StrategicRISK

Risk and corporate governance intelligence

› UKRAINE: OUR FULL ANALYSIS
› #CHANGINGRISK SERIES: PINPOINTING WHEN AND HOW TO THINK ABOUT RISK
› RISK'S BAD BOY ALEX SIDORENKO
› EVER-RISING EXPOSURE FOR D&Os
› GETTING A GRIP ON INTANGIBLES: WHY ACCESS TO DATA REMAINS A CHALLENGE

EDITION [Q1] 2022 | Issue 128

OUR WORLD IN PAIN ›

As we witness the crisis unfolding in Ukraine, risk managers – this is your call to action. Not just to manage the impact on your organisations but to stand on the right side of history.

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Q1 2022

ISSUE 128

StrategicRISK

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ISSN 2517-5734

PUBLISHED BY
Newsquest Specialist Media Limited, registered in England & Wales with number 02231405 at Loudwater Mill, Station Road, High Wycombe HP10 9TY – a Gannett company

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Contents

LEADER > P3
STAND UP FOR WHAT'S RIGHT

As the Ukraine conflict rages on, it is your calling to be the adult in the room.

ANALYSIS > P4
> Risk profession in crisis mode
> Amrae: Time to rekindle dialogue with insurers

VIEWPOINTS > P7
> Reputations under siege
> Show strength and compassion
> Reach out

GEOPOLITICAL RISK > P11
A WORLD AT BREAKING POINT

The geopolitical landscape continues to reach new levels of volatility. But we can't just rely on the politicians to find solutions.

CHANGINGRISK > P14
WHEN TO THINK ABOUT RISK - AND WHY TIMING IS EVERYTHING.

HOW TO SET RISK APPETITE - CLIMBING THAT MOUNTAIN.

PROFILE > P18
THE MAVERICK

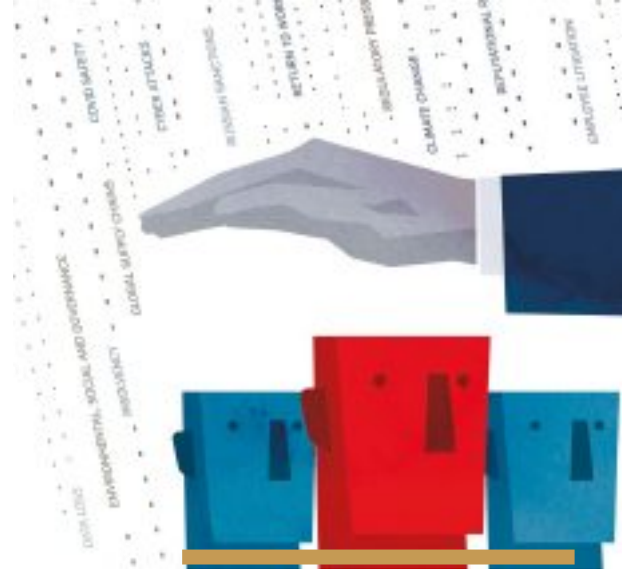
Alex Sidorenko wants a risk analysis revolution and he is willing to be obnoxious if it gets people to listen.

FUTURE OF BUSINESS > P22
PARAMETRICS: SOLUTIONS FOR A CHANGING WORLD

Faced with long-term challenges and emerging risks, is parametric insurance part of the future of risk transfer?

D&O: THE SEARCH FOR SHELTER

Senior managers have never been more exposed. But is it possible to find adequate protection?



Why COVID-19 continues to impact directors and officers **> P24**

SPECIAL REPORT > P27
GETTING A GRIP ON INTANGIBLES

The pandemic has focused our attention on intangible risks. But getting a firm grasp of the data remains a challenge.

SPECIAL REPORT > P37
ASIA-PACIFIC RISK BENCHMARKING SURVEY

More and more is being asked of risk professionals in APAC. So why are budgets staying the same?

RISK LEADERS > P46
LEADING THEIR RISK RETHINK

Carolina Klint thinks it is time to align strategy with risk.

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The Journal is StrategicRISK's series of interactive online books for professionals in the corporate risk management and insurance sector. The Journal is published in partnership with Swiss Re Corporate Solutions. Each edition features case studies, academic articles, research, interactive infographics and video interviews, helping you get to grips with the biggest risks facing organisations in a volatile world.

strategicrisk-asiapacific.com/sections/the-journal

PRODUCT RECALL | BUSINESS INTERRUPTION | CONSTRUCTION RISK

Developed and published by

StrategicRISK

In partnership with

Stand up for what's right

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As the Ukraine conflict rages on, we are all affected. But this is not about business, it's about people. It is your calling to be the adult in the room through yet another terrible crisis – the one to act with bravery and integrity. There is too much at stake not to.

Two years on from the first pandemic lockdowns, the world has been blindsided by another major shock – Russia's invasion of Ukraine. Should we have been surprised? In the Q4 2021 edition of *StrategicRISK*, Control Risks' Charles Hecker and Claudine Fry warned us the world would spin differently in 2022 – that geopolitics hates a vacuum.

Yet in January, when the WEF published its Global Risks Report 2022, geo-economic confrontation was in just ninth position as a long-term global risk for the next 5–10 years. Geopolitical risks did not even make it into the top ten of short-term global risks.

Two months on, here we are. It is not a trade war. This is not a war being carried out in the virtual world (despite the ever-present warning of spillover cyber attacks), or at a distance, using modern weaponry. At the time of writing, there were already thousands of casualties, including many children. It is a humanitarian disaster as millions of Ukrainians flee the constant and increasingly indiscriminate bombardment of cities and towns, hospitals, theatres and schools.

It affects us all, whether or not we have offices and people in the region or not. As our journalist Sara Benwell explains on page 11, there are many implications of a volatile geopolitical landscape, from soaring energy prices, supply chain issues and cyber threats to instability in financial markets and ESG issues, as corporates navigate a growing raft of sanctions against Russia.

We cannot expect risk surveys like the WEF Report to act as our crystal ball. We learned this to our detriment in 2020 when pandemic risk did not even make it onto the list in January of that year. What WEF did remind us, however, was that we are living in an increasingly unequal, divided and discontented world. And that, unaddressed, we should expect this to cause conflict and upheaval.

I am no political or military expert but I have interviewed many who are, and the atrocities underway in Ukraine have not appeared from nowhere. This conflict has been at least a decade in the making.

It is the result of many complex, interwoven factors, including tensions that stem back to the collapse of the USSR. But it has been enabled by a more polarised world, the spread of disinformation (and the power of social media), unfettered capitalism, consumerism and our addiction to fossil fuels, political systems that allow megalomaniacs to rise to power then fail to hold them to account, and ultimately a world weakened by COVID-19.

For too long, the corporate world has been unwilling to get drawn into the messy business of politics. But we can no longer distance ourselves, even if it feels uncomfortable. It is certain we will see more conflict and displacement, as resource scarcity, climate extremes and poverty continue to shape our planet.

We must call out politics that seeds division, which exploits fear. We learnt those lessons in 1945 – or should have done. As Fusion Risk Management's Bogdana Sardak tells us on page 8, firms must take a people-first approach, be brave and stand up for what they believe is morally right. "It is not about politics," she says. "It is about caring for human life and putting people first".

"WE MUST CALL OUT POLITICS THAT SEEDS DIVISION, WHICH EXPLOITS FEAR. WE LEARNT THOSE LESSONS IN 1945 – OR SHOULD HAVE DONE."

The world needs more adults in the room who are willing to speak up and behave with intellect, diplomacy and integrity through a crisis. Ukrainian President Volodymyr Zelensky is an obvious role model, but I have spoken to enough risk professionals to know why your organisations turn to you first in any crisis.

We know from speaking to the risk associations (page 4) that many of you are in crisis management and business continuity mode. You are helping your senior managers make quick, decisive choices, armed with the right information, while keeping a cool head and building in resilience for whatever comes next.

As Gianluca Pescaroli, lecturer in business continuity and organisational resilience at University College London's Institute for Risk and Disaster Reduction, told the BBC recently: "Independent of whether it is a pandemic, Ukraine or climate change. The better you prepare, the better you adapt and react." **SR**

Risk profession in crisis mode

European risk associations confirm their members are prioritising crisis management and business continuity as the war in Ukraine rages on

Ferma, Airmic, GVNW, IGREA and Amrae are supporting their members through the latest global shock as organisations respond to Russia's invasion of Ukraine and the many implications. In a world still emerging from the pandemic crisis, the onus is again on the risk management community, according to Airmic chief executive Julia Graham.

"There is an imperative for risk professionals to learn and apply the lessons of the pandemic and the Ukraine crisis, boost preparedness, so as to ensure the agility and adaptability of their responses during a fast-moving crisis."

HUMANITARIAN CRISIS

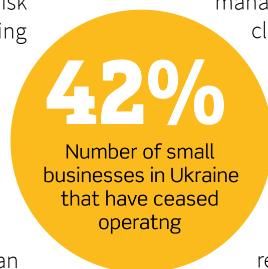
The conflict is a reminder of the increasingly unpredictable and complex risk landscape businesses are operating in, Graham told StrategicRISK. "The world may get even more unpredictable and tumultuous from here, and this is where risk professionals have a role to play in stepping up to help their organisations navigate and respond through it all."

Graham said the risk association's members are exposed to a wide range of impacts emanating from the Ukraine crisis, but that people risks are the front and centre of mind in what governments and NGOs are describing as a humanitarian crisis. A wide range of industry sectors are feeling the effects, which range from sanctions and financial risks to supply chain disruption and energy supply issues.

"Airmic is taking a joined-up approach in guiding our members through this generation-defining crisis, as a reflection of the interconnected risks this conflict has brought. We are maintaining a resource page on our website relating to the crisis, which seeks, with the support of our partners and other business connections, to provide a risk radar for our members and the wider risk community."

"We are also running regular meetings of our Geopolitics Special Interest Group in tandem, which have seen record numbers of attendees as well as a planned insurance-focused roundtable.

"All of this provides the platform for risk professionals to share their experiences and exchange ideas during a fast-evolving crisis with far-reaching implications."



FERMA OFFERS ASSISTANCE

Ferma meanwhile has released a statement strongly condemning the invasion and voicing its support and sympathy for the Ukrainian people. In light of the extensive sanctions imposed on Russian organisations and individuals, the board of Ferma has suspended the membership of its Russian member, RUSRISK.

Ferma president Dirk Wegener said European risk managers are busy helping to maintain the continuity of their organisations, rolling out crisis management and business continuity plans in close cooperation with other functions and departments.

"The entire organisation is affected, including employees, supply chains, IT systems and insurance programmes. The experience of dealing with the COVID-19 showed how important risk and crisis management are to our resilience against disruptive events."

Ferma is also putting its risk and crisis management expertise and resources at the disposal of the EU institutions and EU member states to help them face the crisis and prepare for future challenges.

ECONOMIC FALLOUT BEGINS

Amrae president Oliver Wild said French risk managers were - on the whole - more resilient coming into the current geopolitical crisis, because of their experience with COVID. But he acknowledged some fatigue was inevitably setting in after two years of the global pandemic.

"THERE IS AN IMPERATIVE FOR RISK PROFESSIONALS TO LEARN AND APPLY THE LESSONS OF THE PANDEMIC AND THE UKRAINE CRISIS"

Julia Graham,
CEO, Airmic

Credit: Drop of Light / Shutterstock.com

Speaking to StrategicRISK, he explained the COVID experience had given crisis cells "better reflexes" in how they manage their organisation through a crisis. Certainly, the experience of supply chain disruption over the past two years has helped organisations re-evaluate their approach. However, the impact from the War in Ukraine will be on the availability of goods and commodities, including gas and wheat.

There is the threat that a cereal shortage could cause social unrest and disruption in poor countries later in the year. One of the triggers for the Arab Spring was the rising cost of commodities, including wheat, reminds Wild.

"It is a tragic situation in Ukraine, but it is an economic war as well and we're only seeing the tip of the iceberg of that," he says. "Many countries have been under great economic pressure because of the last two years of COVID."

DO I STAY OR GO?

From a sanctions perspective, risk and compliance managers are also faced with adverse reputational fallout for the choices they make now. "As a risk manager you'll often see reputation because of the risks you're trying to manage. But here it is a direct risk effectively," says Wild.

Amrae members are gathering for weekly webinars to discuss the situation in Ukraine as it unfolds and sharing best practice on how to navigate the risks presented, reveals Wild. It is inevitable the geopolitical world order will shift as a result of Russia's invasion of Ukraine. He is hoping upcoming webinars will include insights from political risk experts to help members think through various scenarios and plan accordingly.

"Geopolitical risks were probably underestimated in the risk maps of companies," he says. "I'm talking generally here because we've always had it quite high on our risk map at Veolia. And of course, now is a good time to review your risk map… once again."

CLIMATE TRANSITION CONCERNS

The dependency of many European countries on Russian gas is an issue that cannot be overcome in the short term without climate transition implications.

Cristina Martinez, co-founder and board member of IGREA (Spanish Risk and Insurance Association) currently chief risk officer at Sacyr noted the scale of international economic sanctions and rating actions are "reconfiguring the existing geopolitical landscape and economic context for global business and financial markets".

"A longer strategic vision for greater energy security (on top of the search for greener solutions) is required but the reliance on Russian oil and gas varies significantly between EU members," she said. "Not only is a pan-European commitment to coordination and unity required to reshape energy policy, but other regional players are essential to help Europe move towards a more secure, diverse, energy base".

Among the main concerns of Spanish risk and insurance managers are the global intensification of social-political conflicts and supply chain disruptions. "Prices surged from already high levels after the invasion of Ukraine, driving up the cost of raw materials, energy, commodities and further disrupting the already fragile supply chain," she told StrategicRISK.

IGREA members are also concerned that the situation in Ukraine will do little to ease the hardening trend in the commercial insurance market. The increase in cyber threats, for instance, could result in further challenges for insurance buyers come renewals, at a time when capacity for certain classes of business remains constrained.

"GEOPOLITICAL RISKS WERE PROBABLY UNDERESTIMATED IN THE RISK MAPS OF COMPANIES"

Oliver Wild,
president, Amrae

POLITICAL RISKS UNDERINSURED

Insurability is another issue. GVNW managing director Stefan Rosenowski told StrategicRISK the association was "deeply concerned about the current armed conflict and stands behind the sovereignty and freedom of Ukraine and its people".

"Some of our members have locations in Ukraine and fear for the safety of their employees, but also for possible damages caused by acts of war," he said. "Others are active in Russia and currently have to reconsider their business activities there due to the sanctions applied. There is also the topic of possible confiscations and the loss of assets and investments made."

At present, aviation insurers and reinsurers are on the hook for around $10 billion in losses relating to seized planes. This will be the largest annual loss for the class since 9/11. But not all losses will be indemnified, warned Rosenowski.

"Many risk and insurance managers are asked about possible insurance cover," he said. "Unfortunately, many of the risks at stake cannot be compensated by insurance. We are supporting our members in these discussions." **SR**

Amrae: Time to rekindle dialogue with insurers

We can't keep hoping for the market to soften. Buyers' only option is to sit down with insurers, show them how resilient we can be and work on solutions, says Amrae president Oliver Wild.

"RISK MANAGERS ARE NOT THERE TO STOP THE BUSINESS FROM DEVELOPING. WE'RE ALL HELPING TO TAKE RISKS, IN AN INFORMED WAY."

President, Amrae
Oliver Wild

After over two years of commercial rate hardening, one of Amrae president Oliver Wild's main aims for the conference in Deauville this February was to "rekindle dialogue" with the insurance industry. For certain classes of business, including cyber and D&O, it is no longer just about affordability. In many cases, the capacity is simply not available, he told *StrategicRISK*.

"There are no signs of the market softening – it's even harder than it was before. The price increases started in 2019 and we've seen that for two renewals in a row and there's also been a withdrawal of capacity."

The steep rise in cyber rates flies in the face of prevailing claims trends, according to the association's latest LUCY report [Lumière sur la Cyberassurance]. It argued the cyber insurance market was stuck in a "vicious cycle" and would not reach its potential unless carriers are prepared to innovate in order to offer more meaningful capacity.

For Wild, who is also group chief risk and insurance officer at Veolia, renewals for distressed classes have never been so down to the wire. This is despite the efforts by corporate insurance buyers to begin discussions as early as possible.

"There are some major cracks in the dialogue [with insurers and brokers] and that's been the case since 2019 when we saw that brutal change in the carriers' risk appetite," he said. "The market is very hard."

"That risk aversion is even stronger on topics such as climate change, cyber and D&O. It's a widespread behaviour, not only in terms of these particular risks."

SHOW THEM OUR STRENGTH

Despite this behaviour, Amrae is determined to build bridges and encourage a collaborative and positive approach to dealing with some of the biggest challenges that lie ahead. Among these, is climate change.

"There is a feeling among insurance carriers that some systemic risks are too big to be covered," said Wild. "But we feel that with strong risk management and vehicles such as captives, we can find a solution. We need to show the carriers how resilient we've been able to make our businesses."

"We want to be able to rekindle that dialogue and rethink the risk-sharing models," he continued. "The discussions with insurers need to start much earlier, because there's a lot of information to share. Captives are growing at a faster rate and that should make insurers more comfortable."

COLLABORATING ON CARBON TRANSITION

It is also essential to have support from the insurance industry as companies continue on their transition journeys, he explained. There is pressure on carriers to stop providing cover for carbon-intensive activities, such as thermal coal. But coverage solutions need to be considered against the backdrop of broader zero-carbon goals, believes Wild.

"Insurers can't just pull the plug on 'brown activities', such as coal in central Europe," Wild said. "We need them to partner with us to help drive that change. It's something we need to do together. Climate change can only be tackled with a collaborative approach."

Another theme at the February meeting was the role of risk management as a business enabler. "Risk managers are not there to stop the business from developing," said Wild.

"We're all helping to take risks, in an informed way. Our focus is looking forward and making sure we talk about the major challenges and risks that were already existing prior to the COVID crisis – one of those being climate change." **SR**

Reputations under siege

It has never been more difficult to manage your reputational risk. Steel City Re's Peter Gerken asks – is authenticated risk management the answer?

"COMPANIES NEED TO SHARE THE REPUTATION RISK MANAGEMENT PROCESSES WITH STAKEHOLDERS. NOTHING TELLS A STORY OF AUTHENTICATED RISK MANAGEMENT BETTER THAN A THIRD PARTY AGREEING TO ACCEPT RISK."

