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LIABILITY RISKS IN A CONNECTED WORLD

BEYOND CLIMATE RESILIENCE

The Versatility Of
Parametric Insurance

LEADING THE REVOLUTION

Insurance Is Shaping
Climate Action

SECONDARY PERILS

Anything But Secondary

Editor's Note



Dear Readers,

The weather has been unforgiving lately, with relentless rain and frequent storms that have become an all too familiar backdrop to our daily lives. As I sip my morning latte, gazing at the downpour, I can't help but reflect on how much the world has evolved, particularly in the domain of risk management and insurance.

In the not-so-distant past, risks were simpler, or so we thought. Fast forward to today, we're confronted with the intricate web of challenges presented by the digital age. The constant lure of digital addiction, the subtle biases embedded in algorithms, and the intricate landscape of emerging technologies all add layers of complexity we could never have foreseen.

As we navigate the intricate terrain of climate change, insurance plays a pivotal role in guiding us towards a sustainable future. The four pillars of Risk Assessment, Resilience, Recovery, and Reinvestment are the guiding principles in our journey to not just survive but thrive in the face of a changing climate.

The rising influence of secondary perils on global insured losses is another crucial area of concern. To effectively mitigate these threats, investments in risk modeling, data transparency, and collaborative risk-sharing approaches are essential.

The October issue stresses the importance of innovation and adaptability for businesses and governments. In today's world, digital transformation, climate change, and unforeseen events present significant challenges that must be met with flexibility and creativity. Happy reading!

Annie Undikai
Annie Undikai
Managing Editor

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04 LIABILITY RISKS IN A CONNECTED WORLD

Businesses need to be innovative and agile in addressing liability risks posed by digital addiction, algorithmic biases, influencer collaborations, and emerging technologies. A forward-thinking approach and creative solutions are required in this ever-evolving digital age.

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Parametric insurance is a versatile tool for managing risks, with swift, transparent, and customised protection for businesses and governments worldwide. Its flexibility and innovation are essential for creating a more resilient future in an evolving risk landscape.



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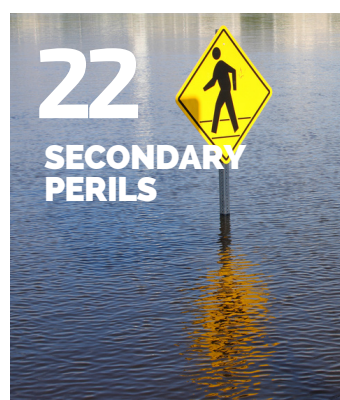
As we confront the challenges of climate change, it's crucial to keep in mind the four pillars – Risk Assessment, Resilience, Recovery, and Reinvestment – that will guide us towards a future where businesses can not only survive but also flourish in the face of our changing climate.

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The insurance industry must acknowledge the rising influence of secondary perils on global insured losses. To mitigate these events, it is crucial to maintain investments in risk modelling, data transparency, and collaborative risk-sharing approaches.



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LIABILITY RISK IN A CONNECTED WORLD



The continuous evolution of technology has opened up a world of opportunities for businesses. These opportunities afforded by digital platforms are nothing short of extraordinary. Businesses are now able to reach global audiences, foster innovation, and connect with consumers in ways that were once inconceivable.

The promises of increased efficiency, productivity, and reach have made digital platforms indispensable for businesses. However, like a double-edged sword, these platforms come with potential liability risks that cannot be ignored. The challenges that accompany our ever-connected world necessitate a profound understanding of the potential liability risks associated with these digital platforms.

Algorithmic Liability Risks

While algorithms have become a driving force behind decision-making processes on digital platforms, they also pose a profound risk. These complex mathematical constructs, designed to process and analyse vast amounts of data, have become ubiquitous in our daily lives, driving

decisions in areas ranging from content recommendations on social media to financial assessments for loans. However, this growing reliance on algorithms presents a new and multifaceted set of liability risks.

