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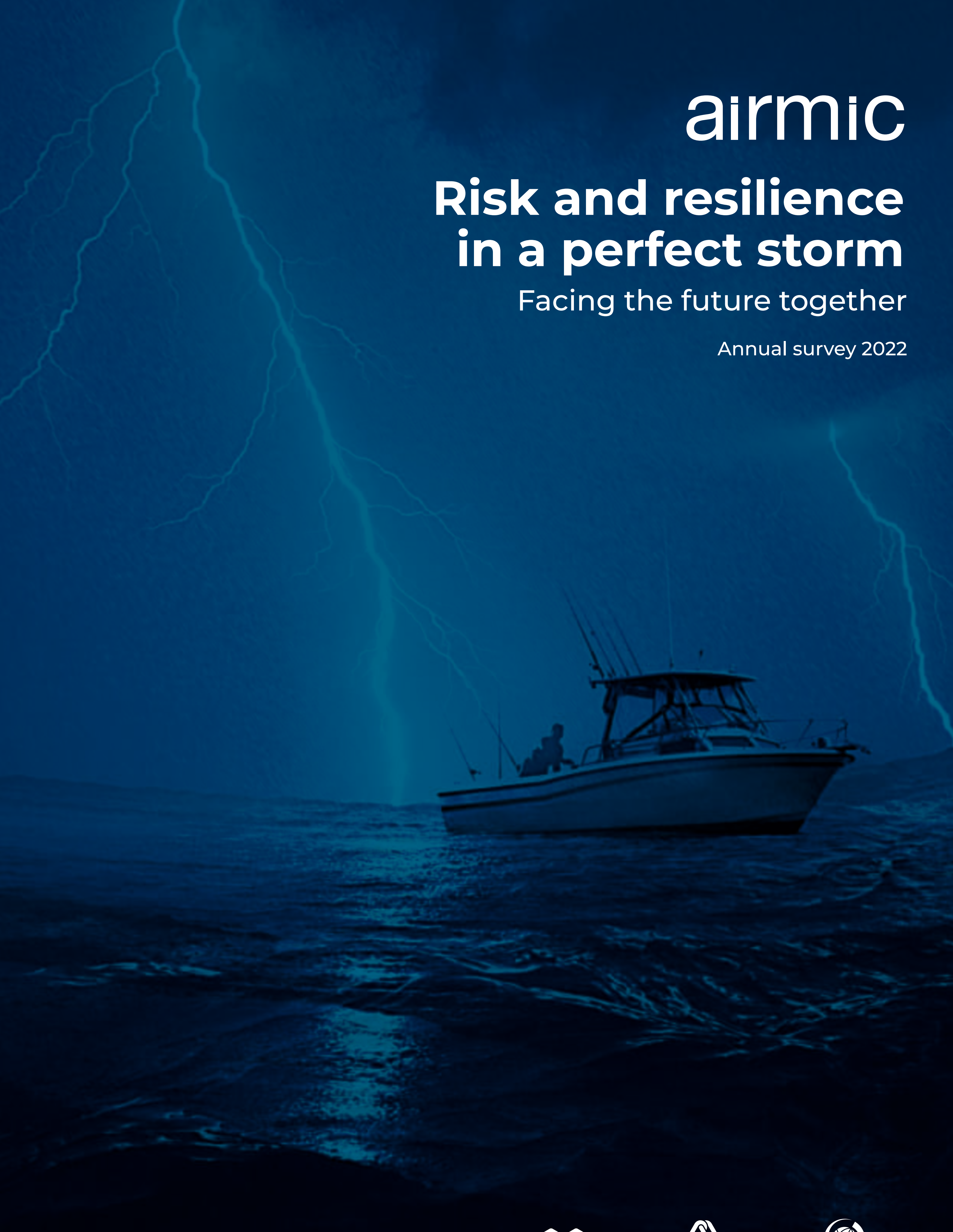
Risk and resilience in a perfect storm

Facing the future together

Annual survey 2022



Control Risks KPMG Marsh QBE sedgwick

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Foreword

This survey provides insight into our world, the concerns and priorities of our members, and provides signposts to where Airmic resources and energy should be directed. It affirms that risk professionals are fired-up with the ambition to step up, lean in, and take the responsibility to support their organisations. This isn't a new ambition, but it's never been a more urgent one. The turbulence we describe is not going to ease and the perfect storm will quicken and continue to gather force. The 2022 Airmic Annual Survey took place as events in Ukraine were unfolding. As the war and its consequences continue to develop and scenarios emerge, we must add the global and long term impact of the war to our gathering storm.

Whilst there is a clear commitment of the profession to step up, risk professionals are under pressure to do more with less. As risks increasingly fall outside the scope of traditional insurance covers or the pricing of them makes no business sense, the business models of our partners are adapting. We see the investments our partners making in risk management services and solutions as a key Airmic member resource. As we head for choppy seas we believe that the role of Airmic has never been more important. We will continue to take a lead in the development of risk management and insurance as integrated and dynamic professions, working with our members, partners and other stakeholders to lobby, develop and share good professional practice.

We have taken a close look at our Purpose – why Airmic exists and who we exist to serve. We have more than 1,600 members and growing, and we have been providing opportunities for new networks to be built, existing networks to be strengthened, and for professional peers to share good practice and insights. We will continue to focus on what you expect of us, so please keep telling us and engaging – and let's move forward together.

I would like to thank our partners for their ongoing support to make this survey possible: Control Risks, KPMG, Marsh, QBE, and Sedgwick. Their guidance and insight have remained invaluable, and the detailed insights as expert commentaries in this report bring the survey to life. Finally, I would like to thank those who completed the survey – we appreciate your donation of time and interest.

Julia Graham, CEO, Airmic

Introduction

The pandemic, climate change and now events in Ukraine have forced organisations to rethink how they keep up with the speed of new risks emerging, the profile of known risks changing and how risk management practices need to adapt.

Gone are the days when a board reviewed its principal risks on an annual basis. Managing risk today must be a dynamic and continuous process – and on every board meeting agenda. It cannot be written up as part of an annual report and then put away for the rest of the year. And even in an otherwise great report, there is often too much focus on the short term and the downside of risk, to the exclusion of thinking longer term and about the opportunities that risk well managed can offer. The turbulence created by an increase in the severity and connectivity of risks is increasing and creating the atmosphere for a perfect storm.

We can't predict the future, but the QBE Unpredictability Index published on the eve of the pandemic indicated that the world was already becoming a less predictable place for businesses and that periods of instability were getting longer. Having tracked a set of indicators across business, economic, environmental, political and societal pillars, the index showed that almost all of the 'least predictable years' have occurred in the past 20 years, with the majority during the past decade.

The risk professional's journey through a perfect storm

Until the start of 2020, organisations were aware of the impact that a pandemic could wreak on them, but they did not place it high on the probability scale. Neither was geopolitical risk high up on that scale as they entered 2022 – until the Ukraine-Russia conflict erupted in full force in February.

The past three years have shown how agile and adaptable risk professionals and their organisations need to be in the age of unpredictable and volatile risks. In terms of controls, even the best risk management frameworks are unhelpful if they are geared towards responses and preparations for the 'wrong' type of crisis.

Introduced in the 2018 Airmic report *Roads to Revolution*, the Airmic Resilience and Transformation Model comprises eight principles of resilience, of which two held the greatest importance to risk professionals during the pandemic:

- Rapid response supported by excellent communication within the organisation
- Risk radar focused on emerging risks and developments in technology.

In this report, we explore three themes – cyber, ESG and people – to see how risk professionals and their organisations are responding to them. We then look at how organisations can build resilience – in the context of a world where managing emerging risks and understanding systemic risks will be key.

Our survey respondents

This report, produced by Airmic in collaboration with Control Risks, KPMG, Marsh, QBE and Sedgwick, is based on 138 responses gathered in a survey conducted from March to May 2022.

Our respondents hold leading positions within the risk profession and in some of the largest businesses in the world. Nearly three-quarters of them come from organisations with a global turnover of £1 billion to £10 billion or more, while almost 40% are from organisations with more than 25,000 employees.

We have also compared the findings with the previous two Airmic annual surveys, conducted in 2021 and 2020.

Managing risk today must be a dynamic and continuous process. It cannot be written up as part of an annual report and then put away for the rest of the year.

1

Risk management in a perfect storm

As Winston Churchill once said, "If you are going through hell, keep going." (Or, as Billy Ocean said, "When the going gets tough, the tough get going.")

This is a career changing time for risk management professionals. Today, we face some of the greatest risk shocks since World War II. Three 'once-in-a-generation' seismic risks events are happening at the same time, and are connected in their global impact on economies, supply chains and people – disease, climate change and, most recently, the events in Ukraine.

These risks are characterised by unknown scales of likelihood or impact, making it difficult to assess severity and craft relevant interventions and controls. One of the implications is their asymmetric effect – with the potential to exaggerate existing inequalities and the future outlook for economic recovery and prosperity. Sometimes collectively referred to as 'frontier risks', they are a type of emerging risk, rather than something entirely new. The knowledge and skills required to manage risk in this context are different, but can be based on what we have now. They don't require a complete reinvention of the risk management wheel.

Getting to grips with emerging and frontier risks
There is no single or 'correct' definition of emerging or frontier risks, but organisations need to clearly define what they mean, ensure this is understood as part of their risk language, embed their approach in their risk management framework, and communicate this internally and externally. However, whatever language you use, there is a temptation to put the management of these risks in a folder and out-of-sight, for attention another day. These harder-to-visualise and harder-to-assess risks can leave a board disinterested when is easier to focus – and allocate budget – to risks in front of them.

Organisations need to invest in risk intelligence, including external research and analysis, and constantly run 'what if' scenarios – as part of a culture driven visibly from the top, and one which rewards curiosity and thanks people for speaking up.

Monitor the risks and the quality of information
Given the evolving knowledge on emerging risks, which may even contain inadequate or wrong information in the early stages of knowledge development, risk professionals need to constantly monitor and review the confidence levels as to the information they hold – and be open to communicating that. There should be a healthy level of challenge to the validity of information sources, and the views held by the organisation's management that emerge from them.

Be agile, but don't improvise
Organisations need to be agile and adaptable in a perfect storm, but this is not licence for them to improvise their way out of a crisis. Processes, strategies, protocols, and experienced hands need to be in place.

2

Top risks

Cyber threats are considered worse in 2022 than they were last year and the greatest risk for business. Geopolitical, climate and supply chain risks are tied at second place.

Diseases and the pandemic have dropped out of the top 10 list of risks – but has this been deescalated too quickly? Have we learnt and embedded the right lessons from Covid-19?

In 2022, these risks converged. After two tough years of the pandemic, just as the last Covid-19 restrictions were winding down in the UK after the Omicron wave of the virus, inflation and rising energy prices threatened to derail economic recovery. The scale of the climate emergency revealed the cold truths for a warming planet as world leaders convened in Glasgow for the COP26 climate change conference last November and questions of an equitable transition to net zero also rose to the fore. Then eyes were diverted to the Ukraine crisis in February which brought with it the risk of supply chain failures, quite apart from the human tragedy.

