

# Global risk interconnections challenge business resilience strategies



## Exploring an intensifying global risks landscape

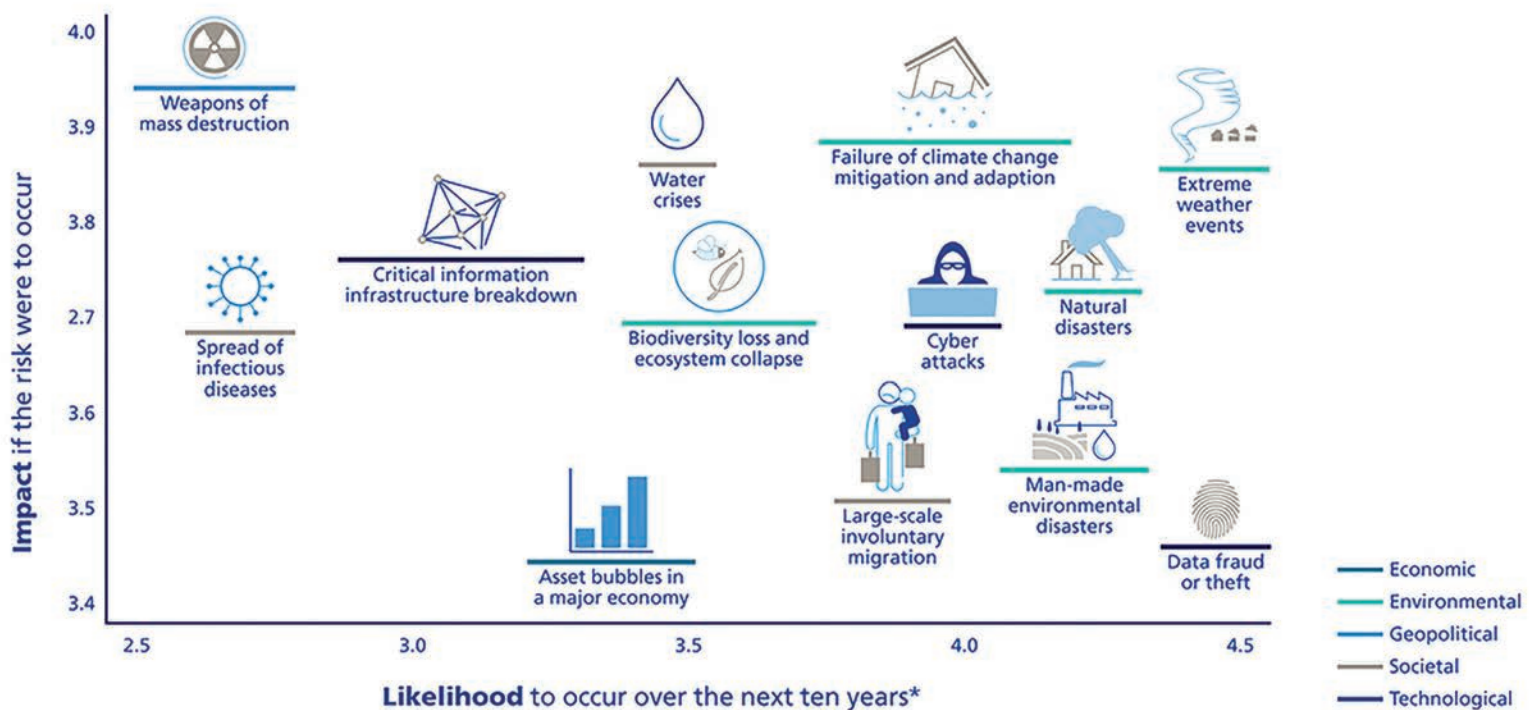
By Kathleen Savio,  
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Zurich is proud that each year we collaborate with the World Economic Forum and Marsh & McLennan Companies to produce the annual Global Risks Report.