One of the most pressing algorithmic liability risks is the propagation of misinformation and disinformation. As algorithms are often designed to maximise user engagement, they can inadvertently promote and spread false or misleading information. This risk came into sharp focus with the Cambridge Analytica scandal, where user data was harnessed without consent to target political advertisements. Such incidents highlight the fine line between profit-driven algorithms and ethical responsibility.

Algorithms can inadvertently perpetuate discrimination and bias. When algorithms are trained on historical data, they may inherit and perpetuate biases present in that data. For instance, AI-powered hiring tools have faced criticism for favouring certain demographics and genders. The resulting discrimination can have far-reaching legal and reputational consequences for companies.

While algorithms have become a driving force behind decision-making processes on digital platforms, they also pose a profound risk.

In Europe, the General Data Protection Regulation (GDPR) has already imposed hefty fines on companies for data privacy breaches. Similarly, biases in algorithms have led to charges of discrimination in hiring processes and lending decisions, with organizations held accountable for algorithmic biases.

The ethical use of data is a vital concern when it comes to algorithmic liability. Failure to obtain informed consent or a violation of data protection laws during the collection, processing, and storage of user data can lead to legal penalties and significant damage to a company's reputation. With algorithms delving into areas such as healthcare, where decisions can have life-altering consequences, ethical considerations have become even more critical.

Algorithms are increasingly used in healthcare settings to assist medical professionals in making crucial decisions, such as diagnosis, treatment planning, and patient management. In the event that an algorithm fails to detect a severe medical condition, and the patient experiences harm or a deteriorating condition as a result, there may be grounds for a malpractice claim against the healthcare provider.

Perils of Digital Addiction

Picture this: a young professional, swiping through endless news feeds, scrolling through a sea of pictures and posts, and engaging in a never-ending loop of notifications. The rise of digital addiction has given birth to a new set of liability risks that impact individuals and businesses alike. According to a 2022 study by the Pew Research Center, 56% of young adults reported experiencing anxiety and depression due to excessive screen time.¹



¹<https://www.pewresearch.org>

From a legal perspective, businesses may find themselves in the crosshairs of lawsuits if their digital products or services are deemed to have contributed to these adverse effects. The consequences can be dire, not only in terms of financial damages but also in terms of reputation.

The financial implications of lawsuits stemming from digital addiction are formidable. Businesses may face claims for compensatory damages, where plaintiffs seek financial recompense for the harm they believe has been caused by excessive use of the digital product or service. These claims can range from medical expenses to lost productivity and, in some cases, punitive damages meant to punish the business for its actions.

Beyond the realm of financial damage, the reputational fallout from lawsuits related to digital addiction can be equally devastating. In today's interconnected world, news of legal action can spread like wildfire through social media and online news outlets, tarnishing a company's image and trustworthiness in the eyes of consumers and investors. A tarnished reputation can lead to a loss of customer loyalty and trust.

Several US state attorneys general are suing Instagram and its parent company, Meta, for allegedly contributing to youth mental health crisis through the addictive nature of their social media platforms. The lawsuit claims that Meta knowingly encouraged young users to stay engaged on their platforms, even though they are aware that young minds are particularly vulnerable to seeking validation through likes and approval from others.

²

From a legal perspective, businesses may find themselves in the crosshairs of lawsuits if their digital products or services are deemed to have contributed to these adverse effects.

²<https://www.theguardian.com/technology/2023/oct/24/instagram-lawsuit-meta-sued-teen-mental-health-us>

Collaborating with Influencers

In the realm of digital marketing, collaborating with influencers has become de rigueur. However, this practice is not without its share of liability risks, which include defamation and product liability. A survey by the Influencer Marketing Hub found that 63% of consumers trust influencers' opinions about a product more than what the brand says.³

Influencers are often seen as independent entities, and their endorsements can carry considerable weight. When businesses engage with influencers, they are essentially associating themselves with the influencer's persona, values, and content. In doing so, they entrust a part of their reputation to these influencers.

If an influencer's content that is supported or sponsored by a brand, includes defamatory statements or unsubstantiated claims, the brand itself can be pulled into a legal quagmire. The business may be held liable for the content disseminated by the influencer, facing legal action from affected parties, damaged brand reputation, and the associated financial ramifications.