Senior vice president, risk transfer agency and insurance, Steel City Re
Peter Gerken

We are living in a time when the velocity with which new reputational risks appear is enough to leave corporate leaders and risk managers feeling under attack.

We've seen expectations for corporate behaviour change dramatically, with issues like #MeToo, Black Lives Matter, gun violence, voting rights, the environment, diversity, equity and inclusion, COVID and now the war in Ukraine. What started as a move toward corporate social responsibility morphed into a business roundtable pledge, redefining corporate priorities to include all stakeholders, which in turn became translated into ESG – environment, social justice and governance – which has become a catch-all for the many activities and actions society (stakeholders) expect of corporations today.

WALKING A TIGHTROPE

Reputation relates to the degree to which stakeholder expectations align with a company's actual performance. Value depends on how confidently stakeholders expect that firms' reputations predict future behaviour. Reputation is therefore the value of present expectations for the future. When there is a gap between expectation and performance, that's reputation risk.

A 'heat of the moment' event can change stakeholders' behaviours and ignite a crisis. Changed behaviours can reduce future revenue and increase future costs. Public manifestations include litigation, regulatory opprobrium, and adverse media attention.

Today, being Russian is a reputation risk. Companies that do business in Russia face reputational risk and are responding by pulling out of those operations. In an ironic twist, ESG advocates looking at rising oil and gas prices need to weigh their environment and social priorities against each other.

Firms need better processes for defining their stakeholders, understanding their expectations, keeping tabs on the dynamic nature of these reputational risks, and adapting their risk strategies to the intelligence they gather. They need to execute operational and communications strategies informed by the risk models and publicise this process for the benefit of stakeholder and shareholders, so that all can appreciate and value it.

IDENTIFY YOUR REPUTATION LEADERS

First, they need enhanced ERM processes that are both functional and structural, centralising stakeholder knowledge from corporate silos including human resources, sales and marketing, risk management, investor relations, legal and compliance, CSR, DE&I, operations and treasury. This central intelligence apparatus would be the 'reputation leadership team'.

The team needs tools to integrate the expectations of stakeholders, the capabilities of the firm, the promises of management, and the constraints of resources and regulation. It needs feedback on how stakeholders are responding to strategies.

A steady stream of reputational value metrics is essential. And the team needs to be able to value the benefits and costs in financial terms of strategic alternatives. Communications emerging from the team, after vetting by the chief legal officer, would be presented to the board for dutiful oversight.

Through this, a firm will find itself both governing and managing that which is mission-critical to the firm because it is concurrently vitally important to its stakeholders. The respective silos of the firm will execute the risk strategies recommended by the team and approved by the board. There is no real threat to the benefits of corporate silos as long as that risk information flows back freely to the team.

SHARING THE BURDEN

Second, companies need to share the reputation risk management processes with stakeholders. Nothing tells a story of authenticated risk management better than a third party agreeing to accept risk and include captives in the mix. It creates enterprise value.

A Steel City Re study found that stock prices of firms that managed, validated and publicised ESG and reputation risk management strategies on average gained 9.3% over the subsequent seven months after a precipitating event. Companies that failed to institute, validate and communicate risk management strategies lost 13.2% of their stock value, and they underperformed their peers by an average of 23.3%.

Strategic communications of authenticated risk management make a difference. Investors reward firms that manage reputational risks as operational strategies and not just potential PR problems. Companies need to take a more structured, substantive and comprehensive approach to risk governance and management. This framework will help them accomplish that. **SR**

Peter Gerken is senior vice president, risk transfer agency and insurance, Steel City Re.

Show strength and compassion

Operational resilience has never been more vital in this world of increasing volatility. Fusion Risk Management's Bogdana Sardak walks us through the steps to security for your business and your people.

For the last two years, it feels like we've lived in a state of ongoing crisis as unexpected global events have disrupted organisations in every part of the world. From a global pandemic and massive supply chain disruptions to rising inflation/cost of living and large-scale cyber attacks that have stopped businesses in their tracks, organisations large and small have faced numerous challenges.

Consequently, operational resilience has never been so vital. Now the geopolitical crisis in Ukraine is also demonstrating the critical need for resilient and robust organisations that can adapt and flex quickly to make informed decisions and actions.

The conflict in Ukraine is multifaceted, affecting personnel safety, supply chain, vendors and the economy. It's now critical for organisations to assess the immediate and potential future effects on their organisation and take swift action.

ASSESS IMPACT AND RESPOND

The first step in formulating a response for your business is to assess the impact of any threat or disruption and fully understand which business operations, clients, vendors and partners could be affected. Organisations with offices in or near areas affected by the geopolitical crisis must consider how daily operations will be affected.

Employee safety and security should be the top priority. Businesses must also consider that government intervention such as sanctions, financial limitations or government restrictions may hinder the organisation's ability to function as usual.

Even if an organisation does not have direct ties to the affected areas, no organisation exists in a vacuum. Firms must identify the impact on business-critical vendors and how it directly impacts the business. The effect on vendors and their supply chain may not be instantly apparent, so organisations must proactively reach out to third-party providers and enquire about their operations and resilience plans.

Crisis requires a response. That's why it's critical that every business has a comprehensive crisis and business continuity plan in place that was developed with key stakeholders and can be quickly activated to ensure the business can continue operations.

"PLANS ARE NOT THE END GOAL. THEY ARE A GOOD EXERCISE. IT IS THE MUSCLE MEMORY RESPONSE TO THE GOAL AND THAT MAKES AN IMPACT IN TIMES OF CRISIS."

Director of risk, Fusion Risk Management
Bogdana Sardak

There will be many moving parts in this process. Activating subgroups and subtasks to orchestrate the complete business response is critical to remain organised and efficient. Subgroups should take on separate tasks of the overall business response such as vendor alternatives and geographic office logistics and engage with key stakeholders of the C-suite for critical decisions and approvals. Keeping the C-suite updated during the activation of plans will be critical for success.

Understanding the vendor and supply chain dependencies and project potential impacts during disruptive events requires mapping of business processes in detail. Preferably this action happened before the crisis. Organisations should be focusing on critical business processes that support critical services and products of the organisation.

If an organisation does not have a complete vendor/supply chain map to its critical products and services, it must use existing data on critical business services and products, and engage from that point. Engaging with essential vendors and fully understanding their position and operations will direct the next steps. In some cases, vendors can continue operations as usual, but in some cases, organisations may need to find an alternative supplier – and quickly.

PREPARE FOR THE LONG-TERM

The effects of COVID-19 have shown how important it is for every business to have a long-term, high-level plan for an economic downturn, and for leaders within the organisations to be prepared for when cashflow and the market are not acting favourably. Plans are not the end goal. They are a good exercise. It is the muscle memory response to the goal and that makes an impact in times of crisis. Organisations must be able to look at a plan, understand how the current situation deviates from the plan, and quickly act.

It's critical to have data on how operations run and understand all moving parts that contribute to the business as usual. Mapping this data in an organised manner will enable action without delay when long-term disruptions affect an organisation. Understanding how an organisation works provides the knowledge to put it back together.

Process mapping starts within your organisation and extends to the internal and external dependencies, including vendors, supply chain, applications, people and physical sites that support your daily business functions. Simply knowing who oversees what functions and tasks is not enough. One business process can have multiple teams in different regions/countries and use different vendors for the same product/service simply

because of the geographical difference.

You must completely understand operations at every level and have clear upstream and downstream dependencies. Know which vendors you rely on for which operations to recognise the impact on your business in times of crisis and inform thought-out decisions.

BE READY TO ACT, ADAPT

Operational resilience gives organisations the tools to understand operation data points and locations. Once an organisation understands its data, it can be effectively mapped and analysed for multiple situations, regardless of what kind of disruption the organisation faces.

Whether a geopolitical crisis, natural disaster or supply chain shortage, resilience provides the ability to digest data and take swift action. Proactive planning provides an opportunity to have multiple options that are pre-discussed and pre-approved for the worst-case scenario.

Businesses cannot achieve resilience unless they fully understand their critical processes. After identifying these, they must discuss and plan for when business as usual halts. Critical operations typically include people, applications, sites and suppliers that enable an organisation to fulfil its brand promise to customers under normal conditions. By prioritising resilience, organisations can ensure no single point of failure.

Over the last two years, we have experienced wide-ranging crises that have affected almost every organisation in some way. We should recognise that disruptions are here to stay and it's no longer a question of if another crisis will occur; it is a matter of when. Never has it been more important for a business to be able to pivot and adapt to any disruption.

It's critical that businesses today understand the global threat landscape so they can proactively respond and get ahead of potential disruptions. Sometimes overreaction may present the best option for a business.

Predictable crises give firms the time and ability to respond before the situation calls for a reaction. Monitoring the global landscape continuously offers organisations the time to act before imminent danger, especially when life and safety are at risk.

When preparing for any disruptions, organisations should put people first. With the proper data, preparedness and plan, firms can seamlessly adapt new operation models and logistics and worry about what truly matters: people and safety.

TAKE A PEOPLE-FIRST APPROACH

No business can exist without its employees. By showing genuine care for employees and their families who may be affected by a crisis, organisations can boost employee morale. Taking a 'we are all in this together' approach goes beyond social media posts or other marketing content. By displaying genuine care, employee and customer loyalty will increase well beyond the period of disruption.

Organisations should also be brave and stand up for what they believe is morally right. Do not be the one lagging while everyone is taking a particular stance out of fear. It is not about politics; it is about caring for human life and putting people first.

The geopolitical crisis in Ukraine is evolving by the minute. The situation a business faces today may be different tomorrow. Organisations must prioritise agility in these situations to flex and adapt as new developments occur.

If you have not started your resiliency journey yet, this is the perfect time to start and be ready. And, with the appropriate pre-emptive and proactive measures in place, organisations can prioritise what really matters – human life. **SR**

Bogdana Sardak is director of risk at Fusion Risk Management.

"DO NOT BE THE ONE LAGGING WHILE EVERYONE IS TAKING A PARTICULAR STANCE OUT OF FEAR. IT IS NOT ABOUT POLITICS; IT IS ABOUT CARING FOR HUMAN LIFE AND PUTTING PEOPLE FIRST."

Director of risk, Fusion Risk Management
Bogdana Sardak

Reach out

Make 2022 the year you get yourself out there, build relationships and take a seat at the table, says Alexander Larsen at Baldwin Global Risk Services.

During these last couple of years, aside from the crisis meetings focused on survival, we have seen organisations focus on restructures, new strategies and business models changing. Among other things, digital technology adoption and transformation initiatives have accelerated. These are all areas where risk managers and risk departments are thriving, providing valuable support and insights to enable strategic decision-making.

But it has not always been thus. While the pandemic saw risk mangers finally brought to the top table for their insights and support, far too often we are cast aside.

As a first step, risk managers should be knocking on the door and asking for an invitation. It is surprising how often this works. If it doesn't then it's important to attract attention by demonstrating value. The risk manager needs to identify influencers and allies who they may be able to approach to get an invitation.

In order to demonstrate true value, the risk manager first needs to understand what is important to their senior executives and speak their language. If the risk manager can understand what is close to their heart, such as a pet project or initiative, it's a great starting point to offer help or support.

So what should this support look like? Clearly, senior executives are unlikely to be impressed if the risk manager only comes to them with roadblocks. It is far more productive to present opportunities and solutions to risks or, indeed, what the deviations (both positive and negative) to the objectives may be.

GAIN BUY-IN

While gaining top management support is vital, equally as important is ensuring the wider staff team are on board. They are being asked to identify risk, to take time out of their jobs to support a risk management programme that they may not understand, see the value of, or receive feedback from.

So focus on communication and softer skills. Offer a proper thank you, along with feedback on how risk insights are supporting decision making or being escalated and used at the highest levels. This can be achieved via newsletters, visual annual risk reports or simply stepping away from the desk and meeting people. Take this time to listen, too.

These discussions alone already set the risk manager up with:

- Identified risks (without the need for staff members to go through a formal process)
- An understanding of the frustrating aspects of the ERM program that could be improved upon;
- A better idea of how staff can be supported to either avoid busy periods or receive additional support;
- An opportunity to explain why risk management is important
- A starting point for developing incentives and motivations for identifying risk and developing a positive risk culture

INSTIL THE RIGHT CULTURE

Without the right risk culture, there is a good chance that even the best designed risk management programme will fail. Risk culture creates the foundations of an organisation's approach to risk as it affects all risk decisions and ultimately the delivery of business objectives. Building a positive risk culture takes a huge amount of time and effort. It requires the risk manager to be visible, approachable and an ally to the business.

Essentially, what risk managers need to focus on is their soft skills: communication, listening, relationship building, diplomacy, collaboration, adaptability, strategic mindset and an ability to sell risk management.

Get away from your desk and out into the business and ask the right questions so you can develop a risk framework that better suits everyone's schedules and ways of working while actually adding value to what they are doing. This is not as easy when the organisation and its staff are dispersed. COVID has altered the way we work. Overcoming this obstacle is where another key skill comes into play: creativity.

If there are concerns about social distancing and not being able to meet one to one, or in groups in the office, then think differently. There are a number of alternatives that might work, such as holding outdoor meetings, hosting highly interactive and visual virtual meetings and workshops, and/or adding risk as a regular agenda item in weekly team meetings and ensuring you attend as many as you can.

As we continue to navigate through multiple crises, let us lean on our soft skills to better leverage the technical skills we, or other team members, may have to improve risk management now and into the future. **SR**

Alexander Larsen is president of Baldwin Global Risk Services

"AS A FIRST STEP, RISK MANAGERS SHOULD BE KNOCKING ON THE DOOR AND ASKING FOR AN INVITATION. IT IS SURPRISING HOW OFTEN THIS WORKS."

President, Baldwin Global Risk Services
Alexander Larsen

Breaking point?

The geopolitical landscape continues to reach new levels of volatility. But we can't just rely on the politicians to find solutions – risk managers must work proactively to understand their organisations' exposures and prevent them from falling into the cracks.

The geopolitical landscape has been extremely volatile for some time now, with tensions escalating in the years since the global financial crisis. And while the Russian invasion of Ukraine is the most immediate emergency, it is not the only urgent concern that should be on risk managers' radars.

Asia has become more unsettled and tensions between the US and China are a significant source of concern. Meanwhile there is instability in the Middle East, the Eurozone's fiscal and political dynamics remain exposed, US domestic politics have become more polarised and key governance challenges remain in emerging markets including South East Asia, Africa and Latin America.

The geopolitical landscape was already fragile prior to the pandemic, but the spread of COVID-19 and associated lockdowns have further weakened socioeconomic environments, creating the potential for further risks and volatility to increase.

The consequences of global instability can be significant even for organisations that do not operate internationally. Energy prices, supply chain issues, travel disruption, instability in financial markets, inflation, ESG issues and business continuity are just some of the risks that firms need to plan for.

GLOBAL EVENTS, LOCAL DISRUPTION

Hoe-Yeong Loke, research manager at Airmic, says: "Geopolitics has a bearing on many facets for businesses, ranging from policymaking to economics to consumer sentiments. Geopolitical threats can therefore manifest through a whole raft of risks, leading to business continuity issues. Just take the tragic events in Ukraine with the invasion by Russia – that has

"CROs DON'T KNOW WHAT A GOOD GEOPOLITICAL RISK FRAMEWORK LOOKS LIKE, SO THEY DON'T KNOW HOW TO ADAPT RISK FUNCTION ACTIVITY IN RESPONSE TO INCREASING GEOPOLITICAL VOLATILITY."

Managing director, GRI Strategies Ltd
Derek Leatherdale

surfaced the dependencies and geopolitical risks of energy assets and their delivery, wider supply chain fragilities, cyber security risks and, of course, risks to people and their lives."

Derek Leatherdale, managing director at GRI Strategies Ltd, has recently published new guidance for boards and risk functions on geopolitical risk.

He says: "There are other themes to consider, too. Governments are increasingly resorting to geo-economic policy measures such as tariffs, trade/investment restrictions and sanctions in pursuit of national security policy objectives. They are also increasing competition in other domains, so firms in sensitive industry sectors, like telecoms, technology or key commodities, wherever they are located, are increasingly exposed to geopolitical developments."

Many of these risks have been exacerbated by the rise of conspiracy theories, disinformation and an eroding of trust in authorities.

KNOW YOUR EXPOSURE

As volatility grows, it is critical that risk managers have a thorough understanding of the wide spectrum of threats on the horizon. This must go further than simply adding geopolitics to the risk register and assuming things are then taken care of. Mapping supply chains, understanding economic consequences and even thinking through reputational issues are all things to consider.

Leatherdale says: "Geopolitical risk issues and mitigation are not traditional parts of the corporate or risk repertoire. It's generally not been an issue on the business school syllabus. For entirely understandable reasons, CROs don't know what a good geopolitical risk framework looks like, so they don't know how to adapt risk function activity in response to increasing geopolitical volatility."

Joe Frederick, director of EMEA at A2 Global adds: "The priority should be about focusing on the enterprise and understanding its risk exposure (including down the supply and value chains). This is the real 'uncertainty'—not knowing how much of the enterprise is exposed to geopolitical threats."

In practice, this may involve breaking down siloes within an organisation. For instance, cybersecurity protection is often a combination of HR-provided training and IT department controls. However, cyber threats may be exacerbated by international conflict, and risk managers need a full picture. Likewise, business travel rules may be decided by cost factors set by the CFO, but growing risks need to be a consideration and expert advice may be needed.

James Wood, head of security solutions at International SOS, says: "Organisations cannot simply react to events, they have to be able to monitor and identify those that are likely to impact them and their broader ecosystem (including different stages of their supply chain), identify how they are going to prepare for them and, if possible, prevent these events from impacting them, and then be able to respond effectively should an incident occur. Post event, it's important that organisations are also able to recover quickly and consolidate their operations in preparation for the next event."

"ORGANISATIONS CANNOT SIMPLY REACT TO EVENTS, THEY HAVE TO BE ABLE TO MONITOR AND IDENTIFY EVENTS THAT ARE LIKELY TO IMPACT THEM, AND IDENTIFY HOW THEY ARE GOING TO PREPARE FOR THEM."

