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# Sleepwalking to disaster: global risks in a volatile world



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2

Mankind is standing on the precipice of a total breakdown – economically, geopolitically, technologically and environmentally. Such is the prognosis for the world and everything in it according to those tasked with calculating the potential impact of the risks we face.

Global risks make for a divided and disrupted world, characterised by heightened tensions and forceful transformations, all of which are occurring at such an unprecedented pace and scale that they are rapidly becoming an accepted part of day-to-day business and life.

Among the major global risks forecast to escalate in 2019 and beyond are increasing cyber attacks, populist and nativist agendas, ‘fake news’, domestic political polarisation and personal identify

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[Issue Archive](#)

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theft, as well as a continuation of the economic confrontations and frictions between major powers, leading to an erosion of multilateral trading rules and agreements.

“The world is facing a growing number of complex and interconnected challenges – from slowing global growth and persistent economic inequality to climate change, geopolitical tensions and the accelerating pace of the Fourth Industrial Revolution,” says Børge Brende, president of the World Economic Forum (WEF). “In isolation, these are daunting challenges; faced simultaneously, we will struggle if we do not work together.

“With global trade and economic growth at risk in 2019, there is a more urgent need than ever to renew the architecture of international cooperation,” he continues. “We simply do not have the gunpowder to deal with the kind of slowdown that current dynamics might lead us towards. What we need now is coordinated, concerted action to sustain growth and to tackle the grave threats facing our world today.”

Many of the risks referenced by the WEF have emerged only fairly recently, while others have come to the fore after lying largely dormant for many years. “The past 12 months have brought a continuation of an evolving global risks landscape,” says Nick Allan, chief executive of Control Risks. “Disruptive geopolitical forces – the Trump White House, anti-EU populism in Europe and economic nationalism worldwide – continue to drive a period of transition away from globalism and the liberal-democratic world order that has been familiar, and comfortable, for decades.”

According to Dr William Arthur, North America and Pacific analyst and Global Risk Monitor head at Oxford Analytica, the global risks likely to escalate in 2019 and beyond include the US administration’s efforts to renegotiate the global trade architecture, worsening relations between the US and China, Iran and the European Union (EU), and an Islamic State resurgence in Syria after US forces leave. “Concern has also grown about non-traditional threats, including climate change and heightened frequency of extreme weather, and perhaps the biggest global risk: cyber threats,” he adds.

Dr Andrea Bonime-Blanc, chief executive and founder of GEC Risk Advisory, notes that many of today’s global risks, particularly geopolitical risk, have risen from unexpected places for the first time. “Brexit bedlam in the UK, Trump investigations and possible impeachment in the US, and the rise of illiberal democracies in Europe – all of these together make for potentially dramatic tectonic national and international political shifts and changes,” she believes.

### The global risk landscape

According to the WEF’s ‘Global Risk Report 2019’, the top 10 risks are: (i) extreme weather events, such as floods and storms; (ii) a failure of climate-change mitigation and adaptation; (iii) major natural disasters, such as earthquake, tsunami, volcanic eruption and

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[Latest Issue](#)
[Issue Archive](#)
[Annual Reviews](#)
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geomagnetic storms; (iv) a massive incident of data fraud or theft; (v) large-scale cyber attacks; (vi) man-made environmental damage and disasters, such as oil spills and radioactive contamination; (vii) large-scale involuntary migration; (viii) major biodiversity loss and ecosystem collapse, such as terrestrial or marine; (ix) water crises; and (x) asset bubbles in a major economy.

***“With global risks largely interconnected, how companies go about assessing the likely impact of these interconnections on their expectations, business models and ability to make business decisions and investments is a key challenge.”***

In the view of Tracey Hunt, deputy chief executive of Allianz Global Corporate & Specialty (AGCS) in the UK, cyber risk is the key global issue of today. “In the wake of a year of mega data breaches and privacy scandals, major IT outages and the introduction of tighter data protection rules in the EU, such as the General Data Protection Regulation (GDPR), and other countries, cyber risk is now a core concern for businesses in 2019,” she says. Indeed, according to the ‘Allianz Risk Barometer: Top Business Risk for 2019’ report, cyber incidents is now neck-and-neck with business interruption as the top business risks globally.

“These two risks are increasingly interlinked, reflecting the magnitude of the threat now posed by a growing dependence on technology and the malicious actions of nation states and criminals,” continues Ms Hunt. “Increasingly, cyber incidents bring their own business interruption losses, as evidenced by the NotPetya malware attack which incapacitated a number of companies.”

Dr Bonime-Blanc believes it has become abundantly clear over the past year – although brewing for significantly longer – that the world is now engaged in a new type of war – cyber warfare – between democracies, such as the US and leading European powers on the one hand, and autocracies, including Russia, China, North Korea and Iran, on the other. “The full implications of cyber warfare have not yet been seen, as it has been a somewhat below the surface conflict until now,” she suggests. “But we should brace ourselves for more overt manifestation and impacts, such as cyber-induced power outages and infrastructure hits.”

### **World leaders’ response to global risks**

In light of intensifying global risks, one might expect world leaders to generally be in accord as to how to deal with them. Yet the response



[Home](#)

[Latest Issue](#)

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of heads of state and government often appears out of sync and counterproductive – unsurprising, perhaps, given the confrontations and frictions that exist between the major powers.

“The response of world leaders to global risks is as diverse as the leaders themselves,” suggests Mr Allan. “President Trump emphasises the power of personal relationships in his conduct of global affairs. France’s Emmanuel Macron seeks to strengthen political institutions and common principles to dampen conflict, while president Vladimir Putin of Russia pursues a highly disruptive foreign policy.

