Brighton NEWSLETTER

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Editor's Note

In the face of COVID-19 pandemic, heightened cyber attacks and climate threats, organisations have experienced increasing calls to become more resilient. What constitute as "being risk resilient"? How can business stay resilient in light of the evolving risk and economic landscape?

In this issue we look at risk resilience and how risks are interconnected with and shaped each other. The first article proposes that a more data-driven and forward-thinking approach to risk management is adopted against the background of increasing complex and dynamic emerging risks landscape.

There is now increasing pressure for organisations to develop a resilient risk culture. But what does this mean? The second article on "Risk 2.0: Towards A More Resilient Risk Management" explores 3 key aspects that organisations should incorporate in their risk resilience approach to managing and mitigating risks.

The third article looks at 5 trends in emerging risks that could highly impact business resilience. These trends imply that organisations must remain agile and innovative in the way they approach risks. But most importantly, to stay resilient they should regularly scan the horizon for future risks.

As always, happy reading and I hope you enjoy this issue.

Annie Undikai,
Managing Director

Staying Resilience In The Emerging Risks Landscape

If the pandemic was a stark reminder that the risk landscape is rapidly emerging to be systemic, the ongoing Ukraine conflict highlights how unpredictable global risks can be. These events came at a time when the global economy is being battered by climate crisis, increased geopolitical tensions globally and burgeoning risks from cyber attacks.

Given the current nature of emerging risks, they are increasingly difficult to evaluate as they become more uncertain, complex, unpredictable, interconnected and interdependent. The war in Ukraine, for example, had an immediate impact on business supply chains and subsequently on cyber risks as well as regulatory and reputational risks.

However, the longer term risk from rising inflation could affect the market and customer behaviour in less predictable ways. What is clear is that some emerging risks

are developing faster than expected, alongside advances in digitisation.

Given the vastly changing dynamics of emerging risks today, organisations are increasingly facing new risks that they have had no prior experience of managing. Organisations are now forced to deal with unpredictable emerging risks and mitigate potential risk events before they arise while at the same time taking into account the emerging regulations that may affect their business risk positions.

In a survey by Marsh, it was reported that only 25% of global companies model the impact of emerging risks on their business, with major new threats and systemic risks being overlooked by most firms.[1] This is despite majority of respondents agreed to the rising threat posed by a range of emerging risks. The report argued that more work needs to be done when it comes to anticipating and modelling key emerging risks as they develop.

As the emerging risks landscape grows increasingly complex, organisations need to adopt a more data-driven and forward-thinking approach to risk management, one that will help drive preparedness and build resilience.

A forward-thinking risk management approach should include ongoing monitoring of existing risks as well as identifying new or emerging risks. This include stress testing against a range of possible market scenarios and taking deep dives into a risk or event in order to fully assess organisational vulnerabilities across the complete value chain. Results from such exercise are critical in assessing the organisation's capacity to respond and its resilience to impacts as an event plays out over various time frames.[2]

Amid increasing complex and dynamic risk landscape, managing emerging risks is key to fostering and sustaining business resilience for the long term. Hence, achieving resilience starts with forward-thinking risk management strategies spanning every aspect of the organisation to protect people, assets, data, and operations.

1 https://www.marsh.com/nz/about/media/marsh-risk-resilience-report-2021.html

2 https://blog.nacdonline.org/posts/build-focus-risk-resilience

Risk 2.0: Towards A More Resilient Risk Management

Change is a constant. But in recent times businesses have had to cope with changes that have been monumental and era defining, causing wide spread loss and destructions. The world has experienced the unprecedented impact of COVID-19, fundamental changes to working pattern and organisational structures, rapid trend towards digitisation, increased connectiveness of systems and networks, Russia's invasion of Ukraine, challenging inflationary and economic development and increasingly volatile market. At the same time, the pace of such change is accelerating. All these have created new risk areas that organisations must now grapple with.

Amidst this changing landscape, regulators are placing increasing pressure on organisations to develop a more resilient risk culture across their organisations to better prepare for and response to the risks that they face. Risk managers now play an even more important role in fostering agility, adaptability, and resilience in organisations today to mitigate risks and achieve more sustainable results. This poses several questions: What is risk resilience? What does it entail? What does resilience risk culture looks like?