Geopolitics may have dominated the headlines in previous years. Nevertheless, most respondents thought this was best left in the hands of political leaders to iron out. It did not

2022 Ranking	Risk	%
1	**Cyber incident, including ransomware attack**	**79.1**
2	**Geopolitical risk**	**41.8**
=2	**Climate and net zero transition**	**41.8**
=2	**Supply chain failure**	**41.8**
5	Loss of reputation and/or brand value	35.5
6	Loss of or inadequate numbers of people with the right skills	29.1
7	Business interruption	24.5
8	Loss, theft or damage of personal data	20.9
=8	Changes in regulation	20.9
10	Digital disruption to business models	19.1
=10	Macroeconomic developments, e.g. interest rate changes	19.1
16	Disease and pandemic	10.9

Top 10 risks in 2022

2021 Ranking	Risk
1	Business interruption following a cyber event
2	Loss of reputation and/or brand value
3	Failure of operational resilience
4	Supply chain failure
5	Employee health and wellbeing
6	Changes in regulation
7	Disease and pandemics
8	Failure to attract and/or retain talent with the right skills
9	Loss or theft of personal data
10	Natural catastrophe

Top 10 risks in 2021

2020 Ranking	Risk
1	Business interruption following a cyber event
2	Loss of reputation and/or brand value
3	Failure of operational resilience
4	Disease and pandemics
5	Loss or theft of personal data
6	Supply chain failure
7	Changes in regulation
8	Failure to attract and/or retain talent with the right skills
9	Changes in consumer behaviour
10	Political uncertainty

Top 10 risks in 2020

feature on our top 10 list of risks in 2020 and 2021, even as the US-China trade wars had been brewing for some years. We have had the benefit of not having to live with the kinds of geopolitical tensions between the West and the Soviet Union since the Cold War ended in 1991. But the first few months of 2022 marked a paradigm shift in geopolitics, and 'decoupling' and 'deglobalisation' are now words that are becoming part of our everyday vocabulary.

It would be a folly to assume that pandemics have been consigned to history. Former British prime minister Gordon Brown, speaking in his role as a World Health Organization (WHO) ambassador on health finance, warned in May that the world had become complacent about Covid-19. There is a real risk of sleepwalking into another Covid variant crisis if the international community does not increase vaccinations in low-income countries.

Emerging risks

Emerging risks are risks that are new, and either previously unknown or not considered. They are difficult to address with a generalised approach because there is no established body of knowledge about them. Where information about them does exist, it may still be inadequate to assign categorised impact or likelihood values.

The top emerging risks faced by our respondents include:

- Inflationary pressures
- Economic downturn
- ESG transition risks
- Attracting and retaining talent
- Socio-economic risks
- ESG regulatory changes
- Digital finance risks
- Availability of raw materials
- Deglobalisation
- Systemic cyber risk
- Antimicrobial resistance
- Shutdown of the national electricity transmission system
- Diversity, equity and inclusion
- A decentralised internet.

As the *Executive perspectives on top risks for 2022 and 2031* report by the Poole College of Management at North Carolina State University noted, staying abreast of emerging risk issues is becoming a difficult business. That is why the report called on boards and senior executives to “closely scrutinise the approaches they use to keep an anticipatory eye on emerging risks.”

This is the time for organisations to think about any previous lack of preparedness and to change things going forward so that they are better prepared for the next pandemic wave or major crisis. As the organisation looks forward, it needs to gain the perspective of those actively managing the crisis, as well as those managing the everyday business, who are often faced with secondary effects of the crisis. These discussions should be used to identify potential emerging risks as the crisis continues to unfold and slow down. Identifying the risks now, ahead of them materialising, puts the company in a stronger position to avoid them, or at least minimise their impact.

While a robust discussion of principal risks would also likely capture emerging risks, few organisations currently have a formal process for identifying emerging risks. While the approach for emerging risks should be analytical, it should also be creative and pragmatic, and reflect the complexity of uncertainties, in order to secure buy-in and actionable results.

Horizon scanning

The risk landscape and lessons from the pandemic are driving organisations to focus on horizon scanning. Good-practice horizon scanning is separate from business-as-usual enterprise risk management due to the uncertainty and time horizons involved. Importantly, the process of horizon scanning is focused on assessing the velocity, impacts and likelihood of major trends. A key output of horizon-scanning is a shortlist of risk scenarios captured in an emerging risk register, which is used to stress test the business planning cycle and develop future strategy. Crisis and risk professionals have an opportunity to use their wealth of experience to shape and challenge the outcomes of this process.

The approach for emerging risks should be analytical, creative, and pragmatic, and reflect the complexity of uncertainties, in order to secure buy-in and actionable results.

3

Conflict in the digital age

Risk professionals are even more concerned about cyber security than they were six months ago – but this anxiety has not converted into budgets

Intensified by the rapid digitalisation brought on by the pandemic, 2021 saw unprecedented levels of cyber threats. In the lead-up to the Ukraine crisis in 2022, the UK's National Cyber Security Centre, as well as other cyber authorities around the world, called for organisations to bolster their online defences.

The cyber Armageddon has not yet materialised, or at least not at the scale that was feared. Nevertheless, there have been changes in the targeting intent and activity of the perpetuators. The wave of massive cyberattacks have to date largely been limited to Ukraine, in particular on Ukrainian government websites, since January 2022. Those attacks have provided important information for policymakers and the public around the world, and for those in the security community to continue identifying and defending against such attacks.

To manage these emerging threats, risk professionals and business leaders should:

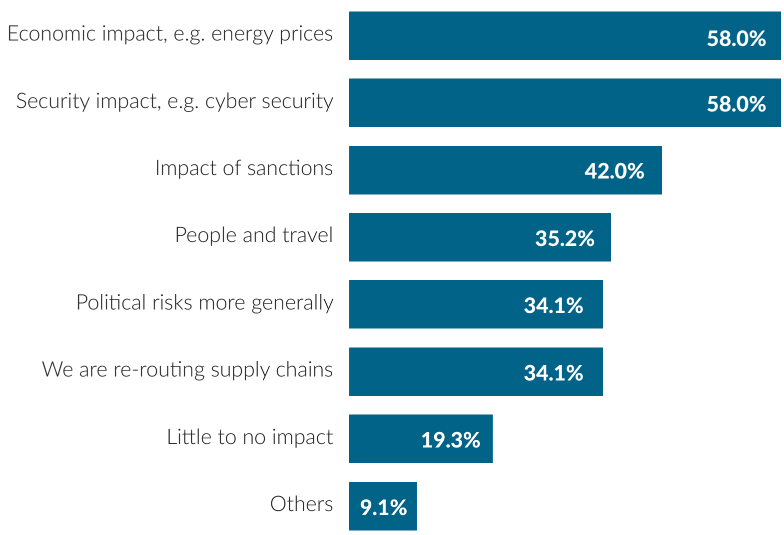
- Fine-tune their risk management strategies to navigate these trends in the global cyber threat landscape. They need to adopt a holistic view of how the interconnected global digital ecosystem can impact their organisation and its security.

- Manage IT and suppliers through governance and control, and invest in skills and the broader organisational security culture.

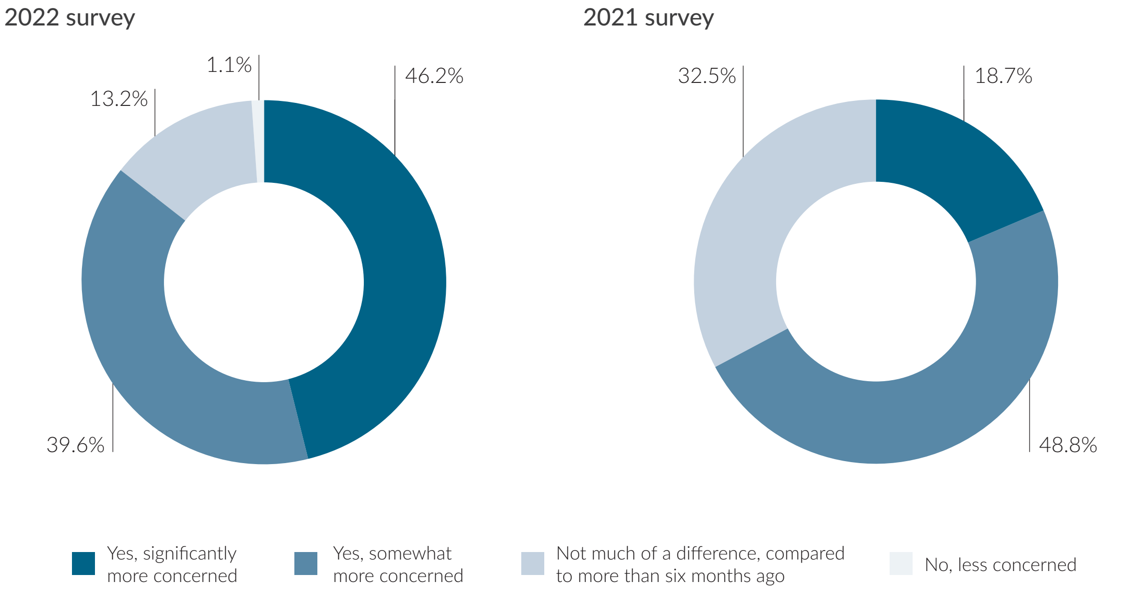
One key impediment for organisations in dealing with cyber threats today is having sufficient budgets to deal with these cyber threats within a narrow time frame. Nevertheless, there are also other steps that organisations can take in the interim to bolster cyber security, most notably in stepping up employees' training and education.

However, the long-term impacts of Covid, most notably through the expanded attack surface, will remain a key challenge for risk professionals. This has fuelled a significant increase in cyber threats globally, not least in the targeting of IT supply chains and service providers.

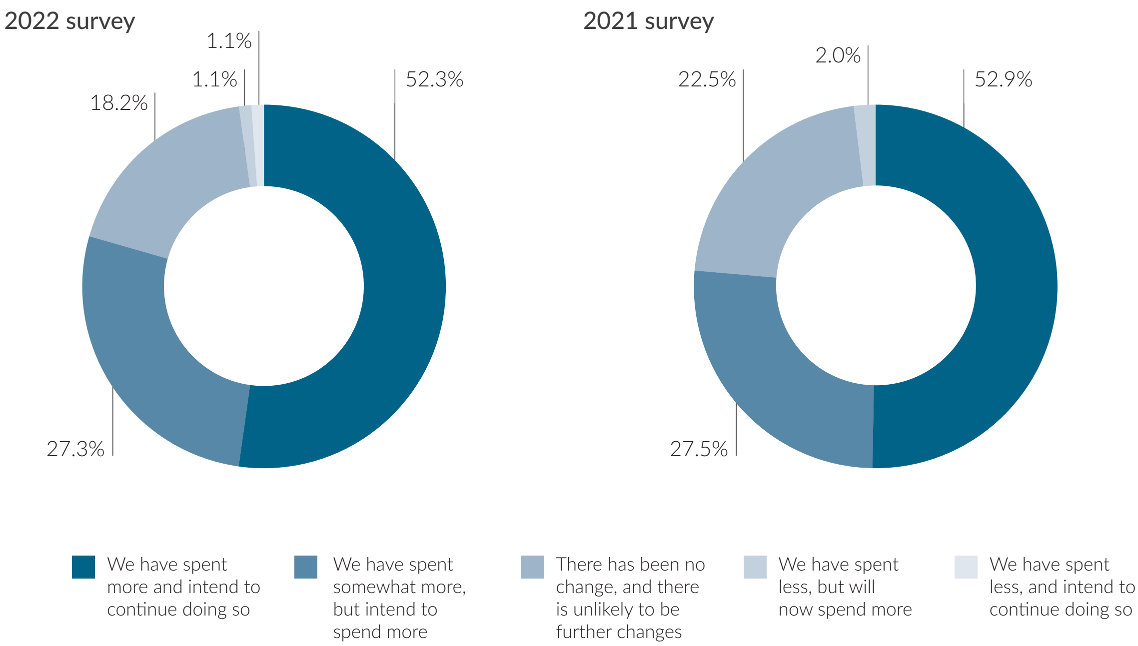
What impact is the Ukraine conflict having on your organisation?



