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D&O Insight: Technology Risk in 2024

Allison Keenan • March 19, 2024

The technology sector is no stranger to turbulence. But even by its standards, these are unprecedented times. Many listed companies have seen their share prices slide due to the threat of a recession, falling customer confidence, rising interest rates, and inflation. This has led to some tech firms cutting costs, reducing headcount, and deferring capital expenditure.

Disruption lies ahead in other forms too. New technologies such as generative artificial intelligence (AI) and automation are seeing rapid adoption and development. Meanwhile, augmented reality (AR) and virtual reality (VR) also continue to advance: many businesses are exploring how they can use these technologies in the workplace, such as through design and prototyping or enhanced employee communication. Quantum computing continues to develop, while autonomous systems such as sensor technology and four-dimensional radar imaging keep moving forward.

This upheaval is all taking place against the backdrop of an increasing focus on sustainability and growing scrutiny from regulators. Late in 2022, for example, the US issued restrictions on semiconductor equipment exports to China to curb Beijing's access to the technology[1]. Large semiconductor equipment suppliers have announced significant revenue losses in 2023 as a result[2].

In such a climate, how is a technology company to stand out from its rivals, and how should it manage the risks it now faces?

The pick of the bunch

Many fast-growing software companies have experienced inflated valuations, despite limited visibility on earnings, and the bubble has burst for some in recent months. So, when it comes to software firms, insurers will want to look at how the executive team is navigating through more normalized valuations with less cash to work with.

Indeed, the whole way management teams are responding to the macroeconomic environment will be critical. The current relative lack of available capital will put a premium on boards to better balance the need to be innovative with the demand to keep costs under control at a time of dampened consumer sentiment. Insurers will therefore pay close attention to how companies are reducing spend while at the same time keeping up with the latest technology. Our Risk & Resilience survey of global business leaders undertaken in January ’24, looking at boardroom risk and resilience found that 36% of technology businesses planned to invest in new technology such as AI. Insurers will want technology companies to show they understand that this cannot be at the expense of cost control.

Insurers will also want to know more about a company’s growth expectations, and whether they are likely to expose the business to lawsuits if not met, and a company’s share price suffers as a result. With the potential for more goodwill write-downs, and possible issues with profitability, investors may become more focused on litigation if their returns fail to match their expectations. Insurers will also look for a better understanding of the visibility technology companies have on both their distribution channels and supply chains, notably the extent to which they are exposed to a single most dominant customer or supplier.

Meanwhile, in the case of hardware companies, it is important to scrutinize balance sheets. Capital spending and producing high-tech products can be expensive. A business that can demonstrate it has the financial stability to fulfill orders and keep equipment updated is likely to have better prospects than one that does not.

Focusing on risk

The complexity and pace of change surrounding the technology sector continue to intensify. This environment puts an even higher premium on those with an interest in a company’s performance to examine it in closer detail. A holistic view of a technology company’s risk profile has never been more important than in the current economic environment.

This is why it is more important than ever before for technology firms to partner with an insurer that understands there is no one-size-fits-all solution to the needs of companies in the tech sector, and one that assesses each company individually and makes smart decisions based on specific requirements. Only by working with insurance partners that are flexible enough to meet their needs and take a solutions-driven approach to their challenges, can a technology company and its board navigate the future evolving risk landscape with the certainty they require.

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[1] Swanson, Ana. October 7, 2022. New York Times. “Biden Administration Clamps Down on China’s Access to Chip Technology”.

[2] See reference 1