The OECD defines risk resilience as "The ability of households, communities and nations to absorb and recover from shocks, whilst positively adapting and transforming their structures and means for living in the face of long-term stresses, change and uncertainty." From this definition, it's clear that an essential aspect of risk resilience is the ability to respond to incidents with positive transformation.[1]

Successfully dealing with more complex and long-term risks, however, requires taking a more strategic and panoramic view of risks. Towards this end, risk management capabilities need to go beyond the conventional risk management model of static reporting, activity-based and inward-looking; to include real-time risk analysis.[2] Businesses need to align their risk management practices with sustainability strategies to improve risk resilience and instil a supportive risk culture. In a survey conducted by McKinsey, about 75% of risk managers believe that the most important actions in strengthening resilience will be to improve risk culture and strengthen the integration of resilience in the strategy process.[3]

1 https://www.oecd.org/dac/conflict-fragility-resilience/risk-resilience/
2 https://www.pwc.com/my/en/publications/2022/2022-global-risk-survey-malaysia-cut.html
3 https://www.mckinsey.com/capabilities/risk-and-resilience/our-insights/from-risk-management-to-strategic-resilience

But for this to happen, risk functions must move beyond traditional risk management practices, which have largely been internally focused; and develop a more integrated view of risk. Conventionally, there is a tendency to separate risks into rigid silos such as operational risk, market risk, credit risk, liquidity risk, compliance risk, regulatory risk and business risk.

Recent events such as the pandemic and the conflict in Ukraine are evident that there is now greater likelihood of local risks escalating globally, higher velocity of escalation of these risks and more interconnections between risks (the war in Ukraine has already led to an increase in cyber-attacks). However, moving away from a narrow focus on risk to a longer-term strategic view of the total environment necessitates a shift in the risk mindset and behaviour as well as the company-wide risk culture. Organisations need to involve the risk management function more in strategic and tactical decision making, and adopt a forward-thinking risk management practices.

To achieve this shift towards a much more dynamic and adaptive approach in risk management, three key aspects are required: (1) forward-facing practices, (2) dynamic prioritisation and (3) adaptive response.[4]

Forward-facing practices involve horizon-scanning to identify emerging risks and developing key risk indicators to enhance risk predictions. This is now made easier with advancement in data analytics and artificial intelligence.

Under dynamic prioritisation, risk velocity (how long it takes for risk to impact can organisation) is used to regularly retune priorities in monitoring emerging risks in real time.

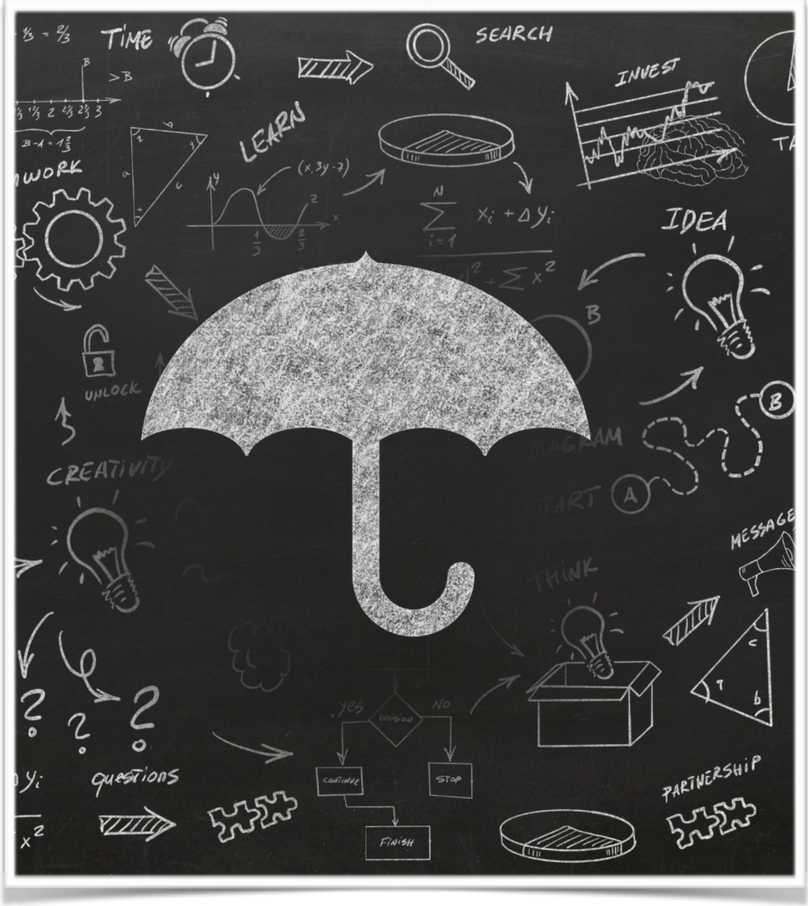
Finally, a risk resilience approach to managing and mitigating risks should be supported by an active decision making regime that is based on constantly refreshed key risk indicator data.