Head of security solutions, International SOS
James Woods

WHAT RISK MANAGERS CAN DO NOW

The good news is there are plenty things risk managers can do immediately to help their organisations manage geopolitical risk. International SOS advises that the first step is to review risk appetites and thresholds. As part of this, it is imperative that risk managers establish which geopolitical risks are most likely to impact them based on factors such as industry and geographic exposure.

Wood said: "Once key geopolitical threats have been identified, risk managers can commence proactive planning. This should include access to timely and insightful, forward-leaning intelligence, in addition to escalation triggers tied to organisational responses such as limiting travel to certain locations, enhancing the precautions taken by those in-country, training requirements for staff, or testing of response plans."

"Risk managers also need to ensure that all response plans are clearly communicated to all relevant stakeholders if, or when, the identified geopolitical risks materialise."

CROs should challenge their organisations to discover what action is being taken with regard to risks on the register. Often, the answer will be that little work is being done and there is a lack of clear responsibilities for mitigating any exposures.

GRI Strategies says risk managers must integrate geopolitical factors into all relevant areas of corporate planning and risk management activity. This should include financial viability modelling, financial and non-functional requirement risk functions, scenario analysis and ESG decision-making.

Leatherdale adds that risk managers should leverage the enterprise risk management framework, RAF and risk policy framework to coordinate wider work across the business including legal or procurement departments. Developing a 'Centre of Excellence' approach to facilitate this may be appropriate.

BE THE CHANGE

One of the most important roles of the risk manager is to make sure that an organisation takes geopolitical risk seriously, and that functions and responsibilities are well understood. This may mean challenging the board or c-suite and clearly demonstrating the impact that each threat could have on the business. Successfully achieving this means speaking a language that managers understand and detailing the financial, social and business continuity consequences if action is not taken.

A2 Global's Frederick says: "It's imperative to have internal stakeholder buy-in. Without it, threat and risk assessments become meaningless 'tick-box' exercises. Risk managers should engage in awareness campaigns to promote the risk function's existence and capability, and seek feedback on input and advice."

"The risk function can utilise exercises such as scenario planning and horizon scanning assessment for future planning. This requires robust

and serious monitoring and analysis of various risk events, an in-depth understanding of local dynamics and political communities and networks as well as their drivers and motivations."

Loke concludes: "Some organisations have a tendency to think that geopolitics is something to be left to political leaders to sort out. Risk professionals can help steer their organisations by playing a proactive role in scanning the horizon for emerging risks, amid the geopolitical tensions of today. Risk professionals need an approach that can help their organisations understand their exposure from a 360° perspective, as well as the interconnected nature of geopolitical challenges. The risk professional then needs to work across their organisation to map out how these risks may materialise into tangible threats to operations and revenue, and begin to quantify these and prioritise their mitigation, transfer and response measures." **SR**

HOW THE UKRAINE/RUSSIA WAR IS HITTING BUSINESSES

The implications of the conflict in Ukraine will resonate globally and the potential for this to reshape the geopolitical landscape must not be underestimated. Atul Vashistha, chairman and CEO of Supply Wisdom and former Department of Defense board member, outlines the issues risk managers must pay close attention to.

THE EFFECT ON REGIONAL SUPPLY CHAINS

The crisis will impact European countries that Ukraine exports to immediately – especially Germany. Ukraine is a leading exporter of steel, coal, fuel and petroleum products, chemicals, machinery, and transport equipment.

Germany depends on Ukraine for many of these commodities. Plus, Germany derives most of its energy needs for manufacturing and electricity from Russia's natural gas. Local manufacturing production could be halted. With Germany as a top producer for many industrial and consumer products across the world, the trickle-down effect will sweep the globe."

THE BUSINESS CONTINUITY PERSPECTIVE

Corporate risk managers should be continually evaluating the situation. It's critical to assess which of their own third and fourth parties have exposure to the affected regions.

Managers also need to know what the next order of impact to supply chains will be. The focus is on energy right now. Risk managers must have their radar on what risk comes next as a result.

GLOBAL EVENTS HIT HOME

Due to globalisation, regional issues have far larger repercussions than we've previously recognised. The geopolitical risk landscape is becoming more complex by the day. Companies need greater transparency into their supply chains, with insight on location-based risks. Without the ability to continually monitor Nth-tier suppliers on a wide spectrum of risk, one threat across the world can snowball into a catastrophe at home.

Marchers chant "stop the war", "ban Russian oil" and "close the sky" as they circle the Parkman Bandstand during a rally for peace in the Ukraine in Boston, Massachusetts on March 6, 2022.

When to think about risk

Timing is everything when applying risk insights to strategic decision-making. As part of our new #ChangingRisk series, Martin Pergler of Balanced Risk Strategies, Ltd. pinpoints the crucial moments to clock in and scrutinise risk.

There is much discussion over how institutions should do risk management – in addition to who should be doing it, what is it (risk management… even risk itself) and why it is necessary. Much less is said about *when* to do risk management.

And yet timing is key. Institutions that mistime their risk efforts stumble into traps, create useless bureaucracy, miss opportunities, and even risk developing a 'cry-wolf' syndrome.

Let's start with two valid but dissatisfying answers to the *When* question.

A PERIODIC PROCESS, CULMINATING IN BOARD SIGNOFF

An efficient, just-in-time risk management process that delivers the freshest information for the board to fulfil its risk oversight responsibilities at prescribed intervals (e.g., annually) sounds perfect. In reality, such a process also encourages a compliance mindset: Preparation timelines are short, thoughtful diversions are unpopular, and surprises en route to checking the box are mostly unwelcome.

ALL THE TIME

It is fashionable to opine that risk is omnipresent and that thoughtful risk-taking is crucial. And so risk ought to be on the agenda every single moment, especially in a volatile, uncertain, complex and ambiguous world. That is undoubtedly true. It is important to nurture an institutional culture where everyone has the knowledge, tools and empowerment to think about risk in everything they do.

And yet, "all the time" is an unsatisfactory answer, since the intended question is probably: "When should we step back and think about risk more systematically, beyond what we try to do all the time?"

So, let's look at a more satisfying answer to the *When* question: a set of crucial moments that underpin a more strategic approach to risk-taking. We accompany each one with concrete questions to ask – by and of boards, executives and risk managers – to verify that risk is being considered adequately at those essential moments.

"INSTITUTIONS THAT MISTIME RISK EFFORTS STUMBLE INTO TRAPS, CREATE USELESS BUREAUCRACY AND MISS OPPORTUNITIES."

Founder and principal, Balanced Risk Strategies, Ltd.
Martin Pergler

1 IN ANTICIPATION OF MAJOR DECISIONS

This includes, of course, in conjunction with the regular strategic planning process. However, that cascades through the organisation. Even better, risk thinking should be an integral part of it. The most

> **"WHEN BUSINESS ECOSYSTEM FUNDAMENTALS CHANGE, INSTITUTIONS CAN SUFFER DAMAGE AND MISS OPPORTUNITIES BY NOT REASSESSING RISKS SWIFTLY ENOUGH."**
>
> Founder and principal, Balanced Risk Strategies, Ltd.
> **Martin Pergler**

important benefit of considering risk explicitly is that discussion naturally focuses on, "What are the risks (and opportunities) to meeting our chosen objectives going forward?" By contrast, a periodic, oversight-focused risk process is biased towards "What could upset the apple cart right now?"

Equally, risk should be explicitly considered in anticipation of major ad-hoc decisions that involve significant uncertainty. Examples include M&A, new market entry and major new partnerships. Often, such decisions are made 'on the fly' precisely because they are major and unique circumstances, and so bypass established processes. There is always a time crunch, and confidentiality issues often arise when it comes to making major decisions.

Ask yourself the following:

- How does your risk process tie in with your strategic planning process? (Does it consider risks to the same objectives as your strategic plan? Does it inform the range of situations your strategic plan is purporting to help navigate?)
- When you are making (or validating) major ad-hoc or 'out of plan' decisions, are you considering enough quality information about the risks (and opportunities)?
- For the most crucial decisions, are your institution's top risk thinkers involved? And if not, why not?

2 EMBEDDED WITHIN THE ORGANISATION'S CORE VALUE-CREATING PROCESSES

Financial theory tells us reward is generated in return for taking risk. Both are concentrated in a few crucial junctures in the institution's business system. These vary not only by sector, but by individual company. Usually, there is a top-of-mind primary answer. For instance: credit decisions in a bank, flight ops at an airline or investment decisions in a private equity firm.

Typically, these number one processes tend to have risk considerations reasonably embedded, if for no other reason than the institution would have already been punished if they were not. In my experience, the magic comes from probing a little further. What are the second, third and fourth such processes, and so on?

With a bit of introspection, the bank may conclude its second major concern is IT security, or storage and treatment of customer personal data. The airline may realise its second and third priority processes are aircraft fleet decisions and the link between fuel hedging and yield management. The private equity firm may recognise its second priority process is selection of operating partners who actually deliver value improvement.

It is easy to find examples of improved resilience and flexibility when you take a more systematic consideration of risk as part of these crucial processes, or by contrast, evidence of significant headwinds experienced by mismanaging risk in them.

Ask yourself the following:

- What are your institution's most important value-creating and value-preserving processes? Consider not only your stated strategy, but also think retrospectively where the biggest surprises and opportunities have actually arisen in recent years. Include your 'secret sauce' relative to competitors, which should be reflected in a different pecking order of processes versus what is typical in your industry.
- How are risk considerations embedded in these processes? Is the timing of your standalone 'risk process' matched with the tempo of these processes?
- Do your top risk thinkers understand what happens under the hood of these processes, and do the leaders of these processes have enough risk wisdom to think systematically about risk?

3 WHEN THE AMBIENT ENVIRONMENT OR THE INSTITUTION'S OBJECTIVES CHANGE

When business ecosystem fundamentals change, institutions can suffer damage and miss opportunities by not reassessing risks swiftly enough. Ditto during periods of high, short-term volatility. A periodic risk review process prioritises just-in-time reassessment of risks for risk oversight by the board, but too often locks in focus for the coming year on risks that become stale.

It stands to reason (but is often missed) that risks need reassessing when an institution's objectives change. This may be a strategic or mindset change. For instance, many organisations are fundamentally revisiting their risk approach as they increase their focus on ESG. Or it may be event driven – for instance, a change in a company's financing, leading to changes in cash needs and/or financial covenants.

Ask yourself the following:

- Whatever are your top risks, do they each have someone explicitly watching them who knows enough about them to trigger an alarm if they change materially?
- When objectives change, is a review of risks to those new objectives triggered?
- In particular, if there is an unexpected change in circumstances (including a crisis successfully handled), is systematic risk consideration revived as soon as is feasible?

The crucial moments just described aren't intended to be a full checklist for thinking about when risk is necessary. The original two answers, 'periodic process' and 'all the time' continue to play a role.

In particular, the top three to four core value-creating processes (plus strategic planning and ad-hoc decisions) involve risks. So do other processes, as well as all the glue that binds them together. And a periodic process that aligns the whole organisation (all the way up to the board) around what are the crucial risks and how they have changed, is highly beneficial.

However, upping your risk game to ensure timely risk consideration at the right crucial moments can mean the difference between marginally useful risk management and much greater resilience, as well as all-important opportunity capture. **SR**

Martin Pergler is founder and principal at Balanced Risk Strategies, Ltd. and was previously senior risk expert at McKinsey & Company.

How to set risk appetite

Forget the caricatures. Risk appetite can and does power the link between strategy and execution, explains Gerard Payen. With full understanding of your limits and expectations, you can climb that mountain.

We are all familiar with the concept of individual risk appetite in our daily life. It is intuitive, often unconscious and not explicitly stated, nourished by our experiences, education and observations. It is about our will to accept consequences – be they positive or negative – of our or others' decisions, of all our exposures to a world full of risks and opportunities.

The concept of risk appetite in the business world (which also encompasses opportunities) has been around for years in risk management circles. It is indeed clearly defined in international standards or references such as ISO 31000 or the integrated framework put forward by COSO, as the "amount of risk an organisation is willing to accept in pursuit of value".

Some have questioned the relevance of this concept and it is sometimes depicted as a compliance artefact. I urge you to forget these caricatures and see firsthand how your company can reap benefits from a risk appetite approach, even in the absence of any other formal risk management.

"AN EXCESSIVE RISK APPETITE MAY CAUSE SO MUCH STRESS ALONG THE WAY THAT SUCCESS WOULD NOT BE PERCEIVED AS A REWARD, BUT SIMPLY A RELIEF. THIS IS HARDLY A SUSTAINABLE WAY TO MOVE FORWARD."

Independent senior management advisor **Gerard Payen**

REACHING THE SUMMIT

It's a common analogy, but bear with me. Imagine that your company's goal is akin to conquering a mountain, the summit of which is achieving your strategic objectives. Defining your appetite for risk is what will fundamentally determine the preferred route you will take with your team in order to reach the summit, whatever the prevailing conditions – chosen or not.

Prior to arriving at the foot of the mountain, you will, as leader, thoroughly explain the objectives (the summit), ensure they are well understood by all team members, and check that both the summit and chosen route fit within all key parameters: e.g., expected climate conditions, skills, training, gear and known ability of each team member to deal with identified hurdles and handle unanticipated conditions, capability of climbing together, motivation and will.

Ask yourself: Are your strategy, performance ambition and risk appetite relevant, compatible with one another and coherent with the amount of risk your organisation can withstand or "afford"?

GETTING JUST OUTSIDE YOUR COMFORT ZONE

If your risk appetite is too "comfortable", you may not get much satisfaction out of reaching the summit. You will likely feel your company could have done better. Reaching high performance demands that you stretch yourself and get out of your comfort zone.

On the other hand, an excessive risk appetite may cause so much discomfort or stress along the way that success would not be perceived as a reward, but simply a relief. This is hardly a sustainable way to move forward.

Openly challenging risk capacity ahead of execution helps to identify relevant changes, e.g., additional training or upgraded equipment that may open up new possibilities. This phase will of course be further informed by a review of past experiences and lessons learnt from successes and failures. It will also involve discussions with all team members to collect their input, assess strengths and weaknesses, and debate sensitive matters.

All this may encourage you to adjust your chosen path and route to the summit. You may even need to flex your strategy or even change direction completely.

LET CULTURE SHAPE THE WAY

Your risk appetite is not an off-ground, top-down management diktat: it is deeply rooted in your company and business environments, substantiated by your ambition and experience, shared and appropriated as a culture.

Pre-defining the main stages of your journey to the summit also means addressing what type and level of deviation you are willing to accept against your original plan, without compromising your ambitions. How early or late can you reach a given step, how many injured team members could you cope with, how much waste can you leave behind? By going through this exercise, you are setting your risk tolerance versus your expected performance.

As part of the plan, someone in the team should be tasked

with monitoring pace and performance, checking you are on schedule, that progress is made according to plan and sounding alerts if and when needed. At this point it is important to ensure your team is fully aligned, giving sense to the strategy and providing managerial impulse. Risk appetite and tolerance should be communicated throughout the company. This should be done with clear and pragmatic wording.

TIME TO CLIMB

Needless to say, the climb will see you face unexpected situations, with negative or positive outcomes: external conditions, team motivation, individual performance may evolve without much notice. Competent and adaptable management will be needed throughout.

You must be able to rely on previously informed risk appetite ingredients, clearly defined and 'owned' by the whole company. This will prove a key advantage, helping anticipate the unforeseen and making sound and consistent decisions when situations arise. This is never more crucial than when you are faced with the combined pressures of urgency and stakes.

It is your risk appetite framework that will provide these 'life-saving' bearing points that enable you to make the right decisions, at the right time, and have them understood, accepted and deployed.

Frequently reviewing how much of your risk appetite you have used so far in your journey is also a must. Risk appetite or tolerance will never be definitive. Instead you will need to constantly refine, adjust or make additions to your approach. And over time, this will strengthen both. Again, in all cases, discussing and communicating these changes with the whole team is essential to success.

Reaching the summit is not the end. At this stage, you should start a comprehensive review of what was accomplished and the adjustments that had to be made along the way. Appraise the value delivered by your strategy and take note of the factors that supported your performance. What could have been done differently to yield more value? Don't forget, you are preparing for your next challenge and developing your organisation's sustainability at the same time.

"REACHING THE SUMMIT IS NOT THE END. AT THIS STAGE, YOU SHOULD START A COMPREHENSIVE REVIEW OF WHAT WAS ACCOMPLISHED AND THE ADJUSTMENTS THAT HAD TO BE MADE."

Independent senior management advisor
Gerard Payen

Thus, a dynamically managed risk appetite approach will gradually power the link between strategy and execution, helping you define and navigate the preferred course for your company over the long term. It is an approach that will deliver optimal performance and provide tolerance-related performance monitoring.

And, it will foster permanent team alignment, relevant anticipation, consistent decision making and contribute to building a homogeneous risk-opportunity aware culture throughout the organisation. Is this not a powerful way to initiate and organically grow meaningful risk management within your organisation? **SR**

Gerard Payen is an independent senior management advisor with a focus on company performance optimisation through risk management, a board member of Amrae, and previously chief risk officer at Renault Group.

The maverick

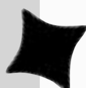
Banned from risk conferences, referring to RM1 as "astrology", disparaging of brokers... Alex Sidorenko wants a risk analysis revolution – throwing out heatmaps and bringing in a fully quantitative approach. And he is quite willing to be obnoxious (his word) if it means more people will listen.

Something of a divisive figure within the risk profession, one thing no-one can accuse Alex Sidorenko of is being apathetic about risk management.

Like him or loathe him, Sidorenko gets people talking, challenges conventional wisdom and forces risk professionals out of their comfort zones. And that can only be a good thing, even if you don't agree with everything he publishes or object to his approach. Having interviewed him a couple of times, there is something to be admired about his unwavering confidence and pride in achievements that have been hard won.

Speaking to him last year when the mega-merger between Aon and WTW fell through, after offering some insight on how this could impact corporate insurance buyers as the hard market continued, his perspective was that most brokers became complacent, lack risk management competencies and add little value beyond pure administrative assistance to risk financing.

By his own admission, he has been banned from many industry gatherings thanks to his reputation as a troublemaker. But Sidorenko is on enough of a high to stop him dwelling too much on what he sees as the failings of the commercial insurance market. Not only has he reduced his organisation EuroChem's cost of insurance by close to 60%, or over $10m a year (as its head of operational, investment risk and insurance) and been recognised for this achievement by FERMA and RIMS among others, he has demonstrated beyond reasonable doubt that his quantitative approach to risk management and insurance works and pays dividends.