In the event that an influencer promotes a product that later proves to be faulty, unsafe, or misrepresented, the legal and

financial consequences for both the influencer and the brand can be severe. Consumers who experience harm or financial loss due to the influencer's endorsement may pursue product liability claims. Brands may be held responsible for the influencer's product endorsements if it can be demonstrated that they were aware of or should have been aware of the issues with the product.

The Uncharted Territories

While the risks we've discussed are certainly pressing, there are additional challenges on the horizon. Consider the liability risks associated with augmented reality (AR) and virtual reality (VR) technologies. As AR and VR become more prevalent in various industries, the potential for accidents, cyberattacks, and data breaches amplifies. Innovative businesses are already looking into comprehensive insurance policies that cover these novel risks.

Moreover, the evolving landscape of digital currencies and decentralized finance (DeFi) poses unique challenges for businesses, with potential risks ranging from regulatory issues to financial scams. Staying informed about the legal and financial implications of these technologies is crucial.

³<https://www.influencermarketinghub.com>

BEYOND CLIMATE RESILIENCE

THE VERSATILITY OF PARAMETRIC INSURANCE

Parametric insurance has always been linked to climate change, as it provides prompt financial assistance following climate-related disasters. Nonetheless, it's vital to acknowledge that parametric insurance can be used for much more than just climate-related risks. While it's indeed an essential tool for mitigating climate risks, its flexibility allows it to be utilised for a range of industries and risks.



Parametric insurance is a personalised solution that allows companies to manage a wide variety of risks in today's ever-changing landscape. With tailored solutions for everything from agriculture and energy to supply chain management and event cancellations, this insurance option can help mitigate a range of risks. By broadening our understanding of parametric insurance, its potential as a versatile risk management tool becomes evident. It's not just limited to climate change scenarios; it can be applied to many other situations as well. This article explores the potential of parametric insurance, its applications, and the broader implications it has for businesses and economies worldwide.



Understanding Parametric Insurance

Parametric insurance differs from the traditional indemnity-based insurance models. Rather than compensating policyholders for actual losses, parametric insurance pays out a pre-determined amount when certain trigger conditions are met. These conditions are based on objective, quantifiable data; such as seismic activity, wind speeds, or rainfall levels, making it a unique approach to managing risk.

The value of parametric insurance lies in its reliance on objective and quantifiable triggers. These triggers are based on the type of risk being insured and the available data sources. Triggers, for instance, can be tied to specific measurements, such as seismic activity (Richter scale readings for earthquakes), wind speeds (hurricane wind speeds), or rainfall levels (inches of rain in a defined time period for flooding). When these trigger conditions are met or exceeded, a payout is triggered.

In recent years, parametric insurance has gained recognition for its versatility and efficiency in providing quick financial assistance in various circumstances.

Insurers and governments often use catastrophe bonds with parametric triggers to transfer risk to financial markets. These bonds are tied to specific events, such as natural disasters. When a catastrophe occurs, bondholders receive high yields on their investment, while the issuer (usually a government or insurer) receives the necessary funds to cover disaster-related expenses.

Investors in catastrophe bonds fulfill a vital role. They offer financial relief to insured parties when predefined catastrophic events occur and specific criteria are met, such as predetermined pressure readings during a hurricane. When all conditions are satisfied, investors may incur losses, which are then channeled to assist in covering the costs of the pertinent natural disaster.

In recent years, parametric insurance has gained recognition for its versatility and efficiency in providing quick financial assistance in various circumstances.

The World Bank, one of the major players in this field, is preparing to increase its presence by expanding its outstanding catastrophe bond portfolio to \$5 billion in the next five years. This represents a significant increase from its current \$1 billion portfolio.¹ The market for catastrophe bonds is currently valued at around \$40 billion, making this expansion a significant development.

The Bank also plans to broaden the range of natural disasters covered by catastrophe bonds, extending the coverage beyond hurricanes, pandemics, and earthquakes, to include physical calamities such as floods and droughts.

Beyond Climate Resilience

While parametric insurance is often linked to climate-related risks, its potential applications are far-reaching. Below are some of the key areas where parametric insurance is making a significant impact.