As a strategic partner, Zurich provides input and guidance into the strategy, scope and methodology of the report and key content areas to focus on. We also provide in-depth analysis and commentary on the risks identified by the annual survey.

By working closely with the World Economic Forum, we are able to learn firsthand about the various global risks that are keeping leaders up at night. Ultimately, we can share these findings, coupled with Zurich's own insights, with our customers. With this report, we can help ensure that a light continues to shine on these risks. Working together, we can then find solutions.

FOR A THIRD YEAR, ENVIRONMENTAL RISKS HAVE BEEN A KEY CONCERN FOR LIKELIHOOD AND IMPACT OVER THE NEXT DECADE.



Source: The Global Risk Report 2019, World Economic Forum.

\*Survey respondents were asked to assess the likelihood and the impact of the individual global risks on a scale of 1 to 5.



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# MANAGING THE RISKS OF AN INCREASINGLY UNCERTAIN WORLD

Navigating some of the most serious risks outlined in the World Economic Forum's 2019 Global Risks Report will require organizations to become more resilient in managing potential impacts.

## TOP GLOBAL RISKS BY LIKELIHOOD

1. Extreme weather events
2. Failure of climate-change mitigation and adaptation
3. Major natural disasters
4. Massive incident of data fraud/theft

## TOP GLOBAL RISKS BY IMPACT

1. Weapons of mass destruction
2. Failure of climate-change mitigation and adaptation
3. Extreme weather events
4. Water crises

**Environmental risks** continue to dominate the **Global Risks Landscape**



**Top 3** Global Risks by **likelihood**

**Top 4** Global Risks by **impact**

Source: The Global Risks Report 2019, World Economic Forum

# Organizations must take a more holistic view of an increasingly complex global risks landscape



By Barry Franklin,  
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The risks facing any business are always in motion – changing, transforming and often interconnecting in unexpected ways, with effects ranging from

merely inconvenient to potentially catastrophic. A storm in the Pacific Ocean can disrupt a supply chain that will idle a factory in Iowa. Political instability in a developing country today could impact a corporation's P&L statement several quarters into the future. A cyberattack striking in an instant could hinder global operations for days or weeks, and perhaps damage reputations for years.

Cataloging an increasingly complex and interconnected risk landscape is the continuing mission of the World Economic Forum's (WEF) Global Risks Report. The findings of WEF's Global Risks Report 2019 and past editions confirm that effective risk management requires taking interdependencies between risks into account and adopting a truly holistic business resilience perspective and approach.

In my role as Head of Risk for Zurich North America, I am responsible for ensuring adherence to Zurich's risk policy and advising and challenging our leaders with respect to balancing business strategy and risk-taking within an agreed risk appetite. I am also responsible for promoting risk awareness throughout the organization.

Zurich's role as a strategic partner – along with Marsh & McLennan Companies – in the production of the Global Risks Report allows us to contribute to the dialogue surrounding global risks, to help identify the things that keep our customers up at night and to share guidance that can help them mitigate those risks.

The Global Risks Report 2019 is like a crystal ball looking into the future of risk. The Global Risks Perception Survey asks hundreds of WEF stakeholders to consider a list of 30 global risks and rank them in terms of likelihood and impact over the next 10 years. Extreme weather, climate change and cyber/data risks dominated the top 10 in both categories – although "weapons of mass destruction" secured the top spot in terms of impact.

But the Global Risks Report is much more than the results of a survey. The report also looks at the changing geopolitical landscape, the impact of workplace and societal changes, the spread of infectious diseases and a host of other topics. The report has something for everyone interested in managing risk. I'd like to highlight some of the risks that are likely to have the greatest impacts for Zurich and its customers.

## Extreme weather

For anyone paying attention to the news, it should come as no surprise that "extreme weather events" have been identified as the top risk in terms of likelihood over the next 10 years, and the number three risk in terms of impact over the same time period.

Environment-related risks dominated the results of the report's Global Risks Perception Survey, accounting for three of the top five risks by likelihood and top four by impact.