REAL CASH SAVINGS

"I was preaching about the value of quantitative risk analysis for over a decade" says Sidorenko. "Once I was handed the responsibility for insurance, I set out to prove my hypothesis that risk management should pay for itself, not through hypothetical improvement in governance, but through hard cash savings. One year later, we've paid for our salaries for the next ten years."

"I had never dealt with insurance until three and a half years ago, so I hired a couple of staff (and they laugh when I badmouth brokers, because they are all ex-brokers) who understood insurance."

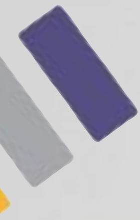
"I spent a whole year challenging everything they and other brokers said, every hypothesis, and making sure we carried out the calculations first and made the decisions second. That proved to be a huge differentiator – applying a quantitative risk management approach to insurance."

Sidorenko had begun to question some of the conversations he was having with brokers and insurers as commercial insurance rates began to take an upwards trajectory. "They would say something was high risk and I could see from the data that it wasn't – and vice versa. Most arguments brokers were bringing us were not supported by any evidence. It felt like they were basing advice on their personal individual experience, rather than doing quant analysis across the claims portfolio. And the type of claims analysis brokers do is embarrassingly basic."

SHOCKING LACK OF ANALYSIS

"We pay millions for our corporate insurance lines, yet the level of risk analysis done for your personal car insurance and corporate insurance is just staggeringly different. A broker can give you all the maths on the car insurance, but they can't give you anything on the chemical plant."

"I'm just amazed there is so much uncertainty across the corporate insurance lines and yet we constantly hear about machine learning and other fancy developments in primarily the retail side of insurance. Maybe that's where insurance companies make their money, but as a corporate buyer I was



“I SET OUT TO PROVE MY HYPOTHESIS THAT RISK MANAGEMENT SHOULD PAY FOR ITSELF, NOT THROUGH HYPOTHETICAL IMPROVEMENT IN GOVERNANCE, BUT THROUGH HARD CASH SAVING.”

Head of operational, investment risk and insurance, EuroChem
Alex Sidorenko

amazed at the lack of risk management maturity in corporate insurance."

From this starting point, the hypothesis that his team could take a risk-based approach to insurance buying took hold. "Our unbreakable rule is no insurance decision can be made before data is collected and quantitative risk analysis is conducted. Our second rule is whatever the broker says, we'll test the hypothesis on the market first, decide later. This helped us disprove most broker advice," says Sidorenko. "For cargo insurance, for instance, we collected more than a thousand data points. It took us an hour in Excel to model both the industry and our own risk profiles. It was not complex. This is basic maths that competent risk professionals can do on their phone."

"WHATEVER THE BROKER SAYS, WE'LL TEST THE HYPOTHESIS ON THE MARKET FIRST, DECIDE LATER. THIS HELPED US DISPROVE MOST BROKER ADVICE."

Head of operational, investment risk and insurance, EuroChem
Alex Sidorenko

"It's about how much risk you retain and the expected cost of that retention. How much risk do you keep on your balance sheet, and how much do you transfer to the insurance market – and the cost of that transfer. It's relatively simple maths behind that decision and I'm very surprised at how unprepared insurance markets and brokers are for those conversations."

Sidorenko and his team now prepare all of their own submissions. "A typical submission the broker prepares is around three to five pages in length, very poorly describing the nature of the risk. Ours is normally around 60 pages, with detailed description of the risk profile, control environment and even our own calculations on how much the insurance should cost. At each renewal we get quotes for different limits and deductibles and then we calibrate whether it's worth retaining more of the risk based on how much it costs to transfer it."

"We always take a deductible level that has the best balance between the cost of retaining the risk and the cost of transferring it. We're saving $10m a year in premiums, but if you added to that the savings from increasing our deductibles, the savings would be even higher."

"Self insurance is one of the alternatives we're investigating," he adds. "But in a way, we're doing it already."

QUESTIONING CONVENTION

Sidorenko is well-known for his conviction that traditional risk management standards, frameworks and techniques – which he terms 'Risk Management 1' – are little more than "astrology". With his RISK-ACADEMY director hat on, he urges risk professionals to switch their focus to 'Risk Management 2', which takes a more scientific and mathematical approach to making decisions under uncertainty.

It is an approach that first came to his attention when he was growing up in Australia, the son of a Russian academic. "I had no idea what I wanted to do after school and my Dad was doing a PhD in chemical engineering at one of the big universities in Australia and he said, 'there's a new course. A diploma in risk management'. No one knew what that was and it wasn't even my first choice so I just happened to become one of the first ever risk management undergraduates in Australia."

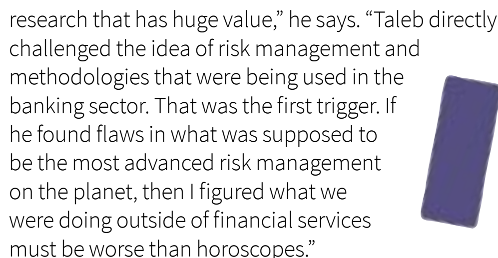
His natural aptitude for mathematics was noted early on by his tutors, who encouraged him to pursue a second major in statistics. This became the foundation for a lifelong fascination in quantitative risk analysis. And it was when he started his career as a risk consultant that Sidorenko really began to question how the risk management services of the day were being packaged and sold on to clients.

Not one to shy away from challenging conventional wisdom (and doubtlessly making waves in the process), he began asking questions. "I was having conversations with the partners at the firm. They were selling concepts and ideas such as risk intelligence and risk appetite, but they couldn't really explain the maths behind the products. It felt as though it was just window dressing – more of a marketing exercise than risk management with unclear practical value."

It was around this time that he stumbled across (*Black Swan* author) Nassim Taleb's book *Fooled by Randomness.* (Sidorenko now holds a firm belief that all the best books on risk management do not have 'risk management' in the title – bar Doug Hubbard's *The Failure of Risk Management: Why it's broken and how to fix it.* He has a similar theory on industry conferences.)

"My journey in risk is all about feeling something is not right, and stumbling across alternative

research that has huge value," he says. "Taleb directly challenged the idea of risk management and methodologies that were being used in the banking sector. That was the first trigger. If he found flaws in what was supposed to be the most advanced risk management on the planet, then I figured what we were doing outside of financial services must be worse than horoscopes."



THE MOVE TO RM2

From there he moved on to read Hubbard, who "proved beyond reasonable doubt that many applications that risk managers have been using and promoting – scoring methodologies, risk matrices using likelihood X consequences – have been shown to be worse than useless. In fact, he argued the most common risk management methodologies results in more error than if you did no risk analysis at all."

As he progressed in his career, Sidorenko began to hone his approach to Risk Management 2, becoming firm friends with Savage, Hubbard and other less conventional risk thinkers. "I was fortunate to meet people at the top of their game, who build bridges and spacecrafts – a whole other world that does real world risk management better than risk managers do risk management. For them, it's an essential survival tool. I started to think, maybe I wasn't crazy and my long discomfort with RM1 had a foundation in science."

In 2009, when he moved from Australia to Russia – working at PwC – the idea of cognitive biases in risk management was still relatively new (even though the science behind it had been around for several decades). "Very few people in the risk management profession realised that human perception of uncertainty is not what it seems," he says. "When you are trying to rank risk as likely to unlikely, each person's understanding of that works differently."

For Sidorenko, it was another nail in the coffin of heat maps and conventional risk management methodologies. "They don't work mathematically or from a behaviour economics perspective. And that has huge implications on risk-based decision making. Most risk managers are still ignoring research in decision science and probability theory, these different scientific fields that have been around for years and can solve most risk management problems we can think of."

"You don't need to recreate the wheel," he continues. "Find what has worked for other professions, because chances are it will be just as applicable to risk management. At EuroChem we use behavioural economics in our insurance buying by addressing underwriters' System 1 thinking."

A FORUM FOR CONTROVERSIAL RISK THINKERS

This year will see Sidorenko host and participate in the RISK-ACADEMY's fourth RISK AWARENESS WEEK (RAW 2022), with an English event in autumn and a Russian event in the spring.* Launched well before the COVID-19 pandemic hit, RAW is the original virtual risk management conference, attracting a global audience of more than 5,000 risk professionals each year. Rather than focusing on any flavour of the month, be it ESG, the pandemic or cyber, RAW is purely focused on quantitative risk analysis, behavioural economics and risk-based decision making.

"THERE IS NO POINT IN TALKING ABOUT MACHINE LEARNING. 99.99% OF RISK MANAGERS DON'T UNDERSTAND EVEN THE BASIC MATH BEHIND RISK."

Head of operational, investment risk and insurance, EuroChem
Alex Sidorenko

"I used to be very active in different conferences until I was banned," he quips. "I'm not a very shy person. One risk association called me and said they want to invite me but asked if I would make trouble. I strongly believe – and time will tell if I'm right or wrong – that without understanding the basics, the foundations of decision science, probability theory and neuroscience, there is no point in talking about anything more advanced, such as machine learning. And 99.99% of the risk managers don't understand even the basic math behind the word risk."

He accepts that he might not be everyone's cup of tea, but believes his maverick approach is achieving momentum in the right direction. "I challenge a lot of people on LinkedIn who talk about Risk Management 1 – heat maps and other astrology-like methods – and I have received a number of complaints, with people claiming that if I was more gentle, then my message would come across better."

"It's a hypothesis that I proved wrong. The fact I'm outspoken just has a better reach. Simple, non-emotional math. I've been saying the same thing for the last 15 years and to start with I was just hinting at the need for change, was gentle – this didn't receive much traction."

"Once I started becoming purposefully more obnoxious, all that changed and I now have 30,000-plus followers, most popular free risk management book on the planet with close to 200,000 downloads, and one of the biggest online risk conferences. So for the time being I will continue rocking the boat," he says with a hint of a smile. **SR**

**This interview was conducted ahead of Russia's invasion of Ukraine. StrategicRISK has since touched base with Alex and he is extremely upset by what is unfolding. He is understandably busy trouble-shooting the situation and assessing what it means for him both professionally and personally,and he has promised to update us in due course.*

Parametrics: Solutions for a changing world

Faced with long-term challenges and emerging risks, Marco Adamo asks: Is parametric insurance part of the future of risk transfer, even where no historical data is available?

The world is witnessing a wave of short- and long-term trends that are destined to drastically shape the future of our society and our planet. Energy transformation, supply chain optimisation, digitalisation and ESG-related requirements are the main examples of how a fast-changing environment poses a wide range of challenges for those involved.

While obstacles create opportunities and, consequently, investments, both the public and private sectors are faced with extreme uncertainty on the one hand, and a need to act on the other.

In light of this, the financial sector must play an active role by fostering innovation, enabling new technologies and providing the level of support that such a complex dynamic setting requires.

In parallel, the corporate world must lead the way and be the point of initial focus, given its tremendous potential for impact.

SUPPORTING THE TRANSITION

The insurance industry has long been considered, with some justice, resistant to change. The results of this are evident in terms of industry resilience. Additionally, customer satisfaction rates have suffered and the protection gap has widened.

Nevertheless, there is a wealth of data, skills and drive to help enable the required changes to be implemented. While traditional underwriting will continue to be the main form of risk taking, corporations are increasingly adopting alternative approaches to better meet their business needs.

An example can be found in the climate action space. Swiss Re Institute estimates that rising temperatures could cut global GDP by as much as 14% or $23 trillion by 2050, compared to a world without climate change.

"THE INSURANCE INDUSTRY HAS LONG BEEN CONSIDERED, WITH SOME JUSTICE, RESISTANT TO CHANGE. THE RESULTS OF THIS ARE EVIDENT IN TERMS OF INDUSTRY RESILIENCE."

Structurer, Innovative Risk Solutions, EMEA, Swiss Re Corporate Solutions
Marco Adamo

Public and private sectors are now rushing to halve CO_2 emissions by 2030. However, many of the technological advancements that are needed to combat global warming will carry new risks or cause existing risks to evolve.

It is likely that traditional underwriting will continue to play a key role in tackling the obstacles of Scope 1 emissions, as corporations' core production processes evolve accordingly.

That said, tackling the challenges posed by Scope 2 and 3 emissions might require a more sophisticated approach and the demand for innovative solutions will potentially increase.

FINDING THE DATA

By leveraging a pre-defined index and a pre-agreed payout structure, parametric insurance cover ensures transparency and speed of payment, addressing the issues of uncertainty and liquidity, respectively.

For instance, the abundance of data on natural catastrophes, combined with extensive expertise inside and outside the insurance industry, has allowed parametric cover for nat cat risks to increase in recent years. But what about other emerging risks, including those related to energy transformation, supply chain disruptions, digitalisation and/or ESG-related requirements?

So far, where there has been data, there has been a possibility of parametric insurance, but what happens when there is no historical data available?

New technologies and innovation, by definition, come with a lack of historical data.

In these cases, there is no basis for backward-looking approaches that combine exposure with experience. Therefore, non-traditional, forward-looking perspectives are becoming more and more necessary.

Where there is a lack of historical data, parametric solutions are becoming more and more necessary In this landscape, a full alignment between the insurance industry and corporations is fundamental to the development of propositions that are fit for purpose.

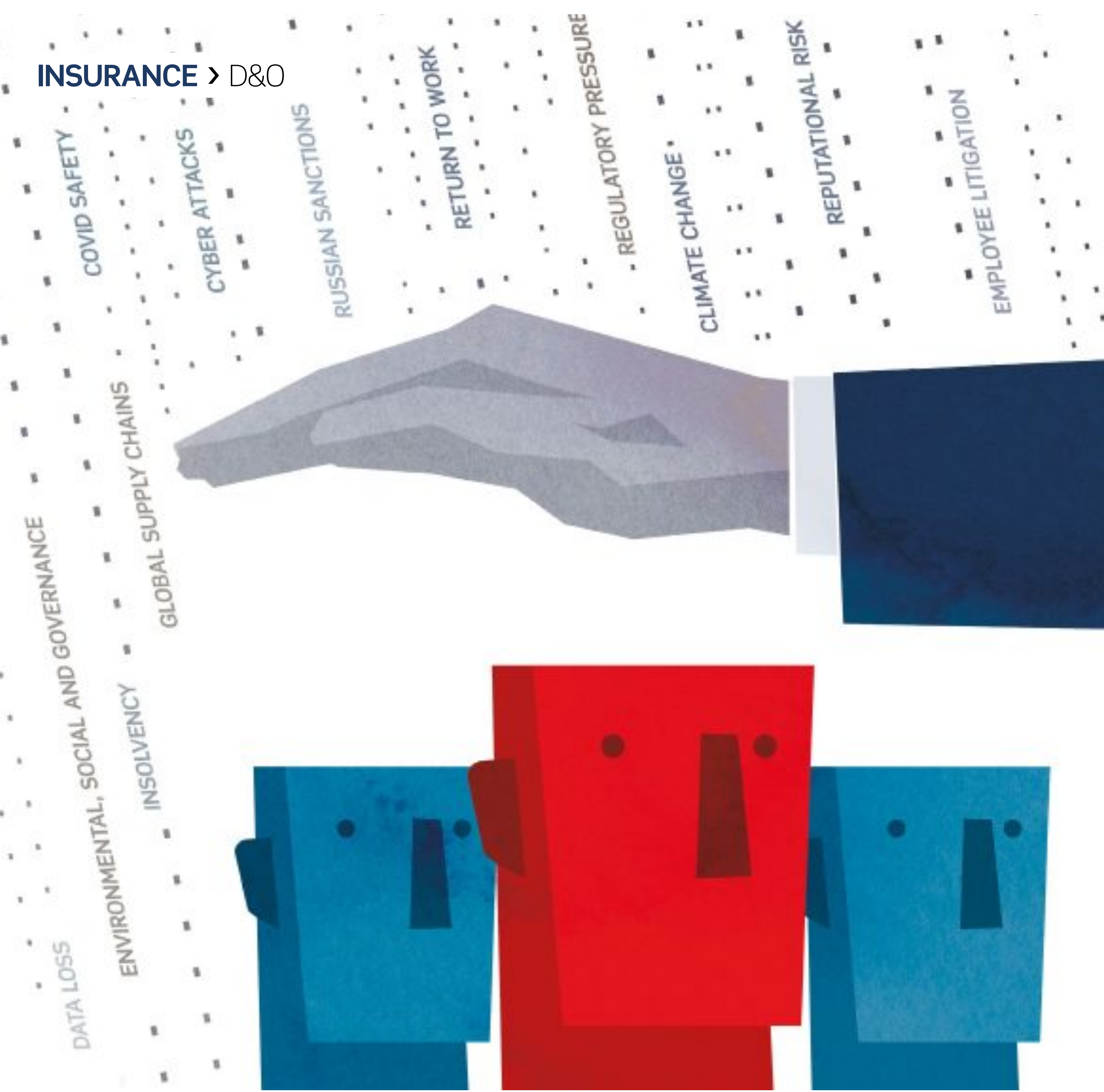
Can supply volumes be considered an index, for instance? Would sensors and digital twins open the door to reliable and verifiable data? What parameters could be used to respond to ESG requirements? What will happen if a supplier does not meet net-zero targets?

There is no right answer to these questions as of yet, but a regular dialogue between the insurer and the insured is certainly the first step to implement an innovative approach. **SR**

To find out more about alternative risk transfer solutions that go beyond traditional insurance, including parametrics, get in touch with the Innovative Risk Solutions team.

"CAN SUPPLY VOLUMES BE CONSIDERED AN INDEX? WOULD SENSORS AND DIGITAL TWINS OPEN THE DOOR TO RELIABLE AND VERIFIABLE DATA? WHAT PARAMETERS COULD BE USED TO RESPOND TO ESG REQUIREMENTS?"

Structurer, Innovative Risk Solutions, EMEA, Swiss Re Corporate Solutions
Marco Adamo



D&O: the search for shelter

ESG, insolvency, cyber fears, emboldened regulators and now international sanctions – corporate directors have never been more exposed. But is it possible to find adequate protection?

As the COVID-19 pandemic enters its third year, directors and officers (D&Os) across the globe remain vulnerable to an ever-growing range of risks. Environmental, social and governance (ESG) factors, COVID-related liabilities, insolvencies, cyber attacks and the long arm of the regulator continue to put company board members and decision-makers in the firing line. Now, on top of all that, they must ensure their value chains are compliant with the growing raft of sanctions against Russia.