The maritime industry faces a vast array of risks that require innovative solutions. Marine parametric insurance offers an efficient and swift response to mitigate those risks, while keeping pace with the global economy's demand for fast risk management. While traditional insurance policies have been the go-to choice for many in the industry, marine parametric insurance has emerged as a forward-thinking alternative that can provide rapid financial relief in the face of unpredictable weather-related disruptions.

Consider a scenario where a shipping company, responsible for transporting valuable cargo, is navigating through a particularly stormy region. The weather forecast predicts an imminent typhoon with the potential to disrupt the voyage. Under a traditional insurance policy, the company might have to absorb the financial losses resulting from cargo delays, damages, and additional expenses caused by the storm, and then file a claim for reimbursement, which can be a protracted process.

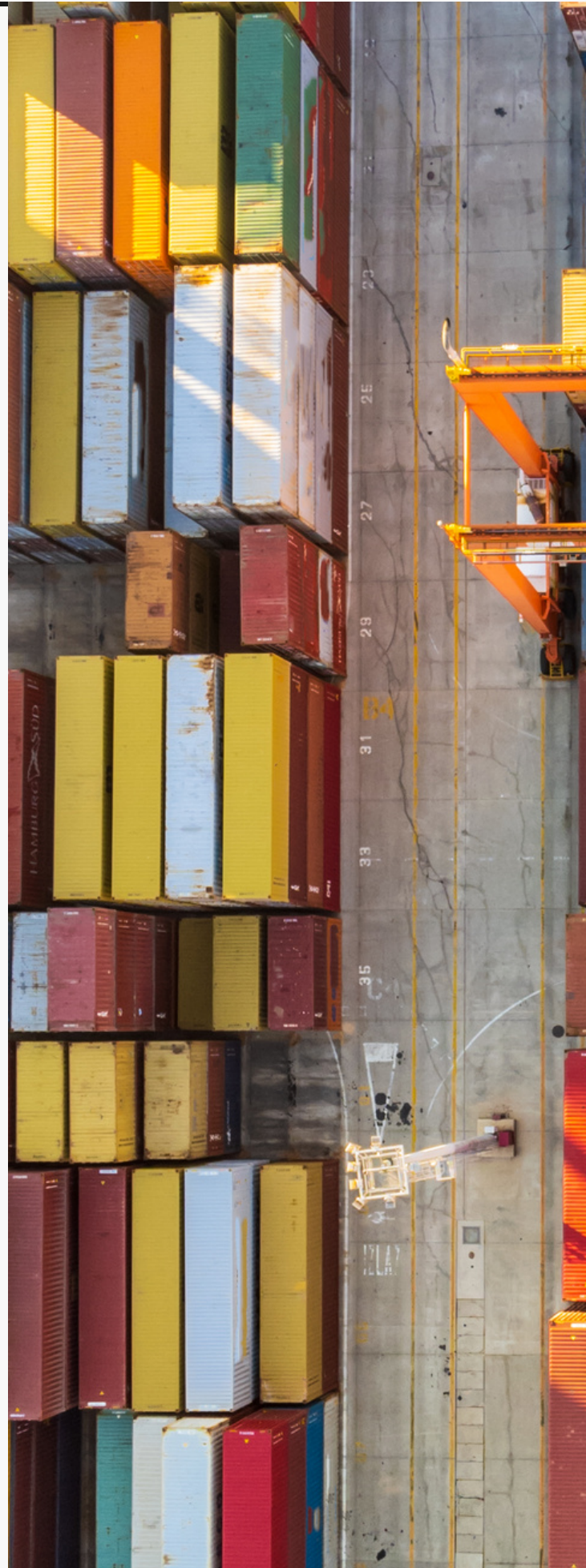


¹ <https://www.artemis.bm/news/world-bank-believes-it-could-grow-its-cat-bond-issuance-400-in-five-years/#:~:text=The%20World%20Bank%20has%20ambitious,%245%20billion%2C%20Bloomberg%20has%20reported.>

Marine parametric insurance streamlines this process by establishing specific trigger conditions in advance. These conditions could include criteria such as wind speeds, wave heights, or storm paths. When the predefined trigger conditions, like sustained winds exceeding a certain threshold, are met, the policyholder is entitled to a predetermined payout. This rapid and straightforward mechanism helps the shipping company respond to the immediate financial challenges posed by the storm.