As economies become even more interconnected, so will the nature of business. This makes it even more critical for organisations to integrate risk with other core functions on a more permanent basis in order to strengthen business resilience in strategic areas.

[4] https://www.adlittle.com/en/insights/prism/risk-strengthening-business-resilience-after-covid-19

Trends In Emerging Risks & Implications For Resilience To Future Global Change

Emerging risks are continuously evolving at a pace never seen before. The new emerging risks landscape that has emerged means organisations need to be agile and innovative in the way they approach risk. However, some broad trends have begun to come into focus. It might be instructive to look at a few recent trends in emerging risks and consider why they may continue or even strengthen.



The first trend we are witnessing is a more interconnected emerging risks, which are not only influenced by the same factor but can potentially amplify each other in complex ways and cause a domino effect.

Climate change poses complex and interconnected risks to people and the planet. For instance, flooding from heavy rain and storm surges pose risks to infrastructure, which can interfere with human health and wellness by disrupting access to health and social services, and affect water quality through damage to water treatment and distribution systems.[2]

Another notable trend that is driving emerging risks is shifting demographics and social changes. Population growth as well as demographic trends – ageing and migration; are transforming the risk landscape. Changes in population and demographics affect economic, geopolitical and societal dynamics on the international, regional and local scale. These complex and interconnected phenomena have a range of consequences, including the potential for widening wealth gaps, societal and geopolitical conflicts and increasing environmental pressures.[3]

1 https://https://www.axa.com/en/magazine/emerging-risks-survey-2018

2 https://cca-reports.ca/wp-content/uploads/2019/07/Report-Canada-top-climate-change-risks.pdf

3 https://www.thecroforum.org/wp-content/uploads/2022/08/ERI-Risk-Radar_2022_update.pdf

Perception on global risks such as climate change and cyber security is also converging. Threats imposed by these risks are global in nature and have wide-reaching consequences. For instance, climate change has significantly increased both physical risk and transition risk.

Global warming has accelerated current trends towards more extreme weather, such as wildfires, storms, floods and permafrost. The physical impacts from these trends will feed through to an economy in a variety of ways, including damages to physical assets through extreme weather, reduced agricultural productivity, heat-related illnesses and death and loss of biodiversity.[4]

Transition risks, another big part of climate change; result from policy actions, changes in practices and technologies that arise as governments and corporations worldwide pledge to achieve net-zero greenhouse gas emissions.

The fourth trend in emerging risks that has a high impact on the insurance and reinsurance industry is the growing talent gap, which poses significant challenges for the insurance business in the current times.

The changing risk landscape has created new talent requirements for the insurance industry. For example, the industry struggles to attract a new generation of underwriters when such expertise is vital to cope with complex perils like cyber threats and climate change, which are evolving with speed and unpredictability, coinciding with a time of volatile geopolitics.[5]

Geopolitical risks have risen in the wake of the Russian invasion of Ukraine, adding further uncertainty to the global economic outlook. A study by AXA reported that 95% of the experts surveyed expect geopolitical tensions to persist and spread throughout the world; and in turn will have an impact on energy-related risks.[6]

Given the complexity and interconnections of emerging risks that underpin many of these global risks, a new paradigm is to transcend from managing risk to building risk resilience. However, it is important to look at resilience not just from a financial or economic perspective but also from a broader societal perspective.

[4] https://www.garp.org/risk-intelligence/sustainability-climate/understanding-physical-risk-climate-220427

[5] https://www.argolimited.com/news-release/the-future-of-insurance-survey-risks-uncertainty-and-a-looming-talent-gap/?locale=en

[6] https://www.axa.com/en/magazine/2022-future-risks-report