Across the globe, risks are greater than ever, and new ones are emerging. In this uncertain environment, corporate risk managers are under pressure to manage the evolving risk landscape and protect their organisations from company level and director-level liabilities. Strong governance and risk transfer will remain vital layers of protection.

As the 2021 Willis Towers Watson Liability Survey Report outlined, COVID-19 has had a considerable impact on the scope of D&O risks. Working from home and subsequent cyber threat were cited as a future driver of D&O risks, with more organisations implementing flexible working arrangements after the pandemic's peak.

AS THE WORLD OPENS UP

The survey's leading risks were, once again, cyber attack and data loss. Insolvencies did not feature as a top-five risk in the WTW 2021 survey, but this exposure is expected to increase as the economic fallout of the pandemic hits home. Global stimulus is being removed, and nations are attempting to move beyond supportive monetary policy and emergency COVID measures – meaning that more companies will fail.

Compared to the last year's survey, more respondents considered insolvency, bankruptcy or corporate collapse as "a very or extremely significant risk". However, it did not make the top five in the regions surveyed.

In England and Wales, new laws, including the Pensions Act 2021, have heightened the risk threshold for directors and officers. The law puts D&Os on the hook for greater personal penalties for breaches of pensions regulations, following a series of scandals in recent times. UK regulators and those further afield have shown a greater willingness to prosecute corporations and directors.

Cyber extortion was a new risk, added to the survey for the first time this year. "It is notable that it immediately made its way into the number 3 spot," a WTW spokesperson says.

Return to work, COVID safety and vaccination status (as a risk separate from health and safety) ranked fourth for North America but did not make the top five for any other region. Health and safety generally did fall within the top five for Europe, Britain and Australasia, however.

Surprisingly, climate change was not listed as a top-five risk in any region. But it was cited as the sixth ranked risk in Britain, Asia and Australia.

Bethany Greenwood, global head of cyber and executive risk at insurance group Beazley, says D&O risks are trending towards three main issues. "The current buzz words around D&O are very much ESG, cyber and COVID-related," she says. "However, Beazley's latest Risk & Resilience Report found that the key boardroom risks for 2022 also include supply chain risk and the reputational risks that arise from social inflation and employment. It is important that boards focus on these issues, too, even if they are less top of mind at present."

Amid ongoing global supply chain constraints, directors need to assess their risk exposure, Greenwood says. "Large companies should be leveraging their size to engage multiple sources of supply wherever possible, and all businesses should be planning stock resourcing so that they soften the impact of any disruption."

With supply chain issues hitting every sector, boards need to be mindful of potential investor litigation, she adds. "There is also a reputational issue at play here. Companies need to consider how they communicate supply chain issues to shareholders. If supply chain issues are affecting profits, it's vital to be able to explain clearly what's happening and what is being done about it. Boards that fail to do this adequately face risks to their share prices, damage to their reputation, and ultimately the danger of shareholder litigation."

"THERE IS A REPUTATIONAL ISSUE AT PLAY HERE. IF SUPPLY CHAIN ISSUES ARE AFFECTING PROFITS, IT'S VITAL TO BE ABLE TO EXPLAIN CLEARLY WHAT'S HAPPENING AND WHAT IS BEING DONE ABOUT IT."

Bethany Greenwood
Global head of cyber and executive risk, Beazley

Boardroom exposure to employment risk also looms large, Greenwood says, with social changes making workers more likely to speak out if they feel they've been wronged, and to "litigate for compensation". Amid that threat, "employment risk needs to be a significant point of focus within the boardroom", she adds.

"Directors and officers need to lead from the front to drive a culture of equality. Chief people officers are increasingly common, and it can be very valuable to have someone in the C-suite driving the correct cultures," Greenwood says. "Boardroom risk is high around both physical supply chains and employee rights. Corporate insurance buyers need to be clear on what their own patterns of risk are in order to take appropriate steps to address both issues."

"For example, clients may require more granular study of their insurance policies, so that they can be sure they have mitigated rising boardroom risks. This is something that brokers need to be prepared for, so that they can work with clients on ensuring that they are adequately covered."

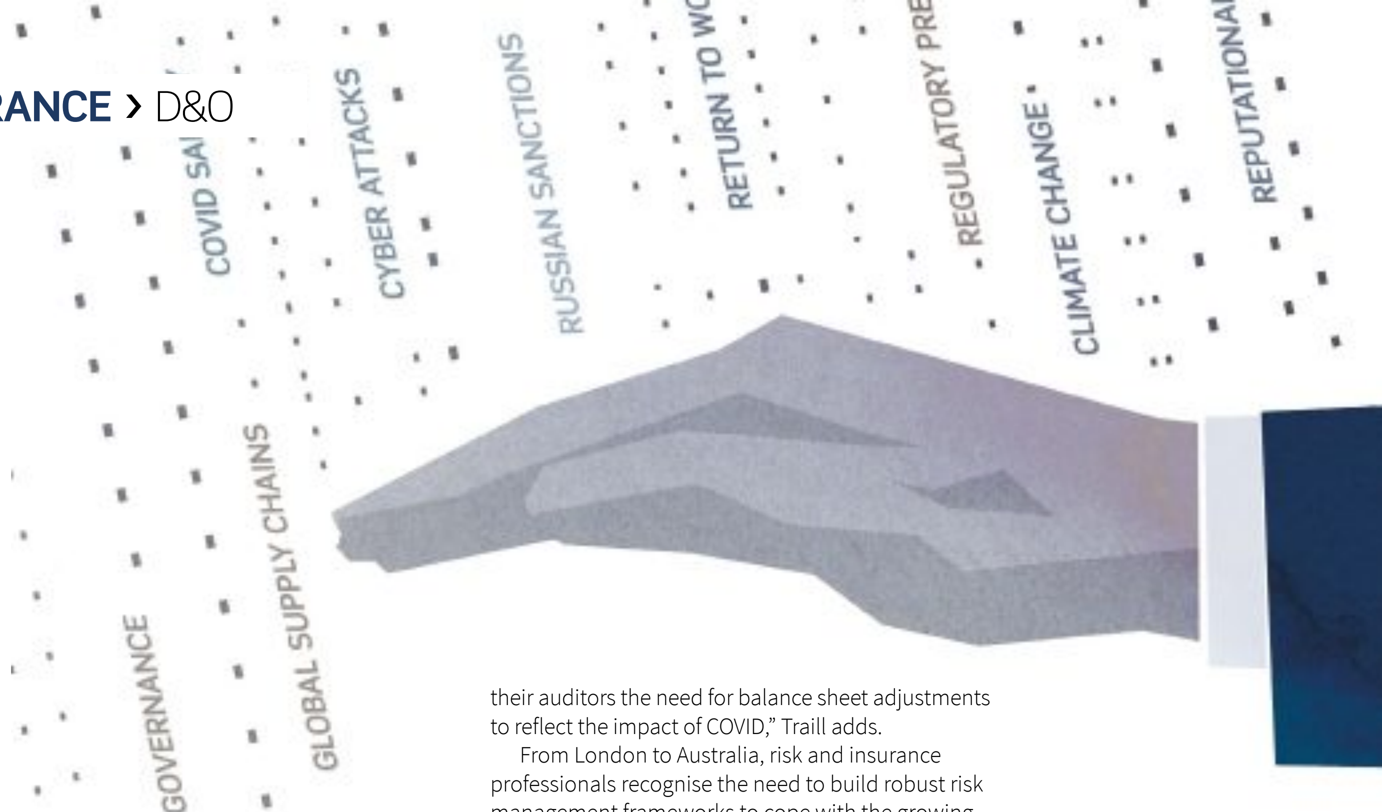
NAVIGATING THE HARD MARKET

With so many D&O threats out there, how effective is risk transfer in protecting companies and their directors? The continuing hard market means that

TOP FIVE RISKS FACED BY D&Os

1. CYBER ATTACKS
2. DATA LOSS
3. CYBER EXTORTION
4. REGULATORY RISKS
5. HEALTH & SAFETY AND/OR ENVIRONMENTAL PROSECUTION

Source: Willis Towers Watson



capacity remain constricted and terms and conditions considerably tightened. In some jurisdictions, Side C cover remains nigh-on impossible to secure and insurance buyers have voiced their frustration over the renewal process.

Alex Traill, a partner at insurance specialist law firm BLM, says that while D&O insurance is a well-established risk mitigation tool, the fact that emerging risks are growing is also leaving directors more exposed.

"For example, claims related to the pandemic include those arising from pre-lockdown activities but also how the company reacted to lockdown difficulties and trading," he says. "Firms are now also seeing claims relating to the post-lockdown actions of D&Os from shareholders who are questioning how transparent their boards were in disclosing the financial effect of the virus on their businesses."

The risk areas that come under the umbrella banner of ESG matters also pose a growing threat to D&Os and, by default, their organisations. Risks in those areas are growing as regulatory pressures and responsibilities build.

"We shouldn't overlook the growing exposure of D&Os to environmental, social and corporate governance matters," says Traill. "Senior management is under increasing pressure both internally and from clients, and they also need to ensure they are meeting regulatory standards."

NEXT-LEVEL GOVERNANCE

However, Traill believes companies can take proactive steps to deal with the evolving risk landscape and protect themselves. "From a governance perspective, they [directors and officers] should regularly review the financial strength of their business and how that financial strength has been affected by the pandemic. Boards need to appreciate that it is important to be transparent with stakeholders."

"This is particularly pertinent for publicly listed companies' statutory obligations of financial disclosure. If needs be, companies should discuss with their auditors the need for balance sheet adjustments to reflect the impact of COVID," Traill adds.

From London to Australia, risk and insurance professionals recognise the need to build robust risk management frameworks to cope with the growing threats. It is no longer enough to simply follow the principles of an effective corporate governance framework. Directors must document each and every decision, and ensure these are backed by the most accurate information available at the time.

"From a legal perspective, documents and witnesses are the two key ingredients to defending cases, demonstrating risk assessment planning, training and consultation," says Traill.

"Accessing and using appropriate professional advice, be that legal, financial or insurance, is key to managing new and evolving D&O risk. The more D&Os surround themselves with professional expertise and follow the advice received in a logical fashion, the better protection they will have, and the greater the sympathy a court will have for them."

Eamonn Cunningham, president of the Risk and Insurance Management Society of Australasia (RIMS Australia), says companies need to have the confidence that there is a soundly based enterprise risk management (ERM) framework in place within the organisation, and that it is operating as intended.

"Questions need to be asked, and checks need to be undertaken, to ensure that this vital part of the operation works properly," he says. "Everything today is moving at a rapid pace. Therefore, boards and risk managers need to be nimble in their thinking and able to act early and decisively when required. There needs to be a well-developed mechanism for horizon scanning and reporting the results of this quickly into the boardroom."

The Australian-based executive tells risk managers to engage closely with their D&Os and insurance brokers to spot emerging threats as they come down the line.

"Introduce a mechanism where workshops are carried out with relevant executives and your insurance brokers to ensure that you have a really good idea of the risks you face today and in the near term. Stress test the output of these workshops to ensure that they are relevant and effective."

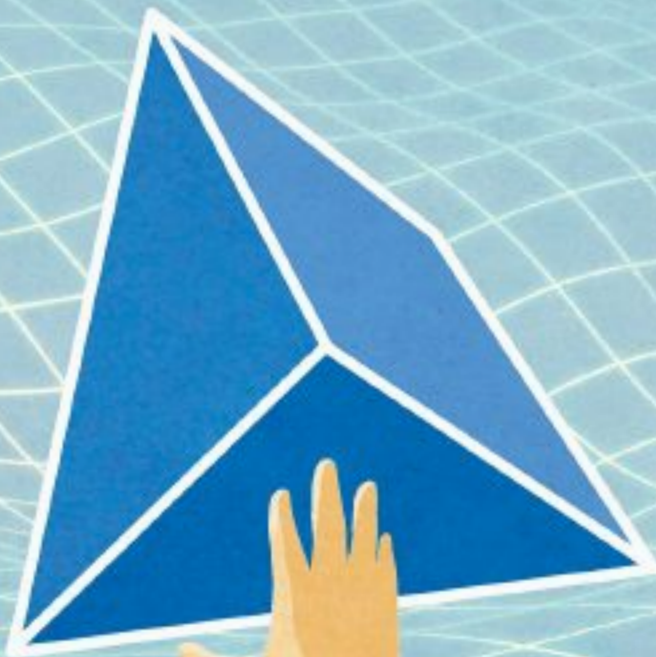
"And ensure those risks are addressed by a combination of risk management controls and the purchase of adequate, fit-for-purpose insurance." **SR**

"FIRMS ARE NOW ALSO SEEING CLAIMS FROM SHAREHOLDERS WHO ARE QUESTIONING HOW TRANSPARENT THEIR BOARDS WERE IN DISCLOSING THE FINANCIAL EFFECT OF THE VIRUS ON THEIR BUSINESSES."

Partner, BLM
Alex Traill

Get a grip on intangibles

The pandemic has focused our attention on intangible risks as business models pivoted. But getting a firm grasp of the data remains a serious challenge.



IN PARTNERSHIP WITH

90% of the value of S&P 500 companies are now made up of intangible assets

The increasing intangible nature of the risk landscape is nothing new, and yet many of the exposures facing businesses today remain misunderstood and poorly served by traditional insurance products.

On 22 February, *StrategicRISK* hosted a webinar 'Evolution of risk – from the tangible to the intangible' to discuss some of these challenges. Chaired by *StrategicRISK* editor Helen Yates, our expert panel consisted of Riskonnect CEO Jim Wetekamp, group insurance manager at Next Group PLC Martin Smyth and risk consultant Mark Boult.

Latest studies show that intangible assets make up over 90% of S&P 500 companies, up from just 17% in 1975. With the pandemic seeing a further shift in business models, with organisations divesting of business premises, moving systems to the cloud and repurposing supply chains, the trend

has further accelerated over the past two years.

"It is important not to be left behind in a world where an increasing proportion of business value is made up of intangible assets," warned Bout. "If you are behind the curve, you aren't going to be managing your risks as well, and therefore things will go wrong and damage your brand value."

The webinar considered the value of intangible assets and how changing priorities during the COVID crisis have seen a growing appreciation for digital infrastructure, intellectual property and talent, brand and reputation, and corporate culture, among other things. As organisations shift further towards hybrid working patterns and become ever more digitised, our experts considered how risk professionals can better measure, manage and mitigate intangible risks?

A MANAGER FOR EVERY RISK

The discussion began with a look back at how the COVID crisis had elevated attention to intangible exposures and highlighted the need for resilience in an increasingly uncertain and volatile risk environment. "What has changed is an appreciation that risk is distributed across the business," said Smyth. "Everybody in the business is a risk manager of some sort, even if they don't see themselves that way."

Wetekamp noted that different stakeholders were being brought into the risk management process than may have been in the past. This includes HR, legal and marketing teams where risks involving people, intellectual property and brand are concerned, for instance.

"The business continuity and operational resilience point is something that has risen to the top in the discussion [on the importance of risk management] and it is impacting the way we work. Linking to the intangible asset aspect, it has brought new stakeholders into the risk management process that you didn't have before or that you have to engage in a different way."

"You've got to make sure you have a defined risk owner for each one of the intangible assets or areas of risk," he said. "This will create discussion internally around how those things come together from a scenario standpoint."

As organisations become more reliant on digital ecosystems, with the pandemic driving a further shift from server-based systems to cloud-hosted architecture, it is essential for risk teams to have a direct line into the CIO and IT function. Panellists acknowledged there is no turning back and that it was imperative to keep abreast of new and emerging vulnerabilities as threats, including ransomware and supply chain attacks, continue to evolve.

A question was raised about cloud concentration and how this introduced the potential for risk aggregations.

"Aren't we there already?" asked Wetekamp. "If you're worried about how much of our critical business operations, data and processes are being consolidated in the digital experience, I would argue we're over that threshold now. There are four or five systems or platforms that if they had a material interruption (and Twitter is not down) we know it about it within seconds. That has massive impacts on commerce, the flow of data, procurement and supply chains."

"It is less about whether that is going to emerge as a risk and more about, what are some of the strategies we're going to employ a little bit differently. Coming out of COVID, we still have very traditional procurement practices. Should we think about alternative vendors and distributing our relationships a

"WHAT HAS CHANGED IS AN APPRECIATION THAT RISK IS DISTRIBUTED ACROSS THE BUSINESS. EVERYBODY IN THE BUSINESS IS A RISK MANAGER OF SOME SORT."

Group insurance manager, Next Group PLC
Martin Smyth

bit more? Traditional risk mitigation around supply chain and getting our product out the door apply in this context."

MOTIVATIONS FOR ESG

Inevitably, ESG-related risks formed a significant part of the discussion, given how attention to environmental, social and governance factors has elevated the importance of intangible assets, including people, IP and the natural world. Doing the right thing – and being seen to do the right thing in a world where stakeholder capitalism is becoming the norm – is also intrinsically connected to brand value and reputation.

As investors, regulators and other stakeholders ramp up their expectations on the ESG front, including new reporting requirements, organisations are under growing scrutiny. The climate scenario testing requirements under climate frameworks such as TCFD do present a role for the insurance industry, thought Smyth. "Brokers, carriers and other service providers have got a wealth of knowledge in being able to quantify what that risk looks like to the business, which in some cases can be intangible."

"Going through these types of exercises, you begin to see how ESG as a risk of a business is made up of a lot of component risks – some of which are physical, but many of which are not," he continued. "It's great to be able to quantify it, but I don't think at this time much of it is transferable outside of the physical world and that's somewhat concerning."

The broad nature of risks and opportunities that fall under the banner of ESG is a challenge in and of itself. Organisations are having to think about the impacts they have as a business and their responsibilities to the world around them in a completely different way than ever before. And there is no room from greenwashing or clever marketing tricks.

"ESG is making you think about the whole life cycle of a product – the whole beginning to end of your supply chain of an extended enterprise. Although you can control things that you physically manage or do yourself, and that gives you some intangible value, it can be degraded by something happening upstream or downstream in the process," Smyth said.

"That's not necessarily going to be a physical thing – it could be related to diversity, pollution, ethics. All those things may impact your intangible value and then people stop buying from you," he continued. "The risk manager has to look over the much bigger picture and think not just about the financial impact, but also how society and other stakeholders will view what you're doing."