“In almost all arenas – with notable exceptions – global conflict remains political, economic and technological, rather than military,” he continues. “The nature of these conflicts is that they can escalate and proliferate easily and rapidly. The political will to resolve these issues has not faded; global geopolitical institutions are under pressure, but resilient.”

Another major roadblock facing world leaders is the continuing breakdown of the pillars of international economic and political governance – exemplified by president Trump’s pursuit of *realpolitik* as the organising principle of world affairs, a unilateral rather than multilateral agenda – that have maintained a balance of power and contained warfare since the Second World War.

“These pillars, such as NATO, the United Nations (UN) and numerous international trade deals, while not perfect or necessarily always effective, have served the purpose of building international governance between nations that have allowed for a longer period of peace and prosperity than probably at any time in human history,” says Dr Bonime-Blanc. “It is too soon to tell whether the current attacks on these pillars – coming in the main from the Trump administration, Brexiteers, illiberal democratic European leaders and Russia under Putin – are merely blips on the screen that will be resolved over the next couple of years or something more pervasive and potentially destructive.”

### Interconnections

With global risks largely interconnected, how companies go about assessing the likely impact of these interconnections on their expectations, business models and ability to make business decisions and investments is a key challenge.

“What went wrong in the past is easier for companies to identify and put processes in place to prevent a reoccurrence,” suggests Vicky Gregorcyk, national practice leader of risk advisory services at BDO. “On the other end of the spectrum are global disruptive risks – it is much harder to imagine what could potentially go wrong and how to plan for it. With something like a business model failure, leaders do not always see it coming.”


[Home](#)
[Latest Issue](#)
[Issue Archive](#)
[Annual Reviews](#)
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Moreover, much of the difficulty companies face stems from an insufficient level of global risk oversight at the board level. “This is a dramatic and dangerous flaw companies would be wise to address and fix as soon as possible,” says Dr Bonime-Blanc. “All types of organisations – including non-profits, universities and inter-governmental agencies – need to up their game on strategic risk and opportunity management and governance. Most organisations, including sophisticated global companies, still do not pay sufficient attention to, or deploy appropriate resources for, effective enterprise risk management (ERM) and ERM oversight.”

That said, even with a robust ERM system in place, companies must deploy it with appropriate care, skill and diligence. “Proper risk, ethics and compliance talent is required to develop and implement ERM systems,” adds Dr Bonime-Blanc. “Furthermore, the board should preferably have multiple members with a deep and relevant understanding of strategic risk as it relates to business, sector footprint and value preservation and creation.”

For Mr Allan, the reality is that businesses can no longer assume that the world is borderless and commerce frictionless – two of globalisation’s great promises – as previously open borders become increasingly closed. “Companies should anticipate that the world could realign along new and diverse spheres of influence,” he says. “Fissures are already emerging, for example over regulatory issues, with the US, EU and China seeking to regulate data, among other topics. Tension will also crackle along complex supply chains, as the connective tissue between raw materials, manufacturing and markets bears the weight of regional and global disputes. In many cases, doing business globally in a compliant fashion will become more cumbersome and expensive.”

### Psychological impacts

Not to be dismissed during an examination of global risk volatility and uncertainty is the day-to-day psychological impact in the workplace and on society at large.

“With uncertainty and volatility there is often a psychological impact for business leaders and their employees,” concurs Ms Gregorcyk. “Stress sets in when leaders obsess over not knowing future risks, dangers and pitfalls. Stress takes its toll on people and it is the uncertainty that can be the killer. Strong leaders learn to live with uncertainty and make calculated decisions even though they do not have 100 percent of the data. They are agile, assess the risks through a sound continuous risk assessment process, and learn to roleplay on what to do when various risk scenarios actually happen. They make plans to address the future risks.”

Of course, human nature being what it is, most people do not spend their day worrying about global risks and their potential impact in the distant future. “Humans are hard wired to pay more attention to information that they like than that they do not,” asserts Mr Arthur. “When people do think about big global risks, they tend to conjure



[Home](#)

[Latest Issue](#)

[Issue Archive](#)

[Annual Reviews](#)

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up 'black swans' – highly improbable, albeit catastrophic events – rather than 'grey rhinos' – the known unknowns, which require painstaking policy work to solve. In the West, there is also a bias toward short-term decision making and increasingly a dismissiveness of the expertise and institutions essential to thinking through and addressing the complexity and consequences of big risks."

### Sleepwalking to catastrophe?

In order to navigate an increasingly fractious world, companies and governments need to understand that global risks are interconnected rather than isolated concerns and prepare a response accordingly and effectively. If they do not, then further division, discord and disharmony lies in wait.

"The global response starts with individuals and builds from there," says Mr Arthur. "One of the best defences against sleepwalking into catastrophe is to have that risk and that question front-of-mind. Doing so can bring about the global responses that are needed to pressing issues, from international trade policy to climate change and terrorism. Technology now empowers citizens and sub-national entities, such as cities, to organise and mobilise around global issues as never before. Someone, somewhere, is always awake."

Similarly reluctant to set too much stall on the notion of a world unwittingly advancing toward catastrophe is Mr Allan: "If risk consultancy teaches us anything, it is that our worst-case scenarios almost never come to pass. Anyone sleepwalking through the current environment will eventually wake up to the rude shock of a world changed. Anyone wide awake will be – or should be – planning intensively for an array of eventualities and doing everything they can to influence how business and geopolitics interact."

So, if the world is not sleepwalking to catastrophe quite yet, then it most certainly is heading toward ever higher levels of volatility, intolerance, distrust and uncertainty.

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