In today's globalised economy, businesses have become increasingly reliant on complex and interconnected supply chains that span continents and industries. While these supply chains offer significant benefits, they also expose companies to a wide range of risks, including disruptions caused by natural disasters, political instability, and various external factors.

Parametric insurance provides a strategic solution to mitigate the financial impact of supply chain disruptions. By defining specific trigger conditions in advance, companies can secure a financial safety net to respond swiftly and effectively when these triggers are met. The beauty of parametric insurance in the context of supply chains is that it does not require a lengthy assessment of actual losses, which can be time-consuming and fraught with uncertainties.





A manufacturing company with an intricate global supply chain could establish trigger conditions linked to events such as political instability. Political events, trade disputes, and regulatory changes can create uncertainty and instability in global trade. Import/export restrictions, embargoes, or sudden policy shifts can disrupt the flow of goods and have financial ramifications for businesses reliant on international markets.

When a predetermined trigger, such as a government-imposed curfew in a critical region, takes place, the company would be entitled to a predefined payout. This swift financial assistance can be swiftly utilised to address the immediate impact of the political disruption

Building A Resilient World

Parametric insurance has transcended its origins in climate resilience to become a vital tool for managing an array of risks. Its ability to provide rapid, transparent, and customisable protection makes it an essential consideration for businesses and governments around the world.

As the risk landscape continues to evolve, parametric insurance's adaptability and innovation will play a pivotal role in securing a more resilient future. Embracing this transformative insurance approach is not merely a matter of managing risk but an essential step toward building a more resilient, secure, and sustainable world.

LEADING THE REVOLUTION

Insurance Is Shaping Climate Action

In a world fraught with environmental challenges, businesses are increasingly recognising the profound impact of climate change on their operations. With the stakes continue to rise, insurers must take on a proactive role in supporting the climate change strategies of their clients. Beyond conventional risk assessment, resilience, and recovery, a new imperative has emerged: "Reinvestment". This fourth 'R' not only strengthens the industry's contribution to climate change mitigation but also facilitates sustainable business practices.

Risk Assessment: Navigating the Climate Quagmire

Climate change has given a new level of urgency to the age-old practice of risk assessment. Traditional risk evaluation methodologies are no longer sufficient. By including climate-related data in their risk assessment models, they provide businesses with a valuable resource for understanding the potential threats and vulnerabilities inherent in an uncertain climate landscape.

As reported by Swiss Re, natural disasters inflicted over \$125 billion in insured losses in 2022, underscoring the magnitude of the challenge. The figure is sobering, but they also emphasise the critical role insurers play in mitigating these losses.

Insurers can provide businesses with a better understanding of their risk exposure by incorporating climate data into their models. This increased clarity allows companies to make informed decisions and execute more targeted risk management strategies. It also enables businesses to pinpoint areas where they are most vulnerable to climate-related disruptions, allowing for more precise investments in disaster preparedness and resilience measures.

In doing so, insurers become invaluable partners in business resilience. They facilitate comprehensive risk assessments that not only quantify the potential financial loss but also pinpoint vulnerabilities that require immediate attention. Hence, insurers, with their time-honoured expertise in evaluating and managing risks, have emerged as the custodians of clarity in the midst of the climate quagmire.

Resilience: Preparing for the Unpredictable

In an age where the unpredictability of climate-related disasters is becoming the new norm, resilience stands as the second 'R' in the strategic imperative that businesses must embrace to confront the climate challenge. Resilience, quite literally, is the key to weathering the storms — both figuratively and, increasingly, quite literally.

Climate change has made one thing abundantly clear: businesses can no longer rely on the assumption of a stable, predictable environment. Unpredictable weather patterns, extreme events, and shifting climate dynamics have ushered in an era where adaptability and preparedness are paramount. Resilience is the art of fortifying a business to endure, adapt, and emerge stronger in the face of these disruptions.