PREPARING FOR THE NEXT SHOCK

The pandemic once again highlighted the interconnected nature of risk in the world we live in, with COVID-19 and country lockdowns exacerbating a broad range of business risks, including supply chain disruptions and cyber vulnerabilities. The sheer complexity of this risk landscape was brought to life in the charts of this year's World Economic Forum's Global Risk Report, published in January 2022 (www.weforum.org/reports/global-risks-report-2022/data-on-global-risks-perceptions#report-nav). Yet, at the time of writing, even that feels out of date.

Speaking as the Ukraine crisis was unfolding, Smyth noted that ahead of the pandemic, Black Swan-type events had, in many instances, been consigned to the history books. Now corporates are carrying out more scenario analysis to consider the impact of other potential shocks, however unlikely they may at first appear.

"It is important to take an open-minded approach to these risks. We've all been in meetings where someone has discarded what could be a valid scenario or approach just because they didn't believe it could happen in that way. And that's quite a dangerous narrative to have within the ERM framework."

Events that lie outside of "living memory" are the ones that can blindside. "Global pandemics seem to happen about once every 100 years, and we should know to expect this," said Boult. "Other scenarios will happen on some sort of regularity. You need to look at the future and think about a range of different types of impact, how you manage similar types of risks and build in resilience."

OUT OF REACH?

The esoteric nature of intangible risks inevitably makes them difficult to measure and quantify. But there are ways of overcoming these challenges. "One of the really good exercises is to look at events that have happened and see where they fit into your risk universe, where the tolerances were and were they material," said Smyth.

Wetekamp pointed to the financial services and healthcare sectors as examples of industries that are pioneering approaches to generating data around intangibles risk. "These two markets are the canary in the coal mine in terms of what other organisations will try to do around more effectively managing risk," he said.

"Is it really true we don't know how to value our intangible assets?" he asked. "There are some quantifications you can do in this area that are really physical and specific, around our operational resilience and even how we source and procure and what third parties we work with. All of those things are really trackable."

"For a long time, organisations have measured and understood consumer sentiment and acted and behaved accordingly to protect their brand and grow their business. Employee sentiment surveys record what makes people happy, excited and mission-driven."

"It's the investor sentiment – how it impacts ESG investing, stock price and future performance – that is now making the gamble on this highly unpredictable," added Wetekamp. "It's a future benefit that we can't quantify that has changed the way we talk about ESG and intangible risks today." **SR**

"IS IT REALLY TRUE WE DON'T KNOW HOW TO VALUE OUR INTANGIBLE ASSETS? THERE ARE SOME QUANTIFICATIONS YOU CAN DO IN THIS AREA THAT ARE REALLY PHYSICAL AND SPECIFIC."

CEO, Riskonnect
Jim Wetekamp

Do you know your value chain?

How well you respond to geopolitical risks depends on both your own decisions and those of third parties. So how do you monitor behaviour and standards across your value chain, asks Riskonnect's Jim Wetekamp

Intangible risks, like geopolitical risks, can have a deep impact on business. Immigration and travel restrictions can limit availability of talent and key skill sets. Slow response to social issues or the suspicious activities of third parties overseas could lead to reputational consequences. Trade conflicts, tariffs, and sanctions threaten supply-chain performance. Recessions, inflation, and economic uncertainty can slow revenue growth.

Each of these situations can have a severe impact on an organisation. Together, however, the impact could be devastating for those that haven't properly prepared.

An organisation's resilience to geopolitical risks heavily depends on third parties. One poor decision by a vendor can poke holes in the defences you've worked hard to build. Do your due diligence before the contract is signed to ensure you only engage with trusted vendors that meet your standards and uphold your values.

And make sure you're not associating with any vendors that may cause harm to the company, including involvement in malicious activity, terrorist groups, or other risky behaviours. Verify with detailed questionnaires that your third parties do, in fact, operate as claimed.

"ONLY ENGAGE WITH TRUSTED VENDORS THAT MEET YOUR STANDARDS AND UPHOLD YOUR VALUES"

CEO, Riskonnect
Jim Wetekamp

THE NEED FOR INSIGHT-LED DECISIONS

Confident, fast decision-making can minimise geopolitical disruption. And your ability to respond quickly requires facts – not gut feelings or educated guesses. One overlooked threat – minor as it may appear –could trigger a series of events that add up to catastrophe.

Technology is instrumental in creating a complete and contextual view of an organisation's risk environment. The right software centralises risk data from across the organisation, connects the dots between risks, and makes the information actionable. You'll have a clear view of how one risk could ripple through multiple areas – e.g., reputation, competitive position, strategic growth – and what you need to do to prepare.

We've all learned a lesson over these past couple of years about the perils of disregarding even the most unlikely scenarios. No one wants to be caught off guard by an unanticipated geopolitical risk. What can you do now to strengthen your infrastructure to withstand a new wave of threats? Because that next event may be already be on its way. **SR**

Ukraine reawakens business to the importance of political risk

The conflict calls for a strategic re-evaluation of footprints, supply chains, relationships, company cultures, business functions and risk appetite, explains Control Risks' Claudine Fry

The catastrophic events in Ukraine have shattered such assumptions, and left businesses no option but to respond quickly and decisively. While the immense human suffering is front of mind, the impact of the conflict in Ukraine on business has been deep and wide. There have been almost-immediate impacts on the safety of people, the resilience of supply chains, sanctions risk exposure and the operational costs associated with rising commodity prices.

Countless companies have had to cease or suspend operations in Russia, the 11th largest economy in the world. Businesses are also trying to understand the impact of these events beyond the immediate term as it is clear their legacy will be lasting.

No sector will go untouched. No part of the world will escape the effects, be they rocketing prices for food and oil; pressures on services and politics caused by migration; changed inflows and asset seizures influenced by sanctions; or a change in access to resources or influence.

WIDESPREAD RISK IMPLICATIONS

The pace of developments will slow, but watch for things that may suddenly change the pace. Europe will be living with active conflict of some kind on its soil long-term. The status of Ukraine will remain contested and the security situation in and around Ukraine will be hostile. Key relationships between impacted states will remain belligerent, combative and militaristic.

Beyond the immediate neighbourhood of Ukraine, societies and businesses have only just begun to feel the implications of this crisis. These implications will manifest in higher political risk, everywhere.

The succession of events such as Brexit, the election Donald Trump as US President, the pandemic, and now Ukraine, make it clear that political risk events typically seen as low likelihood but high impact demand closer attention by the board, and more engagement beyond the board too.

BUSINESSES ARE BEING HELD TO ACCOUNT FOR THEIR RESPONSE TO POLITICAL RISK EVENTS. THE RUSH OF WESTERN COMPANIES FLEEING RUSSIA IS TESTAMENT TO THIS TREND.

Claudine Fry, principal, Control Risks

For some businesses, there will need to be a strategic re-evaluation of footprints, supply chains, relationships, company cultures, business functions and risk appetite to ensure resilience in a world profoundly changed by the Ukraine conflagration.

Organisations are operating in a world reawakened to the significance of understanding and managing political risk. What is more, businesses are being held to account for positions they are taking in response to political risk events more than ever before. The rush of Western companies fleeing Russia is testament to this trend.

Adopting a position on a geopolitical risk issue can be complex and consequential in ways that may not be immediately well-understood. It requires careful consideration, particularly for global companies doing business in an increasingly polarised and hostile international environment. **SR**

Claudine Fry is principal at Control Risks

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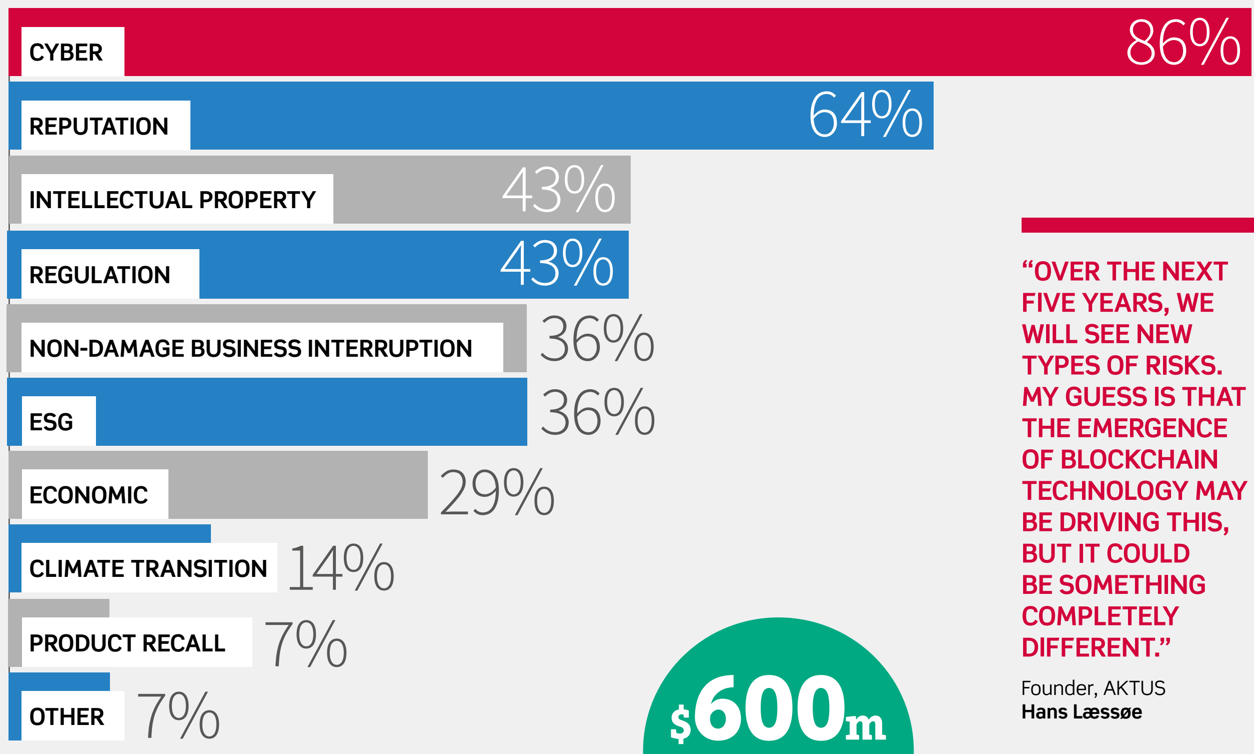
Cyber and reputation: your top intangible fears

Cancel culture and cyber intrusions can 'kill', and survey respondents know this. Many anticipate more red tape as regulators seek to get a handle on these ever-growing emerging risks.

WHAT INTANGIBLE RISKS/EXPOSURES ARE OF MOST CONCERN TO YOUR ORGANISATION? (CHOOSE UP TO THREE)



"OVER THE NEXT FIVE YEARS, WE WILL SEE NEW TYPES OF RISKS. MY GUESS IS THAT THE EMERGENCE OF BLOCKCHAIN TECHNOLOGY MAY BE DRIVING THIS, BUT IT COULD BE SOMETHING COMPLETELY DIFFERENT."

Founder, AKTUS
Hans Læssøe

$600m Cost to businesses of the top ten cyber intrusions in 2021

Eighty-six percent of respondents said cyber was the intangible risk of most concern to their organisation in 2022. This is according to a survey of risk professionals carried out by *StrategicRISK* in February.

It was followed by reputation in second place (64%) and intellectual property and regulation in joint third position (43%) and non-damage business interruption (NDBI) and ESG in joint fourth (36%). Fifteen percent of respondents said they had suffered a major loss over the last 12 months relating to an intangible risk.

The impact of cyber attacks on organisations – including costs relating to network disruption – are clearly front of mind when it comes to intangible exposures.

And it is not difficult to see why. The top ten intrusions in 2021 costs companies over $600m, resulted in the loss of tens of millions of sensitive data records and shut down one back for over a week, according to research by Tokio Marine HCC International.

As for reputation, one does not have to look much further than current newspaper headlines to see why risk managers are wary of how suddenly hard won reputations can be lost.

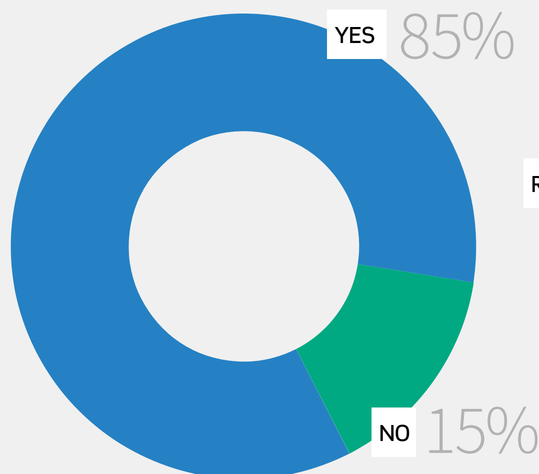
REAL THREAT OF CANCEL CULTURE

AKTUS founder and former LEGO Group chief risk officer Hans Læssøe is not surprised that reputation ranks so highly among the list of concerns.

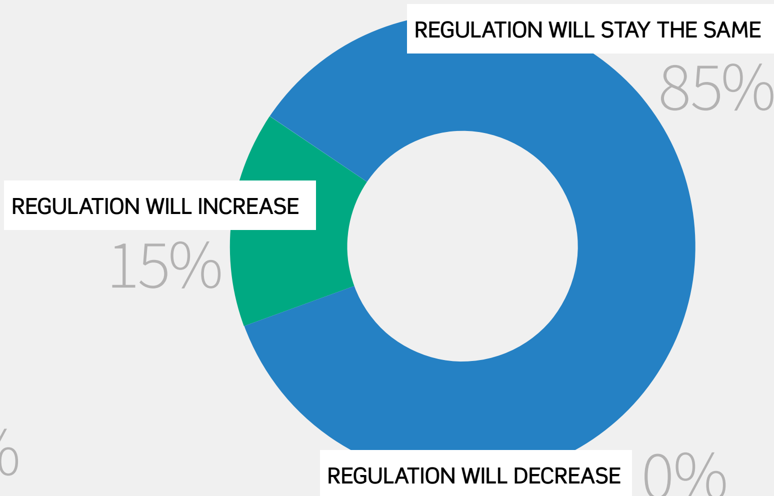
As he explains, a dented reputation may 'kill' the organisation and is complicated for the following reasons:

- A risk may materialise due to change of consumer perceptions (think of the #MeToo movement) rather than due to change of behaviour.
- A risk may materialise based on some untrue accusations made by someone who is 'out to get you'. "I had an example of that while at the LEGO Group, where activists were trying to influence a partner company to change behaviour and (unsuccessfully) leveraged the LEGO Group as a means to the end," says Læssøe.
- A risk may materialise based on the bad behaviour of one 'rogue' person/executive or person you relate to (think Spotify right now).
- A risk may materialise while adhering to legislative controls, which appear to be inefficient or

HAS YOUR ORGANISATION **SUFFERED A MAJOR LOSS** OVER THE LAST 12 MONTHS RELATED TO AN INTANGIBLE RISK?



HOW WILL CONCERNS OVER THE SYSTEMIC NATURE OF INTANGIBLE RISKS IMPACT **REGULATORY REQUIREMENTS** GOING FORWARD?



inadequate (for example, money laundering through a bank).

Respondents acknowledged the global pandemic had exacerbated some of the intangible risks faced by their organisation. This includes exposures relating to new, hybrid ways of working and the direct and indirect business interruption resulting from company lockdowns.

CREATING A SCALE

According to Læssøe, however, pandemic is a tangible risk that materialised, and one that companies should have been prepared for.

Many are taking steps to better measure and manage their intangible exposures going forward, particularly in the absence of traditional insurance solutions.

In order to manage the risk, you first must be able to measure it. But with intangibles, other metrics are often needed. "The key challenge is to rate/scale it," says Læssøe. "Let us take reputation for one, and apply a 1–5 level scale:

- Local press and public attention for less than one week. Very limited social media attention.
- Nationwide press attention for less than one week and/or local attention for two to three weeks. One to two weeks of some social media attention.
- International press attention, locally the issue lingers on for months and international social media attention exceeds two weeks.
- International headline press attention. Significant and 'global' social media attention for weeks.
- International top story. Massive social media 'outrage' for weeks and weeks on end."

"MORE TYPES OF RISKS WILL EMERGE AND THE COMPLEXITY WILL INCREASE AS COMPANIES, SUPPLY CHAINS, BUSINESSES AND PROCESSES GETS INTERTWINED AND AUTOMATED – ALL LEADING TO REDUCED TRANSPARENCY."

Founder, AKTUS
Hans Læssøe

The vast majority of respondents (85%) thought the systemic nature of intangible risks would impact regulatory requirements going forward. As ESG grows in importance and supervisors address the systemic nature of cyber and pandemic-related risks, more rules and requirements appear likely.

Fifteen percent thought the level of regulation would stay roughly the same, but nobody thought oversight would reduce any time soon.

IT'S ONLY GETTING MORE COMPLEX

As for the future, respondents said firms must get better at anticipating emerging intangible risks and integrating these into their strategic risk management frameworks.

"More types of risks will emerge and the complexity will increase as companies, supply chains, businesses and processes gets intertwined and automated – all leading to reduced transparency," says Læssøe.

"Suddenly, the 'butterfly effect' may come very much into play in business. For example, there is currently a shortage of specific materials, which in turn creates a shortage of computer chips being manufactured, which stalls the sale of new cars. If I were a car manufacturer, I may not consider the shortage of chip materials as being a risk to my ability to sell cars – but it is."

"Over the next two to five years, we will probably see new types of risks for the first time ever – some we have never thought about," he adds. "My guess is that the emergence of blockchain technology and metaverses may be driving this, but it could also be something completely different." **SR**

StrategicRISK

2021 ASIA-PACIFIC RISK BENCHMARKING SURVEY

Invest in us

Boards remain more engaged in risk than they were before the COVID crisis hit. But as our 2021 Asia-Pacific Risk Benchmarking Survey finds, while risk professionals manage a growing list of potentially devastating concerns, including supply chain disruption, cyber attacks, pandemics and much more, budgets are standing still. It's time to show us the money.