During the last two years in the United States, we've experienced some of the deadliest and costliest extreme weather events on record. After years of relative calm, 2017 ushered in three of the most damaging hurricanes in history – Harvey, Irma and Maria. In 2018, two more massive hurricanes made landfall in the Southeast – Florence and Michael.

While it is impossible to predict if this trend will continue, scientists say that if humans are unable to slow or reverse global warming, we can expect to experience more extremes in weather – stronger storms, more flooding, rising sea levels, droughts and wildfire seasons that extend throughout the year. The Camp Fire in Northern California in 2018 was the state's deadliest and most destructive wildfire on record, and it may become the new norm, climate-change scientists warn.

## Climate change

People may forever argue about the causes of climate change, but the debate over its very existence is largely settled: The planet is warming and we are already seeing the effects.

Global warming has led to steadily rising sea levels, and the report devotes a chapter to the impact of this risk on coastal cities. Two-thirds of the world's population is expected to live in cities by 2050, and an estimated 800 million people in more than 570 coastal cities are vulnerable to a sea level rise of 0.5 meters by 2050.

The risks of rising sea levels are often compounded by storm surges and increased rainfall intensity. In the U.S., East Coast cities including Norfolk, Va., Charleston, S.C., Baltimore and Miami have already experienced "sunny day" flooding due to rising sea levels. A study found that between 2005 and 2017, sea level rise wiped \$14.1 billion off home values in New York, New Jersey, Connecticut, Florida, South Carolina, North Carolina, Virginia and Georgia.

Zurich in 2018 produced the report "Managing the impacts of climate change: risk management responses," which provides risk management tools and outlines approaches and best practices to help businesses respond to the growing threat of climate change.

Zurich recommends developing and acting upon a climate resilience adaptation strategy, which includes the following steps: identify the broad business and strategic risks; develop a granular view of the risks involved; and develop a mitigation strategy involving insurance and resilience.

## Cyber risk

Another risk that has rightly garnered the attention of the global community is cyber/data. "Large-scale cyberattacks" are among the top 10 risks in terms of likelihood and impact in the Global Risks Report survey, and "massive data fraud/theft" is the number four risk by likelihood.

According to the Global Risks Report, a large majority of survey respondents expect increased risks in 2019 of cyberattacks leading to theft of money and data (82%) and disruption of operations (80%). About two-thirds of respondents expect the risks associated with fake news and identity theft to increase in 2019, while three-fifths said the same about loss of privacy to companies and governments.

Last year also saw continuing evidence that cyberattacks pose risks to critical infrastructure. In July, the U.S. government reported that Russian hackers had gained access to the control rooms of U.S. utility companies.

The U.S. business community feels particularly vulnerable to these threats, as evidenced by WEF's report "Regional Risks for Doing Business 2018." WEF asked more than 12,500 business executives around the world to select – from a list of 30 global risks – "the five global risks that you believe to be of most concern for doing business in your country within the next 10 years." Cyberattacks were the top risk in the U.S.; the number three risk was data fraud or theft.

## What's on the horizon?

The interconnected and systemic nature of global risks make it vitally important for businesses to anticipate triggers, trends and scenarios to prepare for the possible consequences of those risks, determining the best and most holistic response.

For businesses to reach their full potential in an increasingly interconnected risk environment, they must strive to see a bigger picture. They must work to more fully understand the risks and opportunities they face within proper context. At Zurich, we know that embracing new ideas and thinking deeper, wider and further can help inspire the confidence needed to help organizations reach their potential and help fashion effective resilience strategies. Because as challenging as the risks we face today may appear, the interconnections and potential severity of the risks we may face tomorrow could rewrite the book on business resilience.

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Be more proactive about protecting the business you love by expanding your risk horizons. Zurich's risk profiling is a structured approach that helps identify, prioritize and mitigate risk. We can help you manage your risk rather than just insure against it, so you can focus more on profit and less on risk.

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