¹<https://www.swissre.com/institute/research/sigma-research/sigma-2023>

One outstanding example of resilience in action is the 'Resilience Index' developed by Swiss Re. This innovative tool is designed to assess a company's preparedness for climate change. By scrutinising various aspects of a business, including supply chain management, disaster response strategies, and infrastructure robustness, the Index provides a comprehensive picture of how well a company can withstand climate-related shocks.

The real value of such indices lies in their ability to guide businesses in identifying vulnerabilities that might otherwise remain hidden. By partnering with insurers to develop and implement strategies for risk reduction, companies can systematically minimize their exposure to climate-related perils. This partnership extends beyond the simple underwriting of policies; it becomes a collaboration for long-term resilience.

Implementing a proactive resilience strategy can bring several benefits to businesses. Although avoiding financial losses is a crucial aspect, the advantages go far beyond that. When a company establishes effective climate resilience strategies, it can better manage its operations, supply chains, and customer relationships, even during times of extreme disruption. This continuity, in turn, helps secure its reputation, market share, and long-term profitability.

To withstand the unpredictability of climate-related disruptions, businesses can incorporate resilience as a fundamental component of their climate strategy.

More than just a business strategy, resilience represents a fundamental shift in the way companies perceive and prepare for climate change. It's a paradigm that underscores the importance of adaptability, forward thinking, and a commitment to sustainability.

To withstand the unpredictability of climate-related disruptions, businesses can incorporate resilience as a fundamental component of their climate strategy. By collaborating with insurers to create and implement these strategies, companies can confidently confront such challenges and emerge not only intact but flourishing.