2021: YOUR TOP RISK CONCERNS

1 IN PREVENTABLE: SUPPLY CHAIN RISK
2 NON-MOVER PREVENTABLE: TARGETED CYBER ATTACK
3 ▼ EXTERNAL: PANDEMIC/HEALTH ISSUES
4 ▲ EXTERNAL: CHANGING REGULATION/ENFORCEMENT
4 ▼ EXTERNAL: ECONOMIC SLOWDOWN/SLOW RECOVERY
6 ▼ STRATEGIC: DAMAGE TO REPUTATION/BRAND
7 ▲ PREVENTABLE: FAILURE OF CRITICAL INFRASTRUCTURE
8 IN PREVENTABLE: MAINTAINING A TALENTED WORKFORCE
9 IN EXTERNAL: CLIMATE CHANGE

LAST YEAR'S LIST

1 EXTERNAL: Pandemic/health issues
2 PREVENTABLE: Targeted cyber attack
3 EXTERNAL: Economic slowdown/slow recovery
4 STRATEGIC: Increasing/changing competitive landscape
5 STRATEGIC: Damage to reputation/brand
6 STRATEGIC: Failure to innovate
7 EXTERNAL: Macroeconomic change
8 PREVENTABLE: Failure of critical infrastructure
9 EXTERNAL: Changing regulation/enforcement

Asked about risks of greatest concern to their business in 2021, supply chain disruption jumped to the top spot for 84% of risk managers, pushing last year's top two risks – cyber attacks and pandemic – to second and third, respectively. It is clear the disruption to global supply chains in 2021, caused by factors including the pandemic, the Suez Canal disruption and the impact of natural catastrophes, has had a lasting and widespread impact over the past 12 months.

The effect of the ongoing economic slowdown and slow recovery remained a concern for 58% of respondents over the last 12 months, in joint fourth place with the risks arising from changing regulation (up from 9th position in 2020). Damage to reputation dropped one spot to sixth position, above failure of critical infrastructure and a new top ten risk for 2021: maintaining a talented workforce.

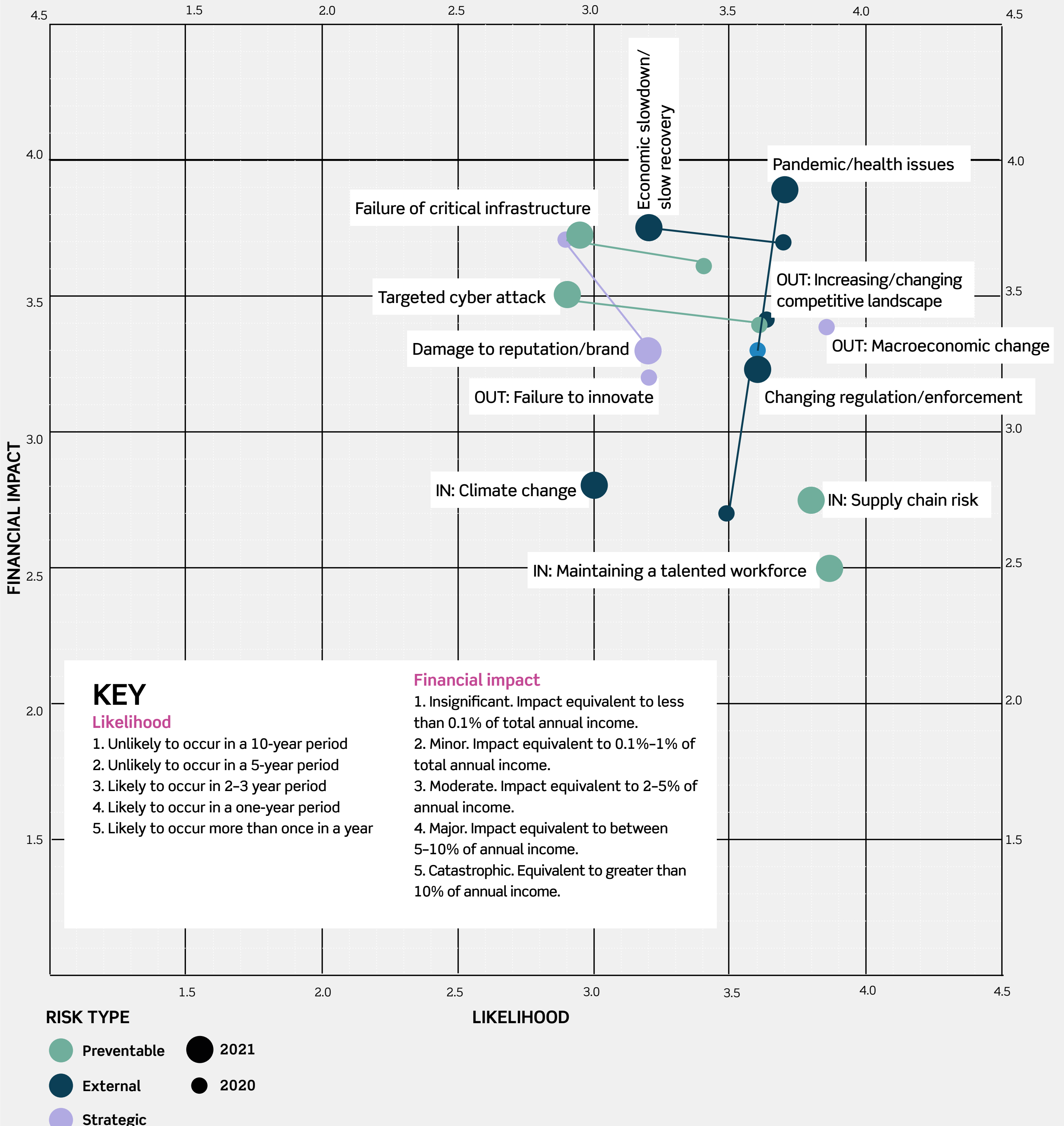
WHAT WILL 2022 LOOK LIKE?

Concern over new reporting requirements were reflected in respondents' plans for the next 12 months. ESG, regulatory compliance, key risk indicators and risk reporting were the areas our respondents said they and their teams would be focusing most effort over the coming year. This reflects a rapidly emerging legislative environment in Asia Pacific, with new rules regarding data protection, climate and supply chain among those in the pipeline.

The pandemic continues to impact organisations' approach to risk management, explained our respondents. "[COVID-19] created the opportunity to seize the upside of risk while carefully managing the downside," said a Thai-based risk and insurance

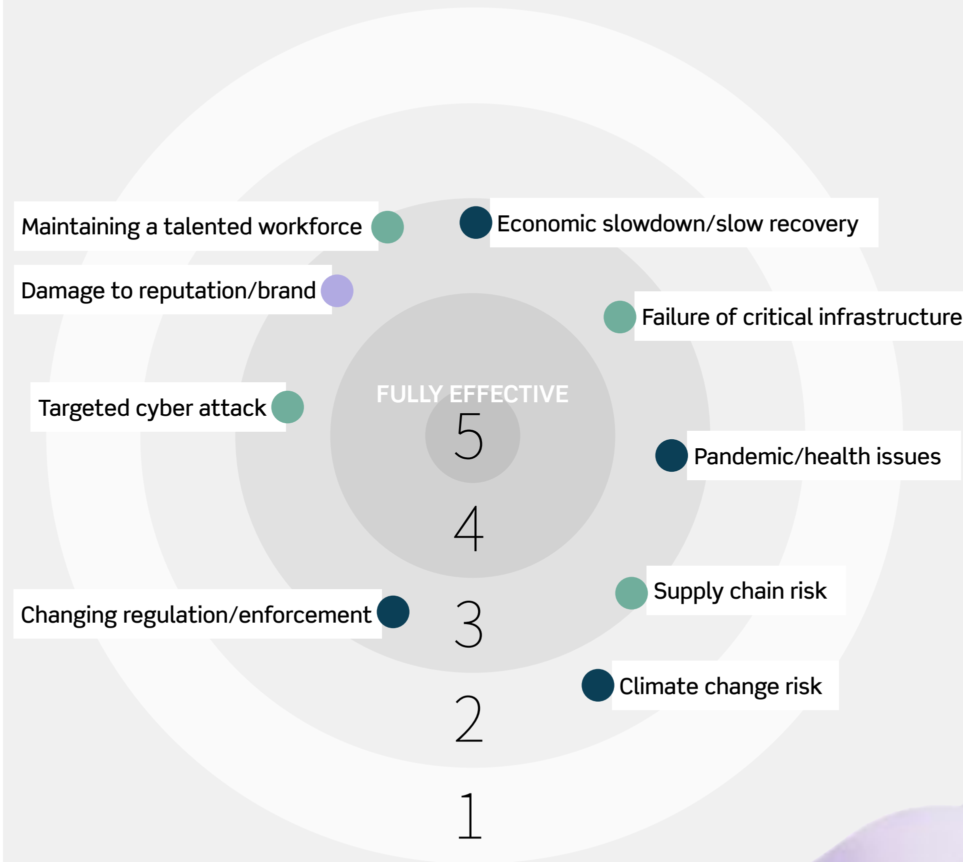
TOP RISKS, BY LIKELIHOOD AND FINANCIAL IMPACT: 2021 VS 2020

Respondents were asked to select risks of greatest concern, then to rate these risks by likelihood and financial impact. Comparing this year with 2020, things to note include the rise in anticipated financial impact of pandemic and changing regulation, as well as the decreased likelihood of cyber attacks, failure of critical infrastructure and economic slowdown.



HOW EFFECTIVE ARE YOUR CONTROLS?

We asked survey respondents to let us know the level of controls their organisations have in place to manage those risks rated of greatest concern. Respondents were non-committal as a rule, with almost all controls placed somewhere in the "partially effective" middle stream. The only concern deemed to have significant control gaps was climate change risk.



KEY

Effectiveness

1. INEFFECTIVE: No confidence in the control design or its effectiveness.
2. MOSTLY INEFFECTIVE: There are significant control gaps.
3. PARTIALLY EFFECTIVE: Some controls are effective, others are not.
4. MOSTLY EFFECTIVE: Most controls are designed correctly and are in place and effective.
5. FULLY EFFECTIVE: Nothing more to be done except review and monitor existing controls.

- Preventable
- External
- Strategic

manager, while a Hong Kong-based risk professional noted a shift in focus towards resilience in a world where it has become more difficult to predict the likelihood of events.

Meanwhile, there has been more focus and investment in a joined-up approach to operational risk management. "COVID has brought crisis management and business continuity management to the forefront, practically and in policy," explained an Australia-based risk and compliance manager.

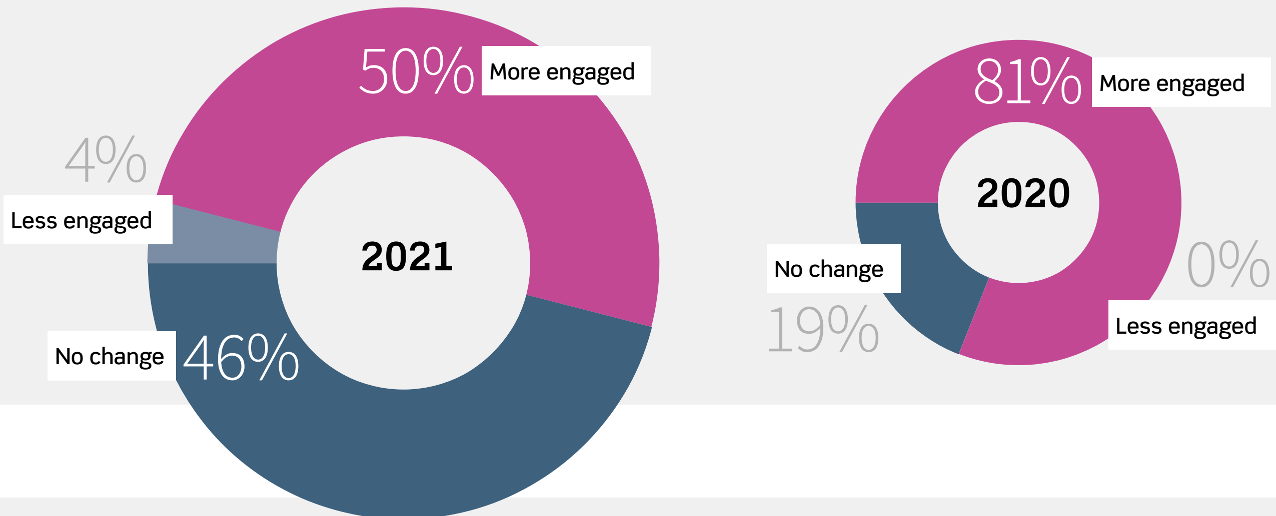
Meanwhile, a New Zealand-based risk and privacy manager said her organisation was putting more focus on supply chain risk management and seeking alternative providers.

Anticipating what lies ahead remains challenging in a world that is still navigating the pandemic, the looming threats of climate change and extreme weather, and a more uncertain economic and geopolitical environment. We asked our APAC risk professionals to identify the emerging risks they are most concerned about going forward.

The first four were similar to last year. Respondents identified pandemics/infectious disease, climate

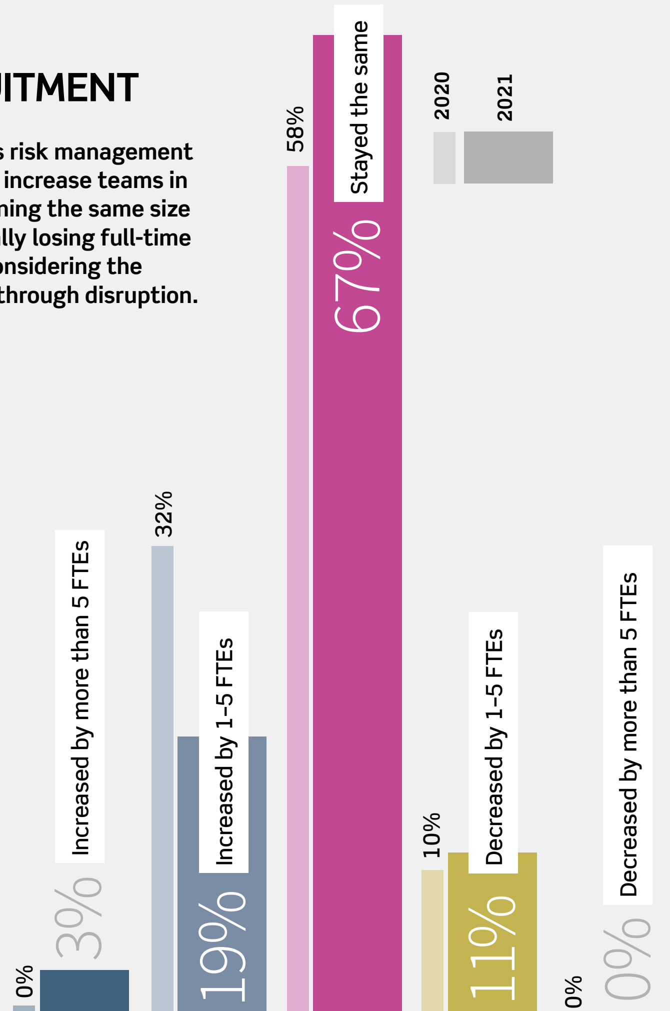
IS THE BOARD STILL WITH YOU?

We asked: In the past 12 months, how has senior management's engagement in risk management changed at your organisation? After the huge jump in engagement levels in 2020, a mixture of "more engaged" and "no change" can be considered a good result and shows how the board continues to look to risk professionals for guidance.



TEAM SIZES: NO BOOST IN RECRUITMENT

Respondents were asked: How has the size of your firm's risk management team changed in the past 12 months? The brief move to increase teams in 2020 appears to have subsided, with the majority remaining the same size in 2021 and a slightly greater proportion of teams actually losing full-time employees (FTEs) than last year. This is disappointing considering the continued focus on the risk function to take companies through disruption.

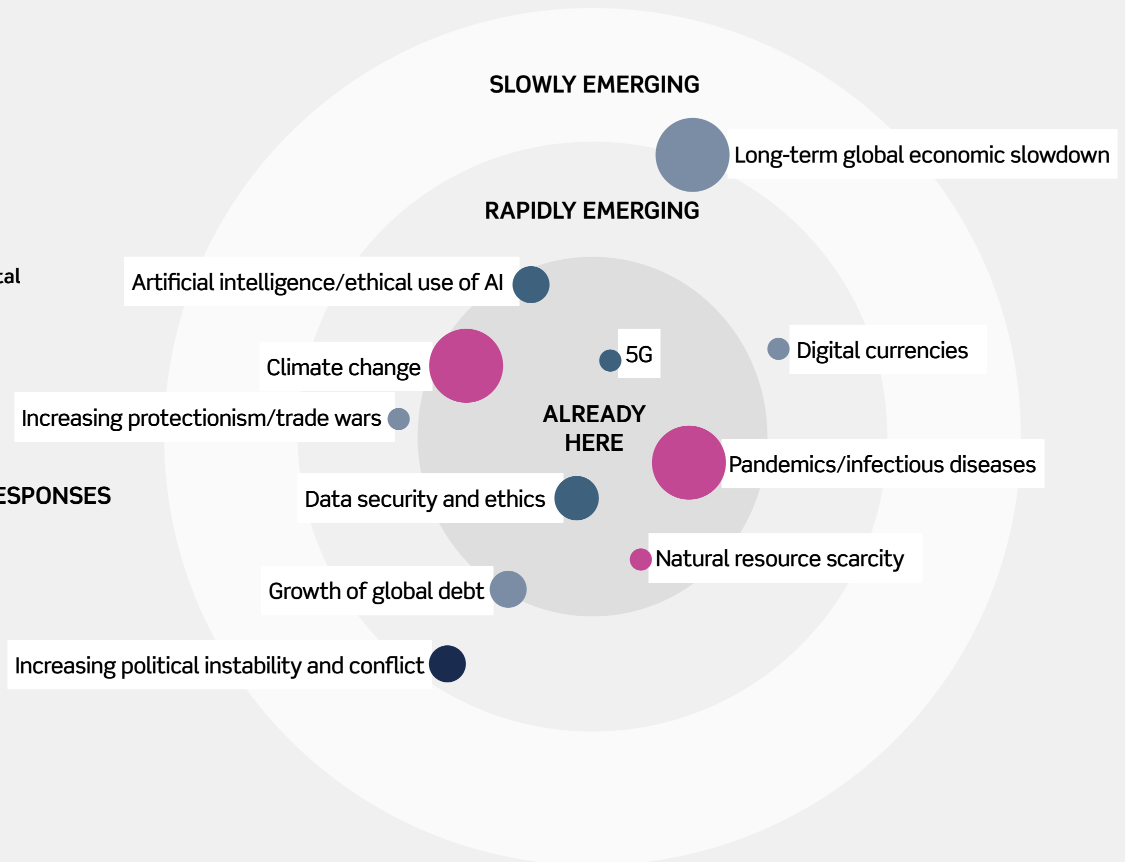


"THERE IS A HEIGHTENED SENSE OF AWARENESS OF THE IMPACT OF RISK ON THE ORGANISATION INCOME AND BRAND/ REPUTATION."