Has your organisation become more concerned about cyber security than one year ago?

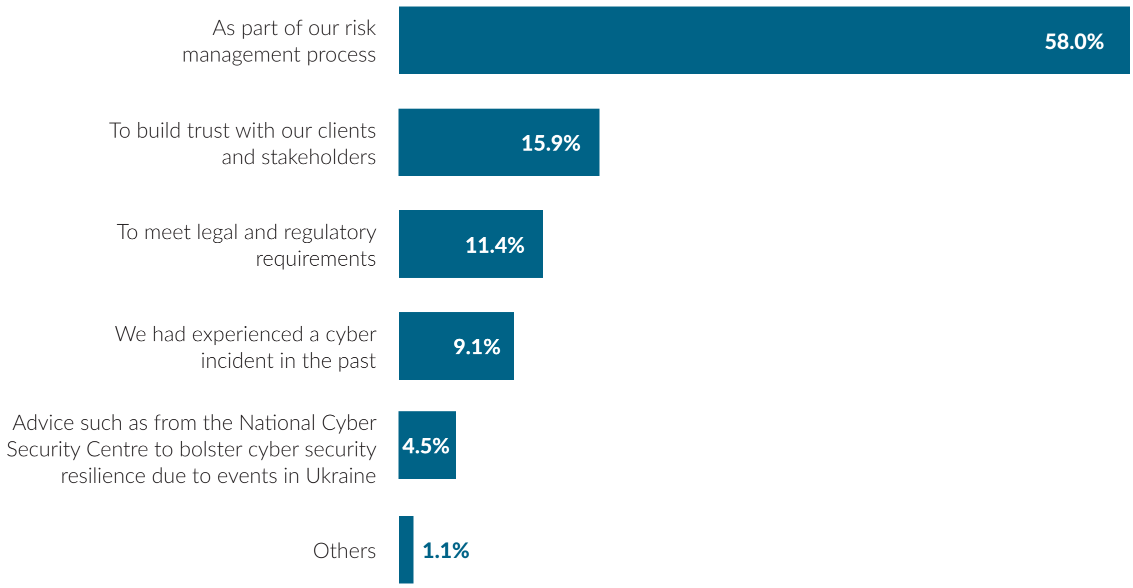


How has this affected your organisation's cyber budget?



Cyber security is largely seen as part of the risk management process – but increasingly, good cyber hygiene is key to building trust with clients and stakeholders.

What is driving your organisation to invest in cyber security?



To meet the threats related to the expanded attack surface, organisations have:

- Strengthened controls and changed technological protection
- Undertaken a strategic global review of hardware and software processes
- Purchased Cyber Liability insurance for the first time
- Implemented additional monitoring and controls
- Appointed a Head of Data and Technology
- Increased their focus on training and awareness.

Control Risks

Real-world events collide with cyber threats

Stina Connor,
Senior Analyst

Joseph Buckley,
Associate Director

As the unrelenting surge of cyber incidents globally continue unabated, it is unsurprising that risk professionals across sectors have ranked cyber incidents as the top risk for the third consecutive Airmic survey. Disruptions to business operations, supply chains and critical services and infrastructure increasingly present significant and sustained risks to businesses across sectors, with almost 80% of respondents in the 2022 survey listing cyber security as a key systemic risk to their organisation.

These are long-running trends, but events in 2022 have also triggered rapid and significant changes in the cyber risk landscape for businesses, not least because of the Russia-Ukraine conflict. These changes – some likely temporary, others more permanent – have exacerbated the motivations and activities of threat actors, as well as worsening most organisations' risk profiles around the world.

Although the sustained and disruptive nature of cyber risks more broadly is likely partly to blame for risk professionals' increased concern, it likely also reflects growing unease over cyber threats and risks triggered by the situation in Ukraine.

We have seen changes in the targeting intent and activity of actors across the spectrum since February 2022. This has ranged from state actors seeking intelligence on the conflict and the consequent sanctions regime, to a flurry of activity by cyber activists motivated by both pro-Ukraine and pro-Russia sentiment targeting organisations to support their respective causes. Cyber activists have increasingly taken geopolitical matters into their own hands, targeting Western companies that have remained in Russia since the start of the conflict, while other competing activist groups have launched retaliatory attacks against Russian and Western companies alike.

Meanwhile, ransomware and other cybercriminal threats remain unrelenting, with organisations across sectors facing persistent threats from such financially motivated threat actors. However, some cybercriminal threat actors have also adapted their operations and targeting as a result of the conflict, and have increasingly focused their attention on organisations in countries perceived as adversaries to Russia.

The Conti ransomware group provides the most explicit example. Shortly after the start of the conflict, the group announced its allegiance to Russia and declared it would target organisations and infrastructure in states perceived as adversaries to Russia. This resulted in the number of attacks by the group almost doubling between February and March, following the start of the conflict. Despite reports in May that the Conti group itself has seized operations, the threat actors behind it are unlikely to disband and will almost certainly continue to pose a high threat to organisations across sectors.

The conflict has broadened the geographical focus of some ransomware groups, which are now increasingly targeting organisations in jurisdictions perceived as leading the punitive response against Russia. The US, the UK, Canada, Spain and Germany all experienced an uptick in ransomware incidents following the start of the conflict.

We have also observed an increase in targeting of critical national infrastructure and strategic sectors, such as attacks against oil and gas and renewable energy companies, with one incident leading to the shutdown of 17 oil port terminals in Europe. These disruptive attacks are increasingly targeted at supply chain companies, due to the cascading effects an attack against a physical or IT supply chain company can have on both the targeted organisation and its clients.

The conflict has also brought to the fore the sharp edge of offensive cyber tools through disruptive and destructive attacks targeting the Ukrainian government, defence and critical national infrastructure organisations to aid military actions and objectives. Such attacks also increase the likelihood of spillover effects on supply chains and critical services beyond Ukraine, much like the 2017 NotPetya attack that led to unprecedented disruptions and costs globally.

Figure 1: Top 10 most active ransomware groups by number of named victims, January - March 2022

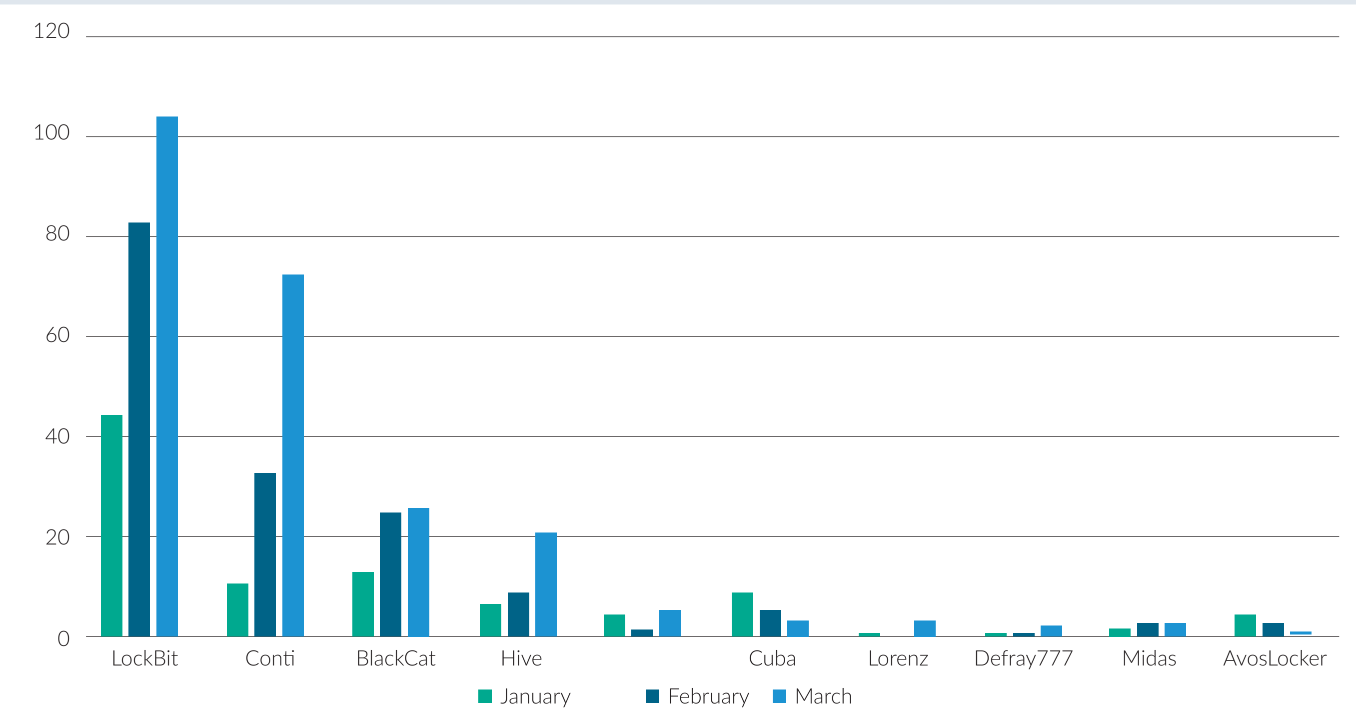
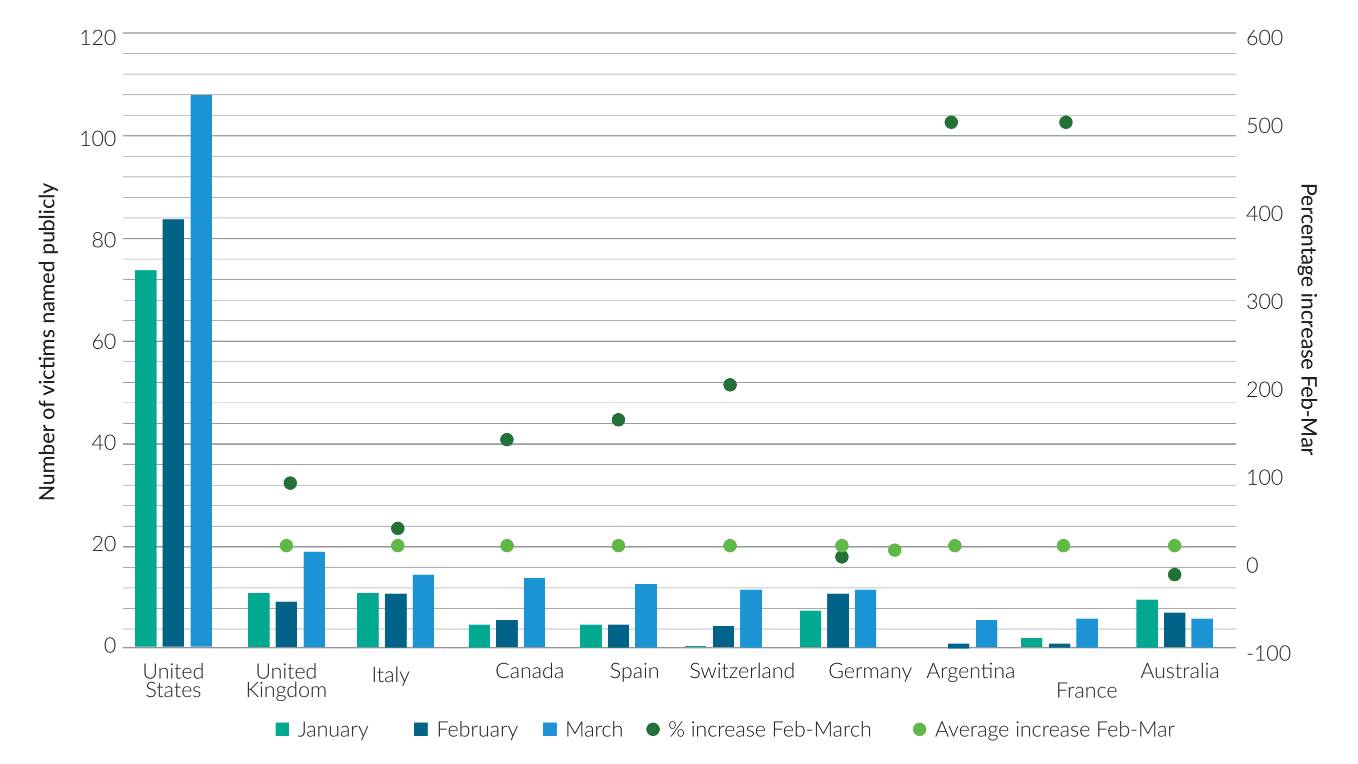


