

Risk Nexus

Global interconnections of cyber risk: impact on large companies

The world is likely to suffer internet failures for reasons similar to those that put the global financial system at risk in 2008: these included a nearly absolute dependence on an interconnected system so complex as to be unknowable. Large companies may make bigger targets, but also have more resources to find solutions.

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Complex systems, unexpected risks

The internet has proved to be incredibly resilient. This is due in large part to a stable technology platform and dedicated, even heroic technicians who work behind the scenes to keep things running reliably. This has allowed large companies to increase efficiency and lower costs, making it possible to maximize profitability while deploying fewer resources.

But this type of reliance exposes companies to significant risks that they tend to overlook; not just those posed by data breaches or theft of trade secrets, but larger global shocks.

The internet is the most complex system humanity has ever devised, and our track record of successfully managing complex systems is far from perfect. We are rapidly connecting critical business functions and infrastructure systems to the internet, making us dependent on humankind's largest and

most complex system, one that itself is very poorly understood.

Past internet incidents and attacks have only disrupted ones and zeros, or things made of silicon. All these can be recreated or replaced with relative ease. Future cyber incidents will break things made of concrete and steel as the internet increasingly connects with real life. As the trend continues, we are finding that there is no separate 'digital' economy, only a single economy where "even the mundane comes to depend on distant digital perfection," in the words of Dan Geer, a noted internet risk expert.

The internet of tomorrow will be both a source of global shocks, and a catalyst for other shocks; things for which risk managers, corporate executives, board directors, and government officials are not prepared. It will almost certainly be less resilient, available, and robust than today.

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Large companies continued

Current cyber risk management ignores the risks arising from dependence on that “distant digital perfection,” aggregations of cyber risk that lie outside an organization’s internal servers and firewalls: counterparties, outsourcing or contractual partners, supply chains, upstream infrastructure, disruptive new technologies, and external shocks.

Recommendations for large companies

Board-level risk management:

Some boards might lack knowledge about their information assets, the impact of disruption or loss, or which third parties have access to sensitive corporate data. Boards may hold executives to account and become smarter on cyber risks by taking a broader view of global interconnections, while continuing to focus on issues related to compliance and auditing.

Embrace technologies but carefully manage the risk:

Large companies must embrace new technologies and allow for more modern technology-driven manufacturing or business processes, depending especially on cloud storage and services and robotics and other IT-driven advanced manufacturing systems. Companies are now heavily reliant on these complex and highly interconnected technologies which are now tightly coupled with nearly every aspect of the back office and front office. But these technologies will likely prove to be riskier than currently assumed: even when one system may be well understood, its interaction with all the others is not, especially in the face of increased cyber disruptions and attackers.

The coupling of poorly understood technologies means disruptions will likely come with increasing frequency and intensity and intellectual property can be stolen with regularity, even from well-protected companies.

The companies which best understand and manage these new technology-driven risks will have a significant advantage with ultimately higher profits and fewer disruptions, negative media attention, or recalls.

Improve basic cyber security:

Regardless of the size of an organization, a relatively small set of actions can protect against most cyber risks. The Council on Cybersecurity maintains a list of critical security controls that presents the most important set of actions that can be taken for cyber defense, especially the ‘First Five Quick Wins’ which companies should rush to adopt.¹

Shift toward resilience and agility:

Unfortunately, cybersecurity on its own will be insufficient. Organizations can no more ‘secure’ themselves against these interconnected and complex cyber shocks than they can hope to forever stack sandbags to protect from the damage caused by more frequent and severe hurricanes. The main hope for companies, therefore, is to be agile and resilient, and able to bounce back from disruptions through redundant systems and processes, under the leadership of meaningful corporate governance.

Incident response and continuity planning:

One thing companies frequently overlook is the need to develop their cyber incident response capabilities and traditional business continuity planning. The best companies examine the most likely and most dangerous cyber risks and exercise their security and response teams, as well as their executives and boards, to build ‘muscle memory’ for responding to incidents.

¹ Critical Security Controls, Council on Cybersecurity, <http://www.counciloncybersecurity.org/practice-areas/technology>, (Accessed 16 February 2014).

Large companies continued

Push out the risk horizon:

Companies are ever-more reliant on external providers, from outsourced business functions to cloud providers or IT vendors. Companies with more advanced risk management should extend their horizon beyond simply their own internal technology risks, particularly to include counterparties, contract and outsourcing agreements, and upstream infrastructure. Each of these risks can be at least partially controlled through contracts, service-level agreements, or in-depth site visits and audits.

For example, one financial institution implemented a full vendor security management plan that reviewed every contract and outsourcing agreement to ensure their network of suppliers was as resilient and secure as possible.

About this report

This report is part of a series on global aggregations of cyber risk from Zurich Insurance Company Ltd and the Atlantic Council. A larger report more deeply examines aggregations of cyber risk and why the internet is likely to be less reliable in future. It includes recommendations for companies, governments and others. You can find these reports at www.zurich.com/insight/

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