt across all industries to varying degrees.

Inflationary pressures associated with supply chain issues, such as costs of materials, labour and logistics are mounting, with companies considering a number of solutions to maintain revenue and profitability. For instance, oil and gas producers and food manufacturers will be the most impacted by inflation, largely due to Russia and Ukraine having dominant positions as major exporters of key raw materials across these industries.

Other industries may need to change business models as a result of subtle changes in trading behaviours. As each nation becomes more focused on developing domestic production to avoid geopolitical risks, transportation and logistics companies will likely need to evolve to accommodate a lower demand for international trade but growing interest in national logistics solutions.

With ESG becoming an increasingly prominent topic on corporates' risk agendas, significant resources are being allocated to dedicated ESG teams across multinational corporations to develop risk management strategies. With increased awareness and potential scrutiny from employees, customers and stakeholders, businesses could incur significant costs to adhere to ESG standards.

In order to meet public expectations, thousands of companies have exited from or paused Russian operations. Those that continue to conduct business in Russia face potential reputational damage in the affected region, which could lead to economic repercussions (for example a decline in business due to global boycotts). Corporates are also spending significantly more on due diligence and compliance reviews to ensure any direct or indirect relationships with Russia are identified and replaced.

Aon Global Risk Management Survey

Aon's 2021 Global Risk Management Survey illustrates today's traditional and emerging corporate risk portfolio. The Survey collates responses of over 2,300 risk managers from 16 industries, spread across varying territories and company sizes. In 2021 respondents selected and rated 10 top risks that their organizations were facing:

01	Cyber Attacks / Data Breach
02	Business Interruption
03	Economic Slowdown / Slow Recovery
04	Commodity Price Risk / Scarcity of Materials
05	Damage to Reputation / Brand
06	Regulatory / Legislative Changes
07	Pandemic Risk / Health Crises
08	Supply Chain or Distribution Failure
09	Increasing Competition
10	Failure to Innovate / Meet Client Needs

The following analysis breaks down the results of this survey by industry sector and considers how each sector's risk profile has changed as a result of the conflict in Ukraine. Risks highlighted in bold indicate risks that will be further amplified by effects of the crisis.

Overview

The following table summarises the implications of each of the market forces explored in this report to businesses over the short to long term. These are assessed in greater detail over the following pages for the different industry groups expected to be most impacted by the crisis.

	Cyber	Supply chain	Food security	Climate transition	Energy security	ESG	Public sentiment
Banks and financial institutions	Minimal	Minimal	Minimal	Minimal	Minimal	Significant	Medium → Significant
Construction and manufacturing	Minimal	Medium → Significant	Minimal	Minimal	Medium → Significant	Medium	Minimal
Energy	Medium	Significant	Minimal	Significant	Significant	Medium → Minimal	Significant → Medium
Food and beverages	Minimal	Significant	Significant	Minimal	Medium	Minimal	Medium → Minimal
Public sector and healthcare	Significant → Medium	Minimal	Significant → Medium	Significant	Minimal	Minimal	Significant
Technology	Medium → Significant	Minimal	Medium	Medium	Minimal	Minimal	Minimal
Transportation and logistics	Significant → Medium	Minimal	Medium	Medium	Significant → Medium	Minimal	Minimal

Key:

- **Minimal:** Market forces will have no or minimal impact on the industry
- **Medium:** Market forces will have an indirect impact on the industry
- **Significant:** Market forces will have a clear, adverse impact on the industry

Technology

Cyber	Supply chain	Food security	Climate transition	Energy security	ESG	Public sentiment
Medium → Significant	Minimal	Medium	Medium	Minimal	Minimal	Minimal

Global insurance premium: \$21bn

Aon 2021 Top 10 Global Risks
(Risks in **Bold** are likely to be further amplified by effects of the Ukraine crisis):

- 01 **Cyber Attacks / Data Breach**
- 02 **Economic Slowdown / Slow Recovery**
- 03 **Failure to Attract or Retain Top Talent**
- 04 Increased Competition
- 05 Failure to Innovate / Meet Client Needs
- 06 **Damage to Reputation / Brand**
- 07 Data Privacy Requirements
- 08 **Business Interruption**
- 09 **Tech Failure / System Failure**
- 10 **Workforce Shortage**

With Chinese and Indian technology companies likely to benefit from the conflict through unmet demands from the West, many companies will look to offer new food and renewables technologies amid growing interest in these critical markets.

Short term: Due to a shift in competitive dynamics as sanctions persist against Russia, Chinese and Indian companies are presented with an opportunity to fill the gap and develop business in the West.

Medium to long term: The technology industry may shift focus to supporting other businesses who are adversely impacted to a large degree by the conflict. For instance, there is likely to be growing attention associated with renewables and food technologies with public and private investment growing in order to drive innovation in these critical industries. However, the creation, dissemination and use of technology could be under increasing scrutiny, including access to services, chip manufacturing and data protection.

Case study: Apple's listed products on online Russian stores have been marked "unavailable" for purchase. The company has also removed Russian state-controlled outlets from its App Store around the world except for Russia. They face calls globally to block the App Store entirely in Russia.



Technology (continued)

More likely scenarios

01 Defensive push-back	02 Protracted conflict	03 Annexation	04 Collapse of Ukraine	05 Escalation
<ul style="list-style-type: none"> - Increased volatility of tech shares leads to reduced investor appetite for ESG funds weighted heavily in tech - Tech companies focused on cyber security and risk mitigation solutions see a rise in demand for services 	<ul style="list-style-type: none"> - Organisations with operations in the affected regions have a significantly higher exposure to peripheral impacts of cyber attacks, especially as CEE countries are prevalent for software provider companies 	<ul style="list-style-type: none"> - Greater profit margins from continuing high oil prices drive the transition to net zero as energy companies reinvest in renewable energy technology - Continued high investment in cyber security risk management despite inflationary pressures 	<ul style="list-style-type: none"> - Focus innovation efforts on food and agricultural technologies to produce raw ingredients domestically - Focus on tech to improve cost efficiencies of companies operating across supply chains - Increased output for renewable energy will boost demand for construction of smart grid technology 	<ul style="list-style-type: none"> - Increased cost to businesses from a risk management perspective and loss of revenue as more criminal behaviour amongst hactivists is incentivised by governments - Potential loss of physical assets due to migration of critical infrastructure as a result of cyber conflict will boost demand for risk mitigation which comes at a higher cost



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