Figure 2: Number of victims named publicly by most targeted country, January - March 2022



As tensions persist, so too does the likelihood of retaliatory actions by a range of cyber threat actors, including disruptive distributed denial of service (DDoS) attacks and ransomware, posing additional challenges for risk professionals across industries.

The developments in Ukraine demonstrate the growing impact of geopolitics on not just nation-state behaviour, but the broader cyber threat and risk landscape. However, this is only one layer in an already-crowded and increasingly complex cyber threat landscape, exacerbating the key challenges to organisations today. These trends are likely to persist.

Cyber threat actors across the spectrum continue to target IT supply chains and third-party vendors to improve their chances of success, whether for espionage or financial gain. Such targeting increases the risks of operational downtime and data breaches for organisations relying on their services. As such, risk professionals not only need to consider direct and immediate threats to their business, but also the maturity and threat profile of their supply chains.

Internally, companies are now getting to grips with the fast-paced technological changes that Covid-19 brought to their business operations. However, the pace of technological change and innovation is unlikely to abate in the post-pandemic world, resulting in ever-expanding attack surfaces and new exposures for companies seeking to stay ahead of the curve. This growing interconnectivity – combined with an increasingly complex and entangled cyber threat landscape – will continue to underpin the systemic risks posed by cyber threats today.

Looking ahead, risk professionals need to understand the near- and long-term impacts of the conflict in Ukraine on the threats and risks to their organisations. They must also ensure that appropriate controls and measures are in place to mitigate those risks, while not losing sight of the relentless activities of cyber threat actors that challenge organisations every day.

However, to build truly secure and resilient organisations, it is equally important to learn from recent developments in the threat landscape. Understanding how real-world events can impact an organisation's risk profile, irrespective of whether such developments are triggered by geopolitical rivalries or technological advancements, is fundamental to building an organisation that is prepared to face the next significant trigger of change in the cyber threat landscape.

Cyber threat actors continue to target IT supply chains and third-party vendors to improve their chances of success… risk professionals also need to consider the maturity and threat profile of their supply chains.

4

Overcoming transition risks: The key to ESG targets

Reputational damage from Environmental, Social and Governance (ESG) issues concern risk professionals most. But a closer look reveals the complexity of the challenge – we need to be much more attuned to the different problems confronting different organisations and sectors.

Climate transition risks

Net zero refers to achieving an overall balance between emissions produced and emissions taken out of the atmosphere. As the Grantham Research Institute on Climate Change and the Environment at the London School of Economics puts it, it is like a bath with the taps on, where one can either turn down the taps to achieve this balance (the emissions) or drain an equal amount down the plug (the removal of emissions from the atmosphere).

When economies move towards more environmentally sustainable models, **transition risks** can occur. Some industries could experience increased costs of doing business or see major shifts in asset values. Yet, it does not mean that staying put makes sense for these businesses, because the risk of delayed action on climate-related measures could pose far greater costs to them ultimately. This puts organisations in a catch-22 situation – and one where bold action is the only way for them to survive and thrive.

Transition risks are now gaining more attention in addition to the more familiar physical risks of climate change. The final report on the project of the UN Environment Programme's Principles for Sustainable Insurance Initiative to pilot the TCFD recommendations, titled *Insuring the climate transition*, calls for an integrated approach to assessing the physical and transition risks. Such an approach would also allow the insurance sector to address climate risks more holistically.

COP26 – the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change – summit in Glasgow in November 2021 was hailed as the "business COP", five years after the "political COP" that resulted in the landmark Paris Agreement, which set out the global framework to limit global warming to well below 2°C and to pursue efforts to limit it to 1.5°C.

While the commitments of national leaders did dominate the headlines, representatives of the business world showed up to Glasgow in force and made greater net zero commitments than ever before. Leading the charge was the former governor of the Bank of England, Mark Carney, who serves as the UK Prime Minister's Finance Advisor for COP26 and UN Special Envoy for Climate Action and Finance. While governments can legislate change, there is increased recognition that businesses are the economic engine to implement national targets for climate action. As one speaker noted at COP26: "Governments commit the billions, but businesses can mobilise the trillions."

Businesses need to be prepared for transition risks. They need to anticipate rapid shifts in policies and regulations, besides developing low carbon technologies, and respond to changes in consumer behaviour and investor preferences.

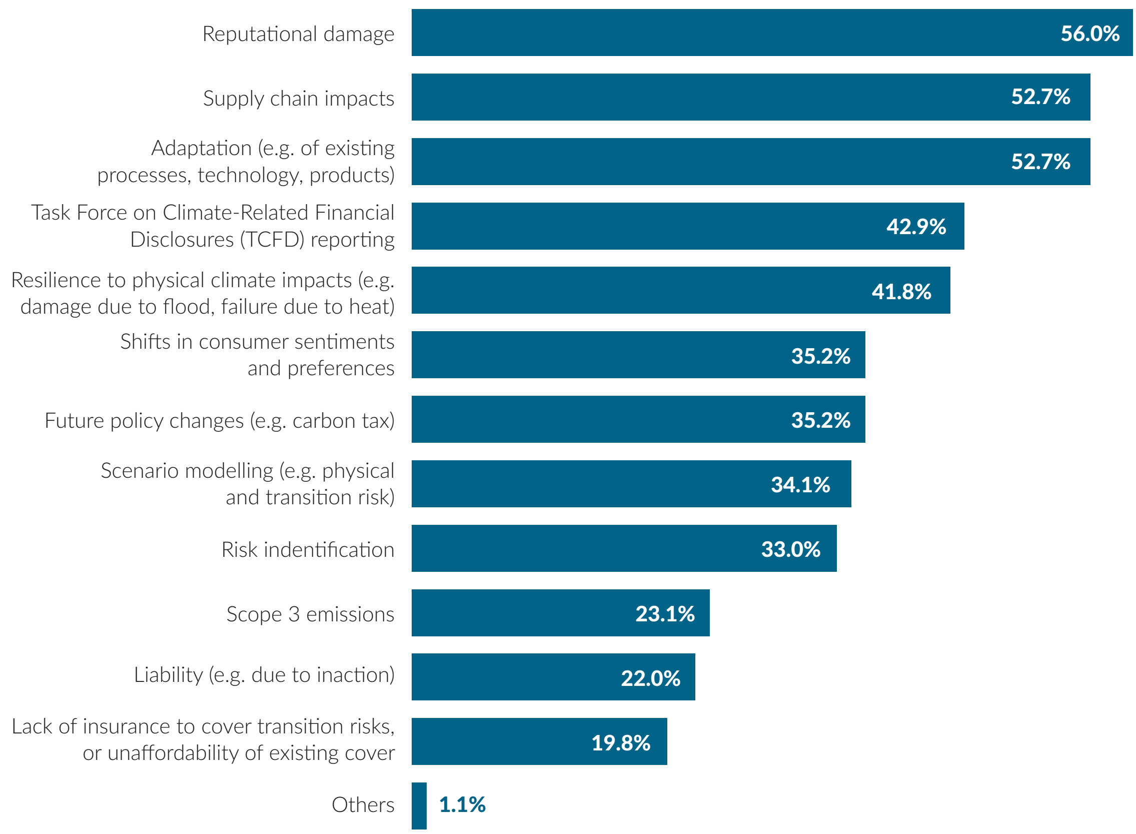
The UK became the first country in the G20 to enshrine Task Force on Climate-related Financial Disclosures (TCFD)-aligned requirements in law. From April 2022, all premium listed companies need to state in their annual financial reports whether their climate-related financial disclosures are in line with the recommendations of the TCFD.

Remember the S and the G

Organisations have a responsibility to proactively embrace the social (the S) and governance (the G) aspects of ESG. Businesses that aren't doing enough for racial, gender, and lesbian, gay, bisexual, and transgender (LGBT) equality – or that are perceived as being complicit in undermining equality – have experienced consumer and government backlash. These represent major reputational risks, and as investors and rating agencies become more attuned to ESG issues, may have direct and immediate impact on the financial value of businesses.