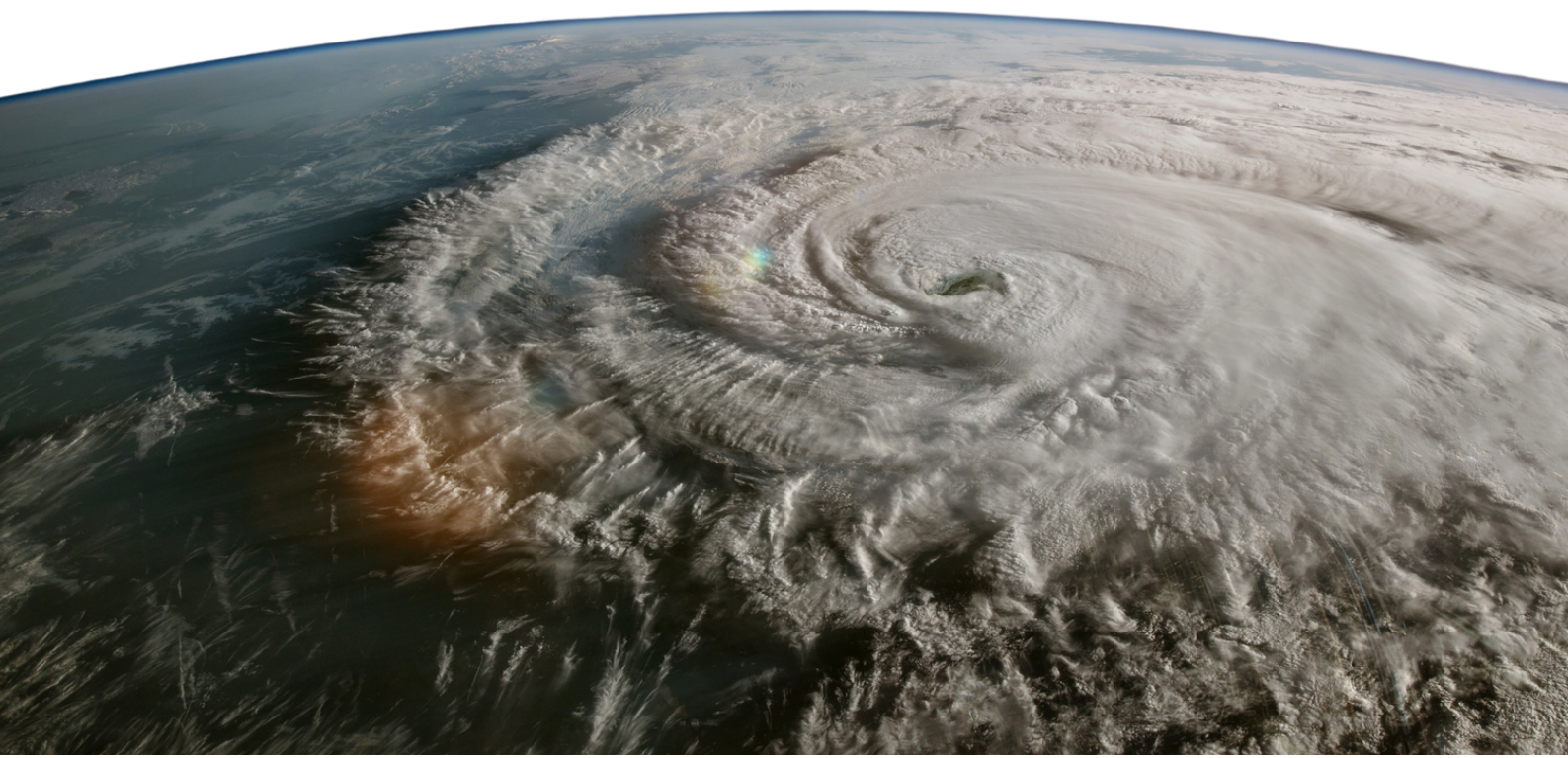
Recovery: Bouncing Back Stronger

Recovery, the third pillar of the '4R' strategy, is where the resilience and foresight built into risk assessment and preparation come to fruition. It's the phase where businesses must not only survive the aftermath of a climate-related event but emerge from the experience stronger than before. Recovery is about resilience in action, and here, insurers are instrumental in aiding businesses in bouncing back from adversity.

Post-disaster recovery is not just about financial compensation but also about rapidly and sustainably restoring operations. In the face of climate change, the ability to bounce back swiftly is a strategic advantage that can make the difference between business continuity and disarray.

The quicker businesses can recover and return to their pre-disaster operational levels, the less severe the long-term financial and operational consequences. Hence, speed is of the essence in the recovery phase, as it directly correlates with reduced disruption and ultimately, saved time and money.

Insurance serves as a crucial partner in the recovery phase by offering financial support, expertise, and resources to expedite the process of returning to normalcy after a significant event. By fulfilling its role effectively, insurance not only aids in the financial restoration but also contributes to the resilience and sustainability of businesses and individuals in the face of unexpected disruptions and challenges.



Japan is no stranger to natural disasters, with its susceptibility to earthquakes, typhoons, and tsunamis. In this highly disaster-prone region, insurers play a vital role in disaster response and recovery, embodying a model of proactive engagement that transcends the conventional insurance industry's role.

Leading insurance companies in Japan have demonstrated a deep commitment to supporting the nation during times of crisis. Their active involvement extends beyond the standard insurance transactions of underwriting policies and processing claims, as they become key stakeholders in Japan's disaster management and recovery efforts.


Reinvestment is where the financial might of insurers transcends mere risk management and leaps into the realm of catalyzing transformative change.

Reinvestment: Accelerating Climate Action

While risk assessment, resilience, and recovery are essential components of the '4R' strategy, the fourth 'R,' reinvestment, is a linchpin in advancing climate change strategies. Reinvestment is where the financial might of insurers transcends mere risk management and leaps into the realm of catalyzing transformative change. It is, in many ways, the proactive commitment to building a sustainable, climate-resilient future.

Insurers, often wielding substantial financial clout, are uniquely positioned to influence investments and channel funds toward environmentally responsible initiatives. This isn't just a matter of ethics; it's a strategic imperative for businesses operating in a world increasingly shaped by climate considerations.