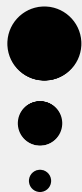
RISK MANAGER, MALAYSIA

TOP EMERGING RISKS

Respondents were asked to select the emerging risks that are of greatest concern and then rate them by speed of emergence. The biggest hitters were predictably stated as pandemic, economic slowdown and climate change.



NUMBER OF RESPONSES



change, long-term global economic slowdown and data security and ethics. New entrants included natural resource scarcity, growth of global debt and digital currencies. In terms of how quickly these risks are unfolding, most respondents said these threats were rapidly emerging, if not already here.

SPOTLIGHT STILL ON RISK, FOR NOW

Exactly half of you told us your senior management had become more engaged in risk management over the past 12 months (there had been no change for 46%). This was down from 81% in the 2020 survey, but suggests the value proposition of risk management is still being taken more seriously in a post-COVID world than it once was. As an India-based insurance professional explained: “The threat has improved our perception of the importance of risk management.”

Respondents identified the pandemic, more severe natural catastrophes and other risks affecting the business as driving greater attention to and appreciation of risk management practices at a senior level. According to an Australian public sector risk manager, greater resourcing has been provided and there is “a growing understanding of risk management in decision-making support” at their organisation.

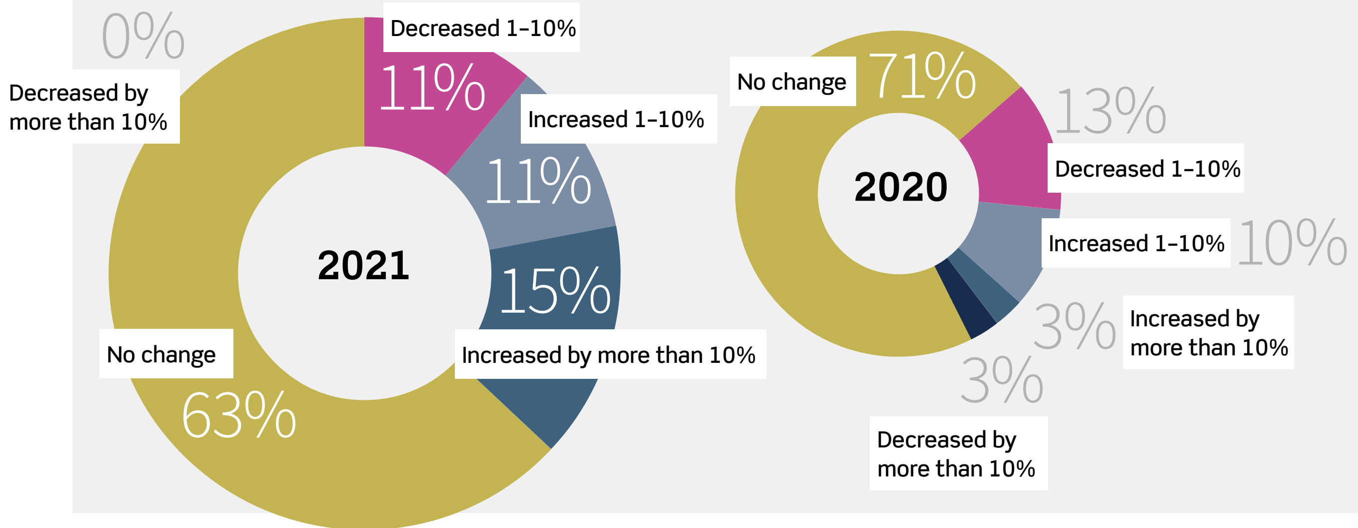
PUT YOUR MONEY WHERE YOUR MOUTH IS

For nearly two-thirds (63%), their risk management budget has remained unchanged over the last year and their team size has stayed the same (67%). For the lucky 26% who had received more budget in 2021, the additional investment is primarily being spent on expanding their teams or software/technology.

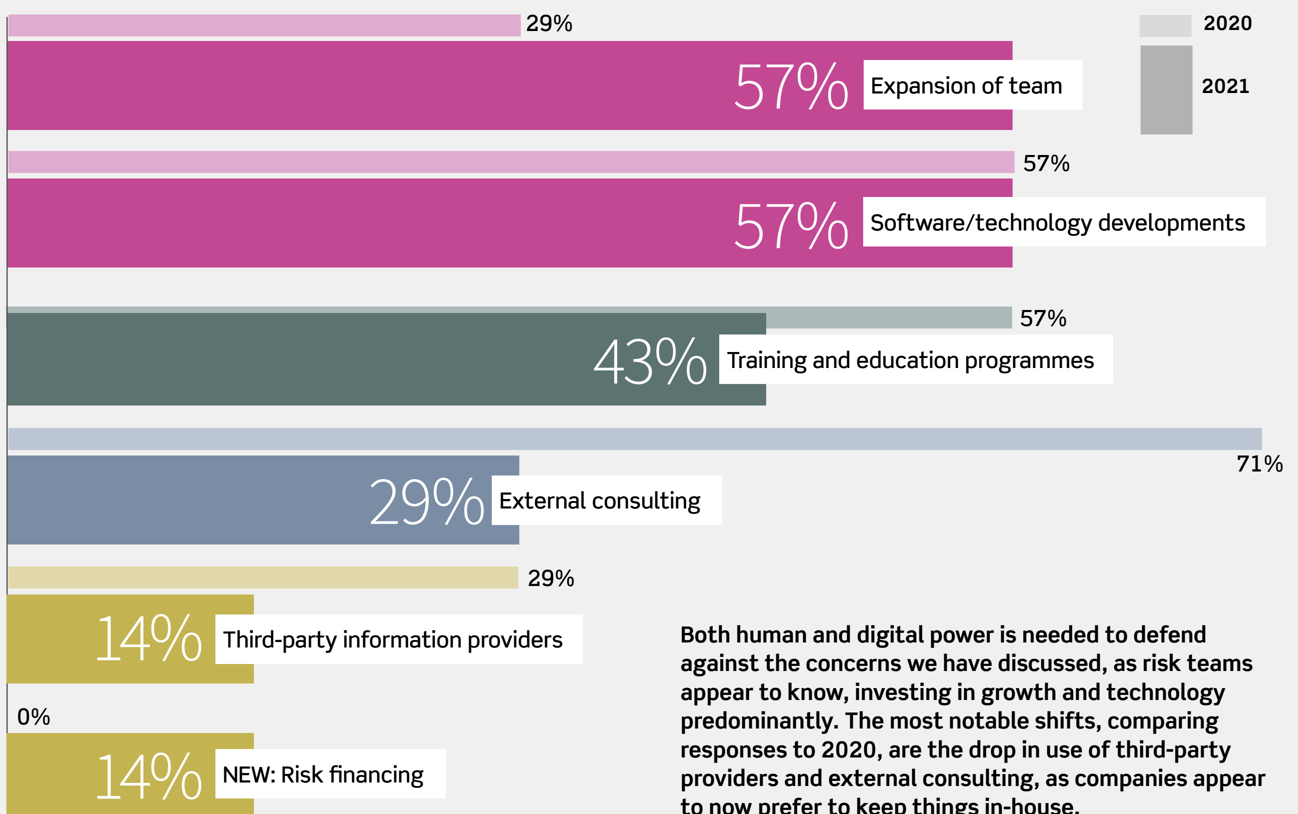
Clearly, where the funding is available, organisations are recognising the skills and talent that risk and insurance managers bring to the table. This signals an opportunity, given the change in focus brought about by the pandemic and related shocks, to build on this momentum. Risk managers must continue to demonstrate the value their skills and profession brings to organisations navigating an uncertain and ever-changing threat landscape. **SR**

HOW HAS YOUR BUDGET CHANGED THIS YEAR?

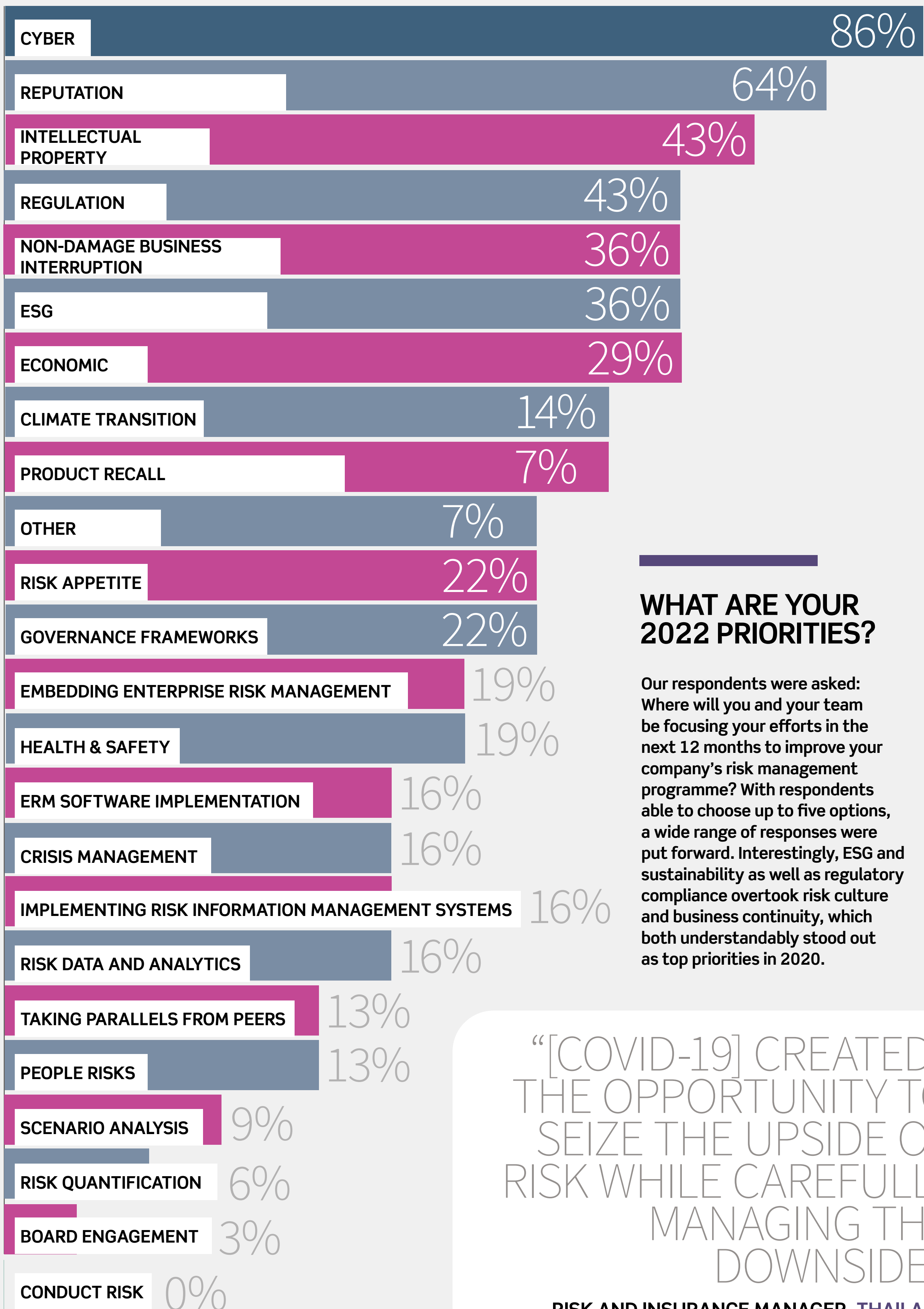
This year's results are slightly more promising than 2020, with fewer respondents reporting no change in budget and more saying they had seen an increase. However, numbers have certainly not risen to match the elevated position the risk profession is now starting to enjoy.



WHERE ARE YOU FOCUSING ANY ADDITIONAL INVESTMENT?



Both human and digital power is needed to defend against the concerns we have discussed, as risk teams appear to know, investing in growth and technology predominantly. The most notable shifts, comparing responses to 2020, are the drop in use of third-party providers and external consulting, as companies appear to now prefer to keep things in-house.



WHAT ARE YOUR 2022 PRIORITIES?

Our respondents were asked: Where will you and your team be focusing your efforts in the next 12 months to improve your company's risk management programme? With respondents able to choose up to five options, a wide range of responses were put forward. Interestingly, ESG and sustainability as well as regulatory compliance overtook risk culture and business continuity, which both understandably stood out as top priorities in 2020.

> "[COVID-19] CREATED THE OPPORTUNITY TO SEIZE THE UPSIDE OF RISK WHILE CAREFULLY MANAGING THE DOWNSIDE."

RISK AND INSURANCE MANAGER, THAILAND

Leading their risk rethink

Coming out of terrible disruption, corporates are finally seeing the benefit of resilience and sustainability over efficiency and fast growth. As they focus on aligning strategy with risk, seize the chance to be part of the change, says Marsh's Carolina Klint.

It has been a hectic start to 2022 for Carolina Klint, risk management leader for Continental Europe at Marsh. January saw the launch of the World Economic Forum's 17th Global Risks Report, kicking off the risk agenda ahead of the annual WEF meeting in Davos. As one of the report's key spokespeople (Marsh is a strategic partner alongside insurance giant Zurich), Klint has been busy ever since being interviewed on everything from space junk and climate change to cyber crime , the supply chain crisis, and most recently, the conflict in Ukraine.

But her passion shows no sign of waning by the time she sits down virtually with *StrategicRISK*. Klint

is under no doubt the pandemic has elevated the role of the risk professional, making it easier to get a seat at the top table while playing a more strategic role within the organisation. This is an opportunity risk managers need to grab with both hands, she thinks, as they grapple with potential future shocks, while seizing the upside.

FINDING THE BRIGHT SIDE

The pandemic has made corporates and their boards reassess how they think about risk, from prioritising efficiency to focusing on resilience, and downvoting growth for sustainability. Klint is excited by this shift in mindset and what it means for business and society moving forward. She acknowledges that it can be easy to just find "doom and gloom" in the WEF Risks Report, but insists there are chinks of light shining through for those prepared to look hard enough.

"We have lived through a situation where something we have viewed as high severity but low frequency – something that was quite hypothetical – actually hit the world and we had to navigate through it," she says. "So everyone has had that experience that when something like that hits, it can be drastic, severe and dramatic. This is why we are seeing this drive now to more actively connect risk to strategy and I'm really happy to see that."

At a time when research suggests there is more trust in businesses than in governments, risk managers are uniquely placed to propel their organisations forward in a positive way. This must encompass ESG goals, including the necessary transition towards zero carbon.

THE PIVOTAL ROLE OF INSURERS

Klint acknowledges the insurance industry has a crucial role to play as companies undergo these repurposing journeys and that for most industries, transition requires investment in new technologies and is not something that can be expected overnight. Meeting the expectations of various stakeholders while continuing to partner with their insureds, as they adapt their business models, is inevitably a balancing act.

"We should not underestimate the impact that insurance can have on this. First of all, no bank will finance something that is not properly insured. Insurance has the ability to influence the transition across many industries, through the pricing and the coverage levers that are inherent in underwriting and through limiting coverage for certain assets or sectors. This way insurance can support the shift of entire value chains."

"But at the same time, we need to recognise that we have a responsibility," she adds. "If the insurance industry was to suddenly withdraw from certain sectors or challenging industries, that would create a green protection gap. The insurance industry can strengthen its collaboration with industry and explore how to best balance this risk and reward, and diversify approaches. It's definitely more about the journey than the destination."

But it is now inevitable – something further underscored by this year's WEF Global Risks Report – that the greater risk we now face is climate inaction and failure to adapt. Now that we have moved beyond the immediate crisis of the pandemic, the focus has shifted back to climate and environmental risks.

Klint points out that over 35% of the global economy is dependent on the natural world, with climate-related risks so interconnected that they have become impossible to ignore.

"It's like a bowl of spaghetti – once you start pulling on one strand, everything is going to start moving. It's important to understand how the physical and first order climate risks impact you, such as damage to property and buildings, but as a business you also need to think about it in terms of supply chain and also then transition risks."

Just as a more complex, interconnected world has created an permanent 'butterfly effect' (where an extreme weather event in one corner of the globe can halt production in another), so some of the future solutions are likely to seek to resolve more than one problem. Klint offers up the example of onshoring or near-shoring and how decisions to move manufacturing facilities closer to home can potentially resolve both the risk of supply chain disruption while also decreasing a firm's carbon footprint.

"For companies inside the circular economy, for example, if you're a producer you're thinking about how can these goods not only have a predetermined end of life, but how can they go on to serve additional purposes – not only through recycling, because recycling uses up energy as well. In the UK, for example, there's this conversation going on about the ban of disposable plastic cutlery – how can we find an alternative to that? And will some products have a longer shelf life than others?"

YOU CAN GROW AND BE SUSTAINABLE

It's time for risk managers to think creatively and devise solutions that can tackle the challenges of the day while enabling their organisations to deliver on their strategy and goals. "It's important to focus on the opportunities and I don't think there is a conflict between growth and sustainability," says Klint. "You can have incredible growth and still be on a very aggressive journey towards improved sustainability – it's just that we need to rethink our approach."

"As a risk manager, you've got to try to take an optimistic starting point – to view this as an opportunity to bring solutions and support the strategic direction of the company you work for, and be that great connector," she continues.

"Because it's not possible to have a holistic view of the risks coming at you unless you lean on the expertise of a diverse group of people. Invite someone slightly unexpected to talk about risk – bring in fresh perspectives – that makes it fun and interesting, and can really bring value. It's such an opportunity to adjust strategies to align with the direction of change." **SR**

Carolina Klint is risk management leader for Continental Europe at Marsh.

"AS A RISK MANAGER, YOU'VE GOT TO VIEW THIS AS AN OPPORTUNITY TO BRING SOLUTIONS AND SUPPORT THE STRATEGIC DIRECTION OF THE COMPANY YOU WORK FOR, AND BE THAT GREAT CONNECTOR."

Risk management leader for Continental Europe, Marsh
Carolina Klint

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