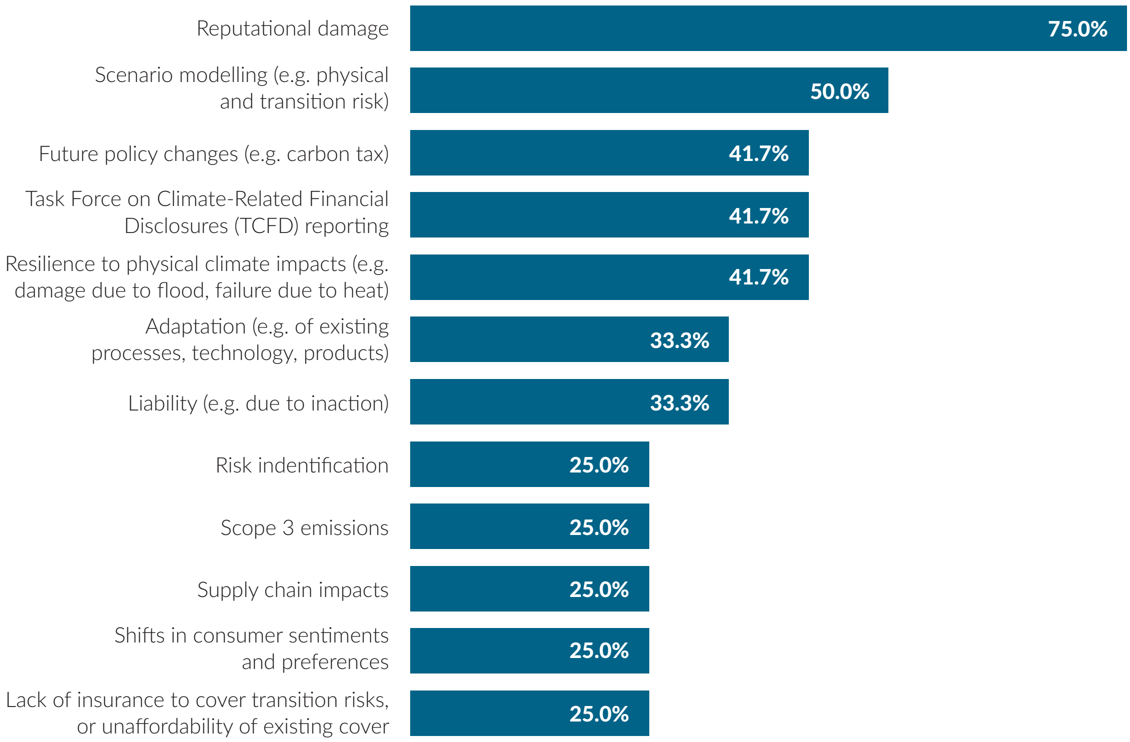
Even without pressures from consumers and employees, lagging behind on diversity and inclusion can impact organisations negatively in several ways. A lack of diversity and inclusion in the board and senior management team could lead to blind spots, groupthink and poor decisions, which hinder the development of successful strategies and innovation. The organisation also could be deemed as exclusionary on the grounds of gender, race or sexual orientation, which could open it to prosecution for violating employment law.

What aspects of climate change and the transition to net zero is your organisation most concerned about?

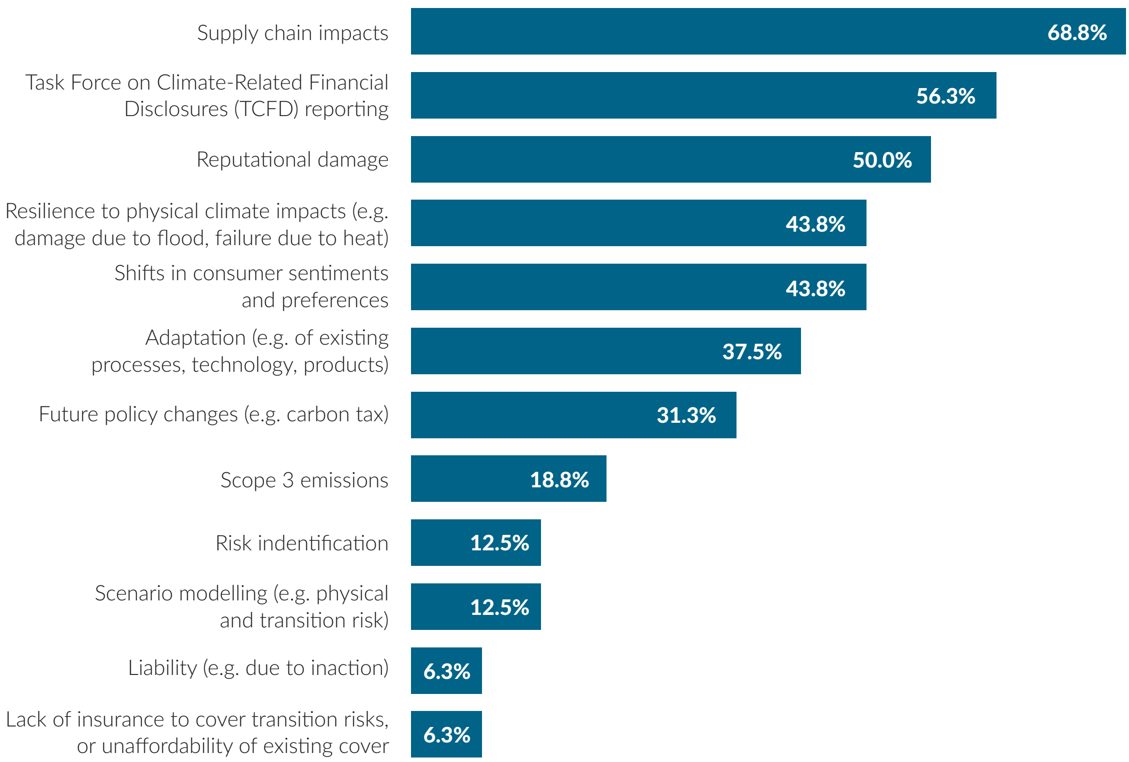


Breakdown of top climate-related concerns by sector

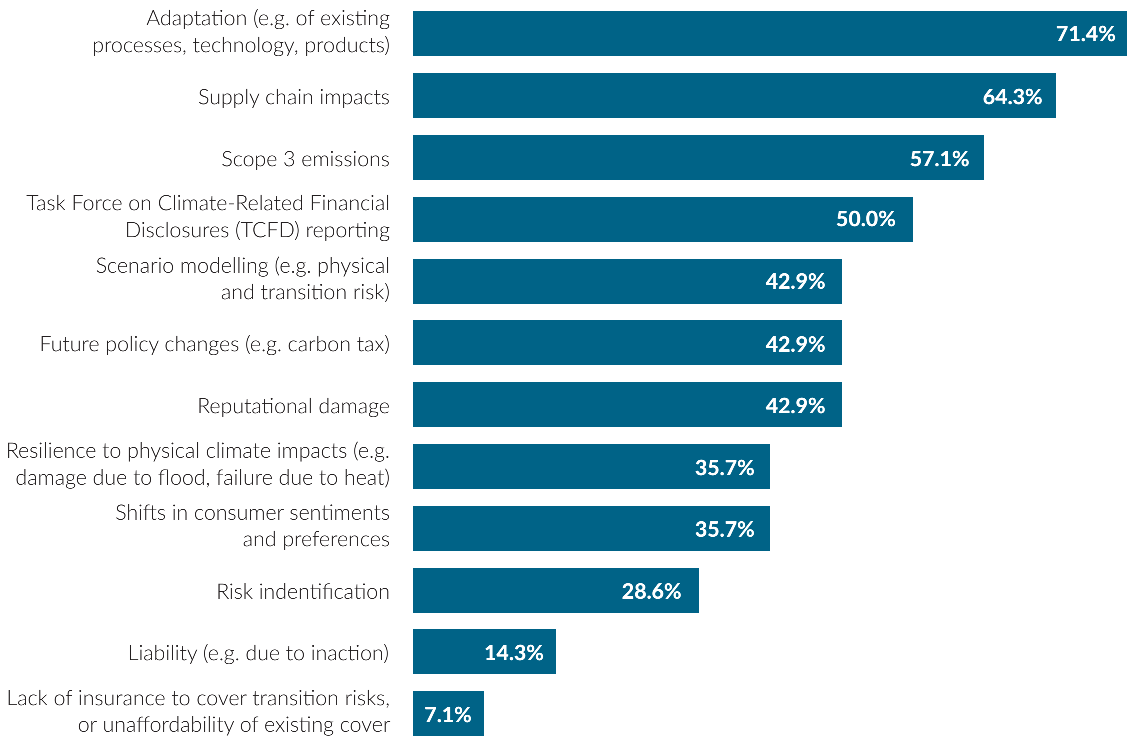
Professional services, legal, banking and finance:



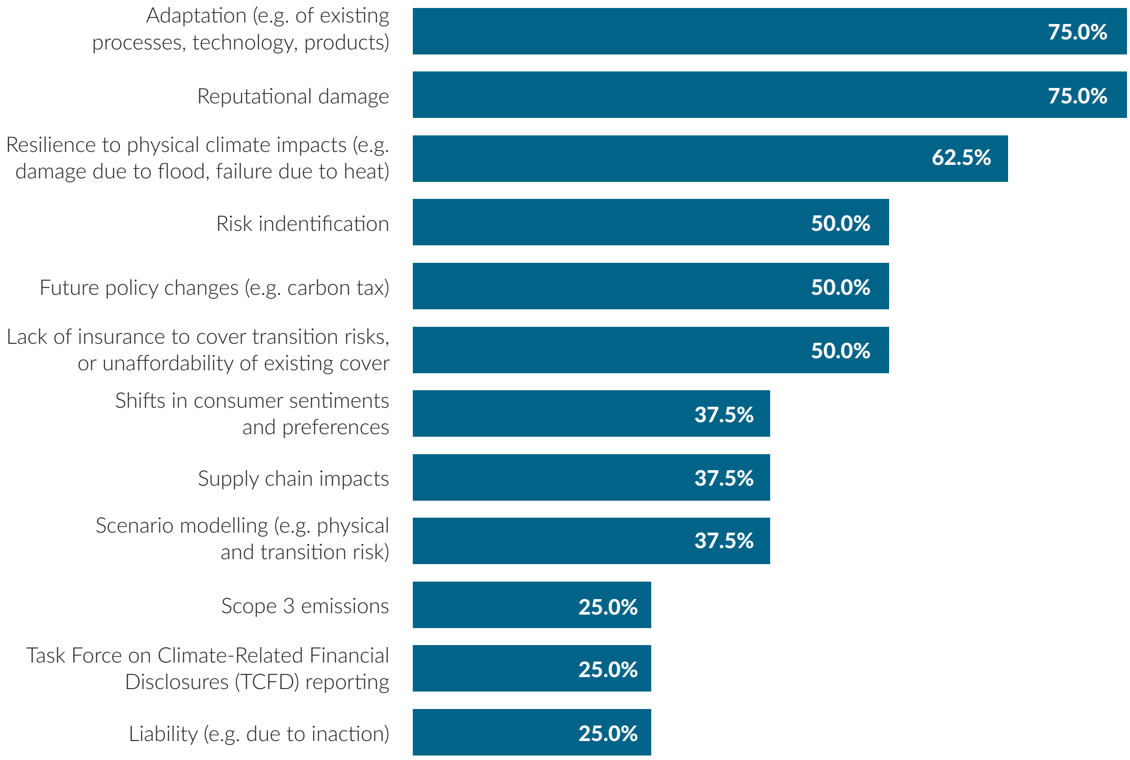
Retail, consumer goods, food and drink:



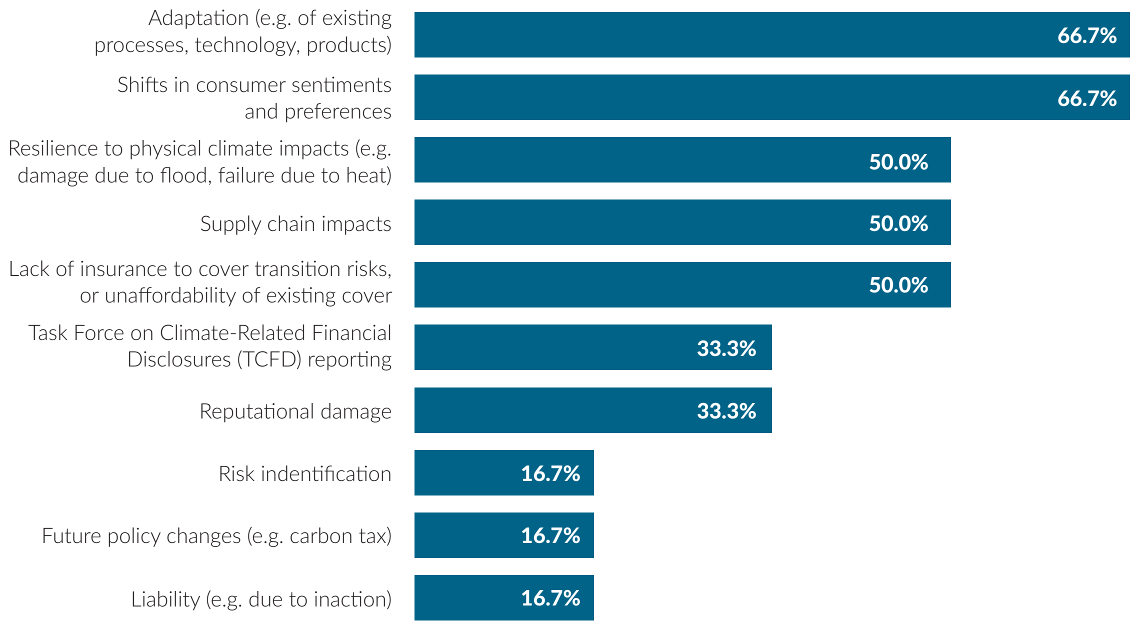
Construction and engineering, manufacturing, chemicals:

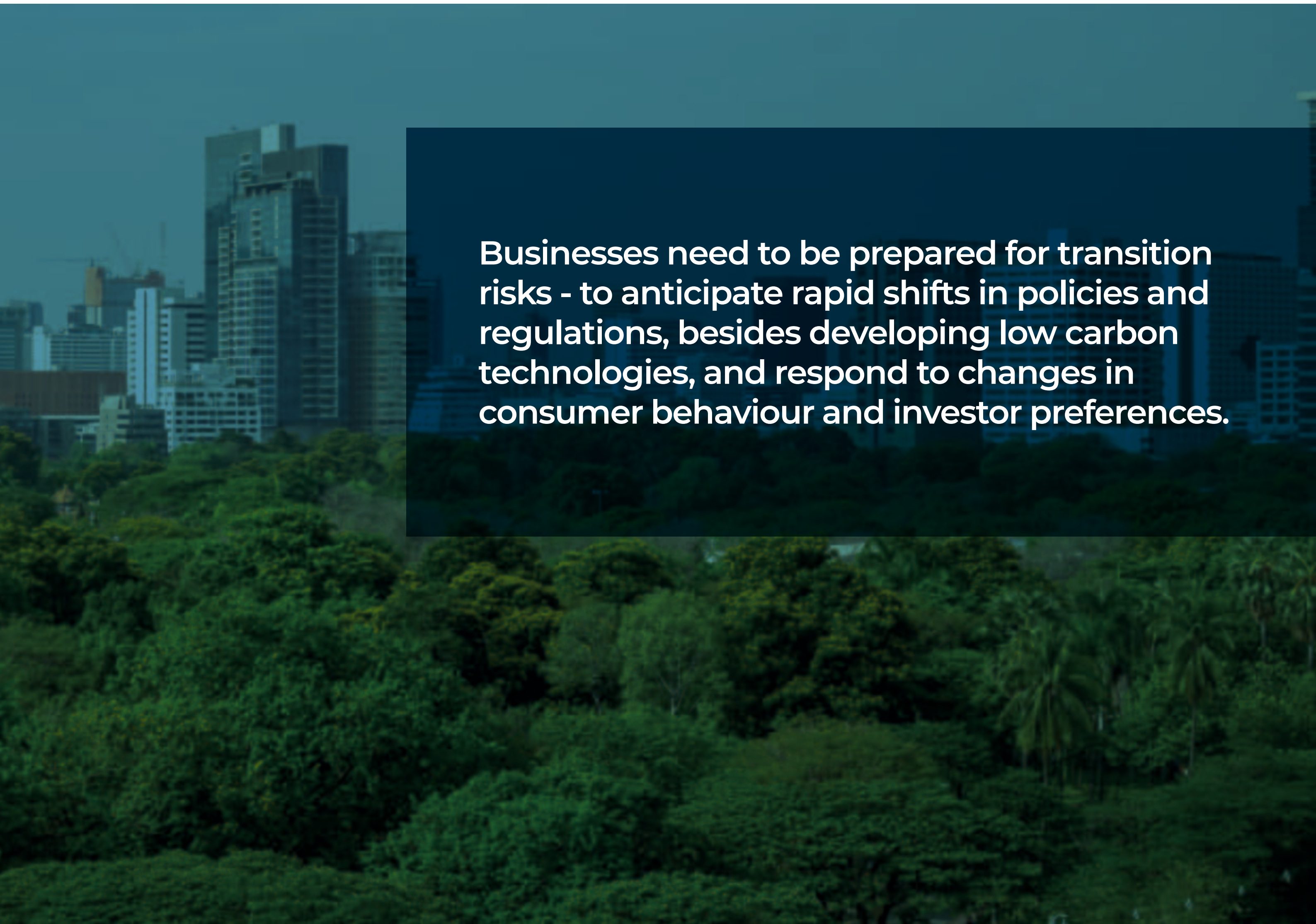


Energy/utilities, steel and mining:

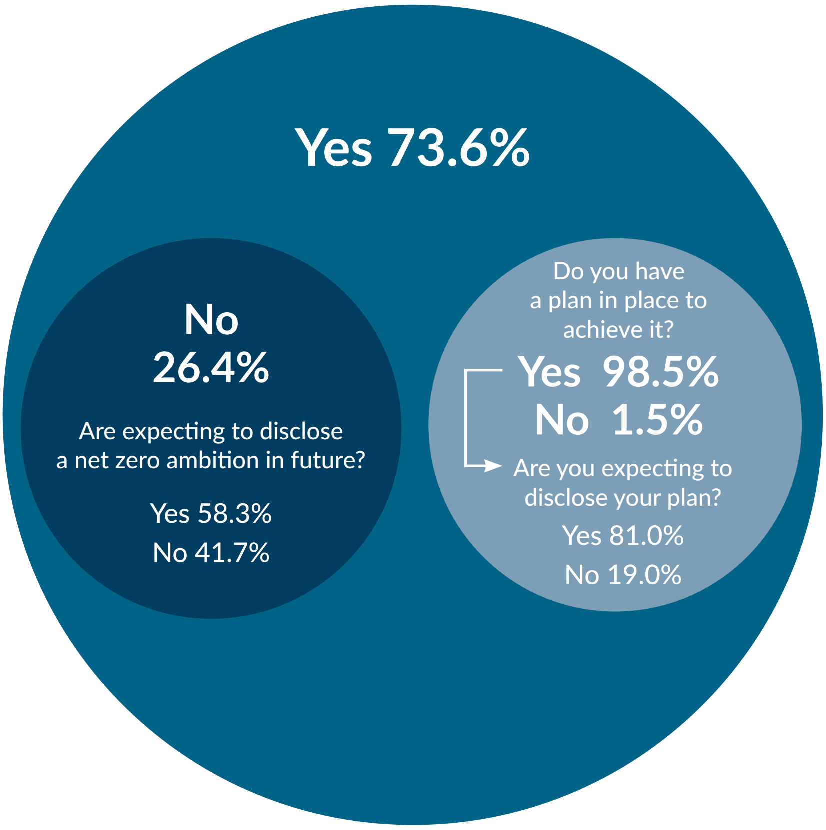


Transport and logistics, leisure, travel and hospitality:



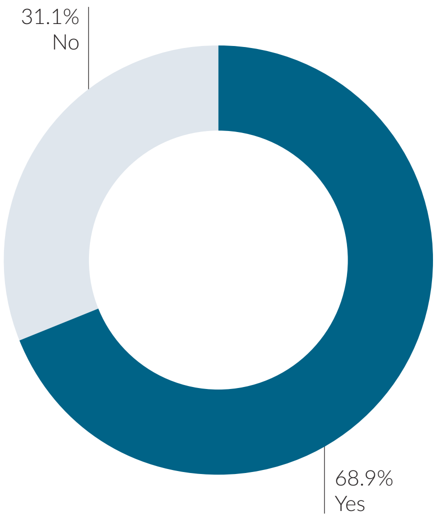


Has your organisation disclosed a net zero ambition?



More than a quarter of organisations are committed to achieving net zero by 2030 – a handful are even more ambitious.

Has your organisation disclosed a net zero timeline?

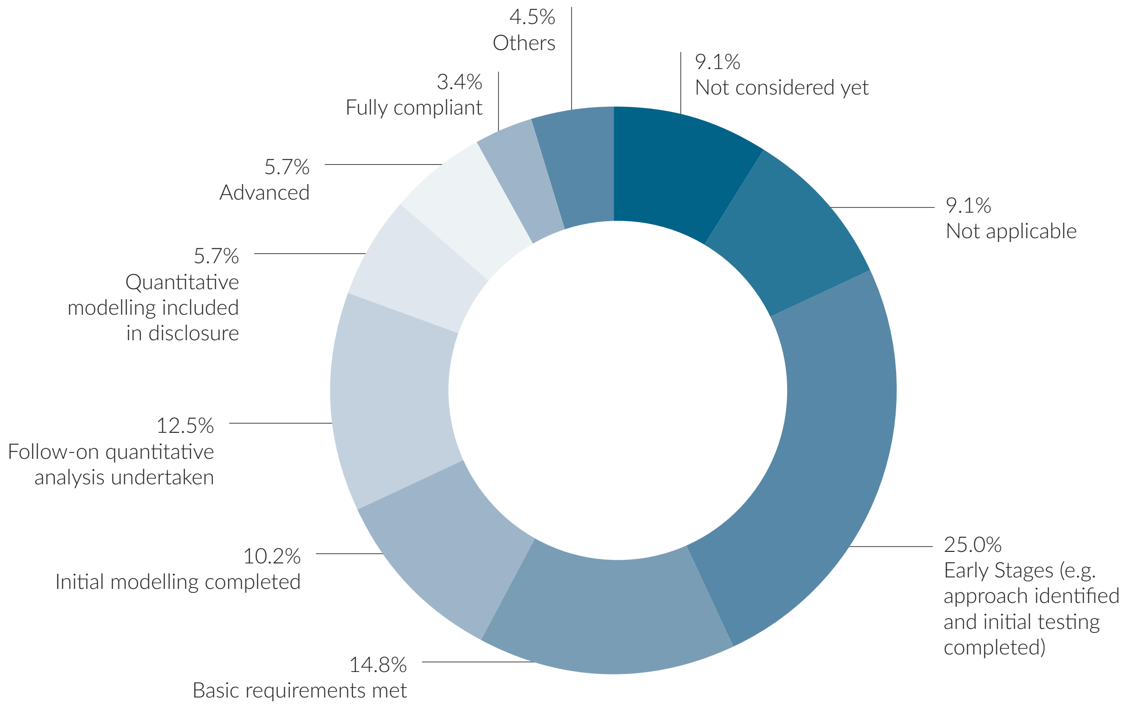


If yes, by which year do you plan to achieve net zero?