Zurich Insurance Group exemplifies this commitment to reinvestment by pledging over \$7 billion in green bonds and other climate-friendly initiatives. By allocating a significant portion of their financial resources to projects and businesses with a strong environmental and climate focus, Zurich is actively driving the transition towards a more sustainable economy.



The ripple effect of such initiatives is profound. Insurers can encourage businesses to align their investments with climate goals. Consider a manufacturing company that, with the guidance of its insurer, diverts a portion of its capital toward renewable energy projects. This not only aligns with climate action but can lead to cost savings in the long run, reducing dependence on fossil fuels and creating a more resilient energy supply.

Furthermore, insurers can incentivise sustainable supply chain management, emphasising the importance of responsible sourcing and eco-friendly production processes. This proactive approach helps companies lower their carbon footprint and enhance their reputation among environmentally conscious consumers.

Insurers are leading the way in creating a sustainable and secure future by involving clients in the development of climate-resilient investment portfolios. This two-pronged strategy not only protects against climate risks but also fosters conditions that can mitigate those risks.

The Holistic '4R' Approach: A Beacon of Hope

Insurers, often wielding substantial financial clout, are uniquely positioned to influence investments and channel funds toward environmentally responsible initiatives. This isn't just a matter of ethics; it's a strategic imperative for businesses operating in a world increasingly shaped by climate considerations.

Insurers must not merely be viewed as risk transfer entities; they are now partners in progress, guiding businesses towards a future where sustainability and profitability go hand in hand. By actively collaborating with insurers, businesses can lay the foundation for a sustainable and resilient future, ensuring that the challenges posed by climate change become opportunities for growth and innovation.

As we navigate the complex terrain of climate change, let us remember: Risk Assessment, Resilience, Recovery, and Reinvestment are the '4R' pillars that will lead us towards a future where businesses not only survive but thrive, even in the face of our changing climate.



SECONDARY PERILS, ANYTHING BUT SECONDARY

In the realm of natural catastrophes, a paradigm shift is underway. Secondary perils, which were once considered less threatening, have now surged to the forefront of risk assessment. Notably, these events are occurring in areas previously thought to be low risk, marking a substantial increase in both their frequency and contribution to the total insured losses. Over the past three decades, secondary perils have been responsible for over 50% of insured losses, challenging conventional notions of risk in the insurance industry.

What we are witnessing is the transformation of once-unusual events into a disturbingly frequent occurrence. This transformation is propelled by a confluence of factors, including extreme weather patterns, expanding exposure areas, and rising property values. The impact of this shift has been even more pronounced since the onset of the COVID-19 pandemic, as the high inflationary environment has driven the cost of reconstruction to unprecedented levels. This heightened vulnerability to secondary perils underscores the urgency of addressing this issue.

In response to this evolving risk landscape, the insurance industry is investing heavily in understanding and quantifying these new risks. While the industry boasts robust risk models for all perils, particularly primary ones, recent years have revealed a glaring gap in predicting losses associated with secondary perils. This gap pertains to both the increasing frequency and severity of these lesser-monitored events.

To address these challenges, the industry is making substantial investments in modelling and monitoring secondary peril events. Moreover, there is an urgent need for enhanced data transparency across the entire value chain. The industry recognises

that open, collaborative data sharing across the value chain is crucial. By enhancing data collection, sharing, and analysis, stakeholders can collectively prepare for and mitigate the impact of secondary peril events.

Primary insurance companies, with their diversified portfolios, are better equipped to absorb attritional and frequency losses resulting from secondary perils. Reinsurers, on the other hand, play a crucial role as shock absorbers for more severe events, like the Turkey earthquake of this year. The year 2023 has seen a notable shift towards a more balanced risk-sharing approach across the insurance value chain, a trend that is expected to continue.

The emergence of secondary perils as primary risk factors is a compelling narrative for the insurance industry and society at large. As the world grapples with the evolving landscape of risk, the industry's resilience and adaptability are being put to the test. The unprecedented combination of extreme weather patterns, property value growth, and the impact of the pandemic has propelled secondary perils to the forefront. In response, the insurance sector is committed to enhancing risk modelling, monitoring, and data transparency, aiming to build a more resilient and adaptive system.