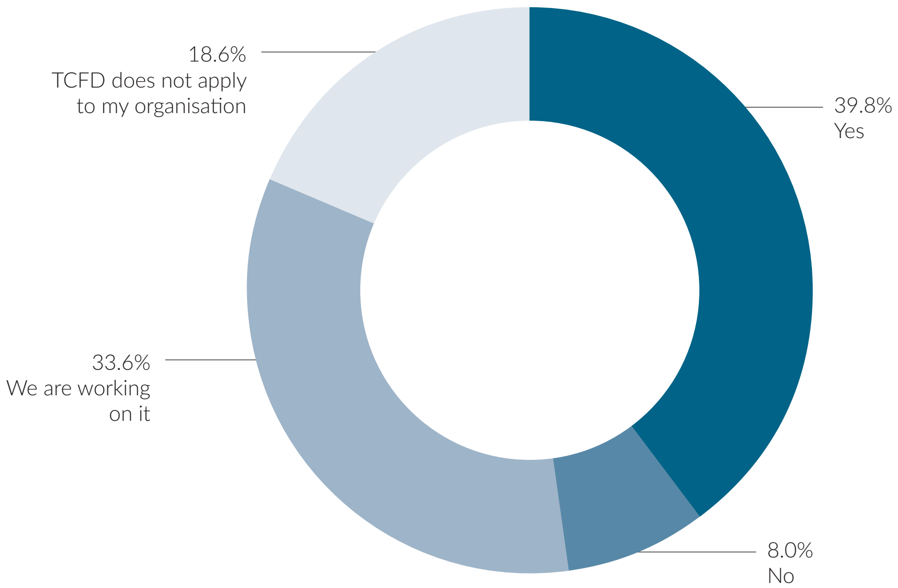
Year by which to achieve net zero	% of those who have set a net zero timeline*
2021	1.8
2022	1.8
2025	7.1
2030	39.3
2035	8.9
2040	16.1
2045	1.8
2050	23.2

*Does not add up to 100% due to rounding off

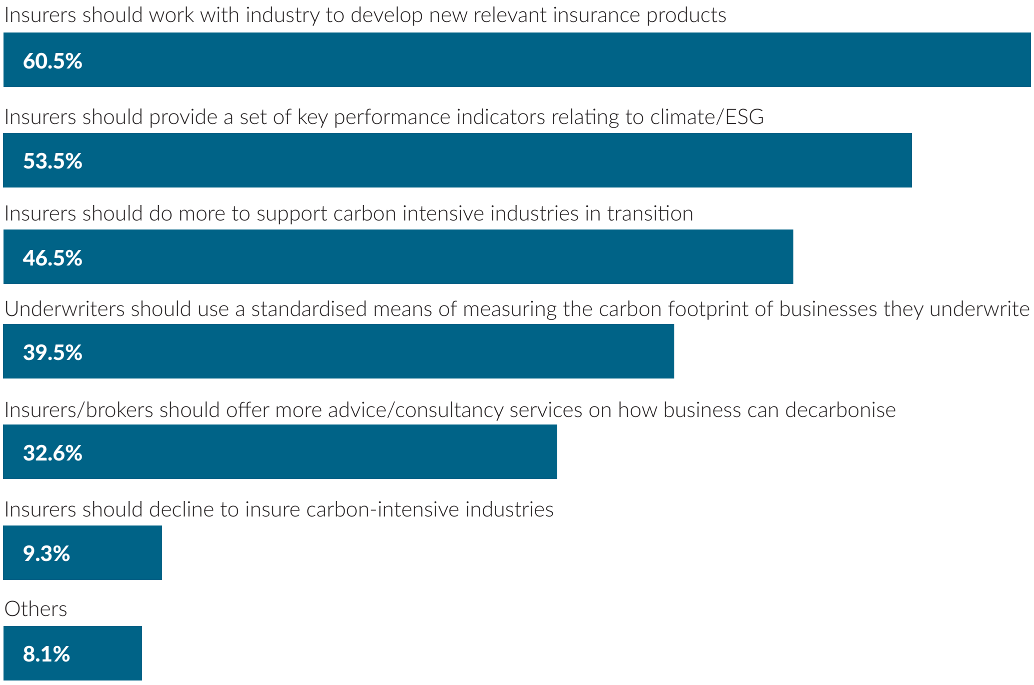
How would you best describe your organisation's progress toward TCFD (Task Force on Climate-Related Financial Disclosures)?



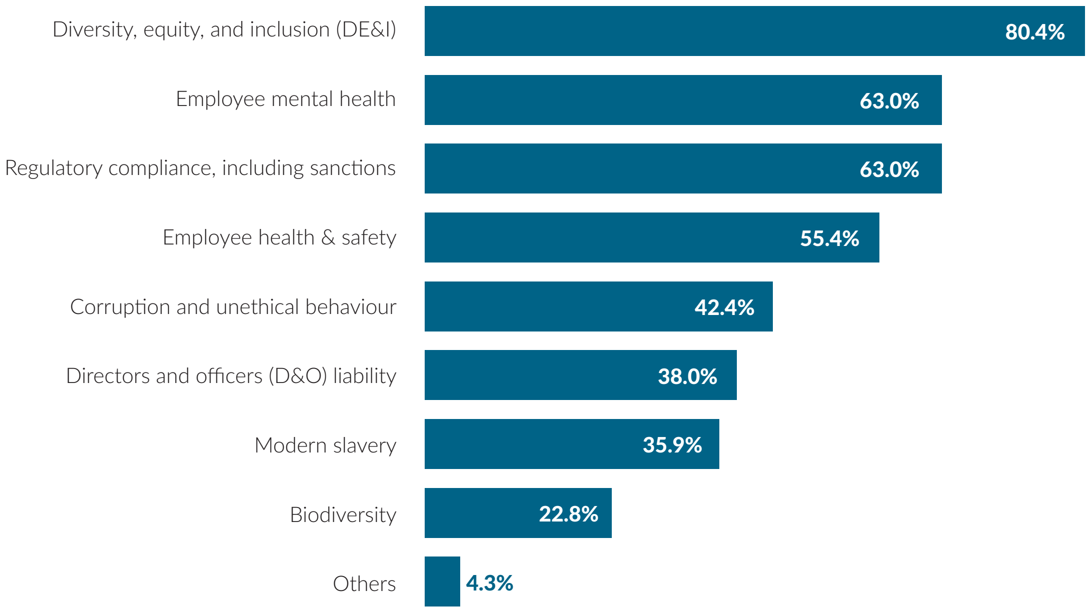
2021 survey: Is your organisation ready for Taskforce for Climate-related Financial Disclosures (TCFD) reporting next year?



How can the insurance industry best support your organisation in transitioning to net zero and achieving your climate/ESG targets?



The S and the G in ESG: What aspects of non-climate ESG issues is your organisation most concerned about?



A lack of diversity and inclusion in the board and senior management team could lead to blind spots, groupthink and poor decisions, which hinder the development of successful strategies and innovation.

Marsh

The six-step roadmap to 360º ESG resilience and risk transfer

The 2022 Airmic Survey showed that Environmental, Social, and Governance (ESG) strategy is a board-level priority for companies across all industries, with 72% of respondents now having a dedicated ESG team.

But juggling short-term pressure to progress for COP27's adaptation, alongside long-term aims such as embedding ESG into organisations' DNA, means ESG is both a sprint and a marathon.

Dr Bev Adams, Head of Climate Resilience and Strategy at Marsh, reveals the six-step roadmap to 360º ESG resilience that every insurance risk manager and ESG professional should know.

Dr Bev Adams, Head of Climate Resilience and Strategy, Marsh

61% of respondents believe insurers should work with industry to develop new, relevant insurance products to help achieve their ESG targets.

Companies, brokers, and insurers are continually learning about ESG and climate transition. As brokers, Marsh's role is in supporting businesses to proactively understand their ESG and climate risks - and opportunities - and to act wisely. Our six-step roadmap helps put strategy and action in place, facilitating navigation of what can be a complex and overwhelming topic.

Marsh's ESG Risk Rating tool is a starting point and measurement approach for an organisation's journey. An "ESG 101" unpacks the key E, S, and G considerations, providing a solid foundation to understand, manage, and ultimately transfer residual ESG risk.

The six-step roadmap involves screening, formulating a risk register, undergoing materiality modelling and surveys to measure and prioritise risks, internal and external reporting, tackling key risks and maximising opportunities through a strategic adaption and net zero plan, and transferring residual risk.

Marsh urges businesses to make the most of meetings with their brokers and insurers to articulate progress on their roadmap, and obtain the support needed to drive adaptation and transition plans. With climate perils such as flood widely covered, insurers are keen to understand how insureds are preparing for changing perils. More broadly in the context of ESG, Directors and Officers (D&O) underwriters, in particular, are keen to understand how the risks are being managed.

Cutting through ESG complexity with the six-step roadmap to 360° ESG resilience

From net zero goals to adaptation plans

Simplifying ESG into a standard set of KPIs may happen in due course, but as of now it is premature until consensus is reached on how to represent and interpret the true ESG character of a business. With adaption a focus of COP27 this autumn, we will all watch with interest as new metrics and KPIs relating to, for example, resilience begin to emerge in addition to carbon emissions and net zero alignment.

54% of respondents believe that insurers should provide a set of key performance indicators (KPIs) relating to climate/ESG.

Planning and modelling for the big concerns

Reputation has long been a chief risk concern, and with increased focus on corporate behaviour related to the environment, concern has heightened further.

Certain sectors are more challenged from a climate risk point of view, but risks can be mitigated by demonstrating a commitment and transparency on progress to net zero against milestones.

Over 50% of respondents expressed reputational damage as the chief concern about climate change.

COP27 will focus heavily on adaptation, and the UK is leading in this area with initiatives such as the Property Flood Resilience Code of Practice, Flood Re's 'Build Back Better' scheme, and Marsh's Placement Plus resilience product.

Adaptation is a major step in the overall journey and often a major investment. Businesses cannot be expected to do everything immediately, and in order to act wisely, must first understand their climate risk so it can be factored

Respondents also expressed concern about the adaptation of existing processes, technology, and products.

Respondents expressed concern about supply-chain risks.

Over 80% of respondents are concerned about Diversity Equity & Inclusion (DE&I), 63% about employee mental health, and 55% about employee health and safety.

into strategic plans and capital expenditure (capex) spend. Prudent adaptation demands modelling your physical risk, building your resilience strategy, then implementing as much as possible by leveraging existing planned capex. The six-step roadmap enables leadership of the ESG journey, and the prospective buy-in of decision-makers for key strategic actions and investments.

On the risk transfer side, the insurance market must think about the application of new technologies, such as Floodflash's parametric flood insurance products and accompanying flood emergency response plans to manage sites where climate-adjusted flood modelling reveals unacceptable losses and the potential for stranded assets.

Companies should be aware of their Scope 3 emissions – emissions that occur in a company's value chain but are not directly caused by their operations, as well as the potential for supply chain disruption. In the UK, it's not yet mandatory to report these emissions, but increasingly, companies are exploring ways to capture and quantify this data in a more structured way.

Beyond Scope 3 emissions, clients are increasingly trying to understand the potential for supply chain disruptions due to climate change in order to minimise structural vulnerabilities and reduce the frequency/magnitude of future shocks/disruptions.

Non-climate areas of ESG
The 'S' in ESG examines how an organisation treats and values its employees and surrounding communities. Establishing values around internal social issues such as diversity, equity and inclusion, pay gaps, fair and appropriate health coverage, and investment options in line with those goals is a critical first step to managing these risks and concerns.

For many organisations, employees are their most important asset, but, equally, they can bring risk to the business if not properly engaged with. While policies and governance may need to be formalised under an ESG umbrella, many companies already have a head start through ongoing corporate social responsibility activities.

Many organisations have traditionally treated well-being initiatives separately from overall business strategy. Instead, using the ESG framework, this should be a continuous thread that runs through every operational decision, guiding everything an organisation does and how they do it. Plus, there is an upside – potential benefits include improved engagement and retention of employees.

With ESG and corporate sustainability reporting demanding more from leadership, collecting human capital data plays a vital role in helping organisations measure, disclose, and benchmark the wellbeing of their people.

Taking action
Risk professionals clearly have a vital role to play. For those starting out, the six-step roadmap provides a structured approach in what can be a daunting topic. With dialogue, joined-up thinking, and innovation, we look forward to the next Airmic Survey to reflect progress as we work together to build ESG into the DNA of UK organisations one step at a time.

Net zero and the challenges of 2022: What next for businesses?

Roger Jackson, Partner, KPMG, Global Insurance ESG Lead

Hoe-Yeong Loke, Head of Research, Airmic

Climate change hogged the headlines at the COP26 United Nations climate change conference in Glasgow which took place in November 2021. The UK and international business community made an unprecedented showing at Glasgow, making commitments to mobilise billions in tackling climate change.

Fast forward six months, and we have seen other challenges crop up with the Ukraine crisis. Besides the tragic human suffering on the ground, the crisis has caused energy prices to spiral, while the United Nations has warned that a food crisis looms on the horizon.

Measures are rightly being taken to resolve the Ukraine crisis – but these same measures may threaten the gains made in Glasgow in tackling climate change. The European Commission, for instance, has proposed selling €20 billion of surplus carbon emissions permits, which would result in the release of 250 million tonnes of CO_2 under the emissions trading scheme. This was sparked by measures to replace the imports of oil and gas from Russia.

But as John Kerry, the US Special Presidential Envoy for Climate, recently warned, "The climate crisis will not take account of current world events or the difficulty of doing some things." His remarks came in the context of newly released research which found that there was a 50 per cent chance that the world would cross the 1.5C global warming threshold within the next five years – making the imperative to act on climate change even more urgent.

Organisations and businesses are well aware of the risk that climate change will pose to humans as well as to their own business models. In the 2021 Airmic Survey, 43.8% believed that climate change will start to have a material impact on their business within just one to two years. In this year's (2022) Airmic survey, nearly three-quarters of survey respondents said they have set net zero targets. More than half of the rest said they were planning to do so.

If the COP26 United Nations climate change conference in Glasgow in November was another chance to set stretching goals for political and business leaders, the events in the first half of 2022 have tested the resolve in meeting these goals. However, we can all contribute to getting to net zero whether we are corporate risk managers, (re) insurers, or brokers. Corporate risk

Net-zero targets will need to be quickly adopted across the industry, in both large and small organisations, if they are to make a real difference. However, they will create a real challenge for some insurers in terms of understanding emissions that they do not have a direct influence upon – so called ‘scope 3 emissions’.

managers can help raise, understand and suggest solutions within their individual firms, and (re)insurers and brokers can do likewise. The Net-Zero Asset Owners Alliance and Net-Zero Insurance Alliance (NZIA), set up by prominent (re) insurers, will assist asset managers and underwriters respectively in setting appropriate net-zero targets. These will need to be quickly adopted across the industry, in both large and small organisations, if they are to make a real difference. However, they will create a real challenge for some insurers in terms of understanding emissions that they do not have a direct influence upon – so called 'scope 3 emissions'. Even if they able to accurately measure their emissions for some there will still be an element of these emissions, particularly scope 3, that they will find difficult to reduce and so will have to look to other ways in which to reach their net zero targets (e.g. carbon capture).

Insurer's net-zero targets will also bring a challenge to those businesses that are not moving fast enough to net zero and may therefore become so-called "stranded assets" in terms of insurance provision or/ and investment. On the underwriting side, to date, (re)insurers have used exclusionary language to move towards net zero, but this will become more sophisticated once industry standard net-zero metrics start to emerge as part of the NZIA work later next year. However, what is clear right now is that corporate risk managers and (re)insurers will need to increasingly work together to understand the opportunities and the associated risks that will occur from transition – corporate risk managers in terms of understanding the new products, technologies, investment and ways of working that their businesses will need to adopt to survive, and (re)insurers in terms of the potential sectoral macroeconomic and physical risks that may occur. Sharing all this information between corporate risk managers, (re)insurers and brokers will enable our industry to have a real influence on stakeholders.

There are many practical steps insurers can take in tandem with industry, especially in helping organisations through climate transition risks. After all, our survey results indicate that many organisations already understand the scale of the problem that climate change brings to them and to the world at large.

First and foremost, insurers should work with industry to develop new relevant insurance products. They should also provide a set of key performance indicators relating to climate risks, while doing more in particular to support carbon intensive industries in transition.

As we head towards the COP27 summit that will take place in November 2022 in Sharm El-Sheikh, Egypt, we should be aware of the different types of climate-related challenges that each industry sector faces. Only if we are truly attuned to the concerns faced on the ground by businesses can we ensure that we are all moving forward together in tackling the climate crisis. This Airmic survey report has given a snapshot of the myriad of climate-related challenges sector by sector.

If we are more aware of how shifts in consumer sentiments and preferences is the topmost concern for the transport, hospitality and leisure industries, and how this links to the supply chain impacts which bedevil the food and drink industry, this would allow for a much more coordinated approach to tackling the greatest challenge of our generation.

5

Who's resigning in the Great Resignation?

The talent crunch has clearly been one feature of the pandemic. But it would be misleading to assume the Great Resignation is impacting every country and every organisation in the same way.

The US Bureau of Labor Statistics had been reporting record-breaking numbers of resignations by the summer of 2021. By the end of the year, an unprecedented 47 million Americans had voluntarily quit their jobs. The term 'the Great Resignation' was popularised – a play on 'the Great Depression', which plagued the US and the world in an earlier era. In early 2022, Dr Anthony Klotz, the academic who coined the term the Great Resignation, himself gave notice to move from the US to a new job in London.

But dig deeper and a complex picture emerges. A March 2022 Pew Research Center survey boiled it down to low pay, a lack of opportunities for advancement and a "feeling of being disrespected at work". Some research has concluded that it is because frontline workers and caregivers have suffered from burnout. Yet other research has said that the Great Resignation is really just part of a longer-term trend that began before the pandemic. The jury is still out.

In the US, the Great Resignation was more apparent among service staff in the leisure, hospitality and restaurant sector – overworked and underpaid employees who bore the brunt of disruption from the pandemic. It is also the outcome of how the pandemic was dealt with in the US. As the Financial Times put it: "Europeans protected jobs, America protected growth." Countries such as the UK supported jobs through furlough schemes in the first year of the pandemic. On the other hand, organisations could make redundant whoever they wanted, while the government wrote out cheques to the unemployed.

The Great Resignation is both a challenge and an opportunity for organisations. What matters is that organisations take a data-driven approach to improving retention and to understanding the root causes of changes in the turnover of their people in their particular sector and country. This is where risk professionals have a role to play in understanding people issues within their organisation and sector, in the context of their talent and business strategies.

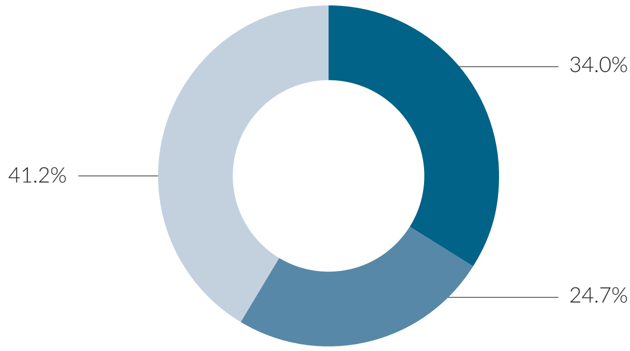
Hybrid working

As the 2021 Airmic-Sedgwick themed report on Remote Working noted, there were both benefits and disadvantages for organisations when their workforces switched to remote working almost overnight during the pandemic. If risk professionals and their organisations take the necessary preventive steps to pre-empt some of the disadvantages – especially back pain and mental health issues experienced by some of their employees working remotely – the new normal of hybrid working can present a much-needed boost for staff productivity and the quality of their work.

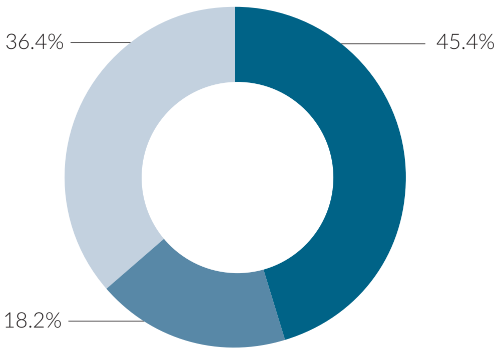
Organisations have seen greater productivity as a result of remote working over the course of the pandemic, as well as greater quality in their work performance. Cost savings were to be had from not having to use office space. An overwhelming majority of our respondents last year said their people reported having a better work-life balance as a result of remote working – contrary to the popular wisdom that remote working has led to an undesirable blurring of lines between personal and work life.

The Great Resignation – more apparent in the professional services than other sectors.

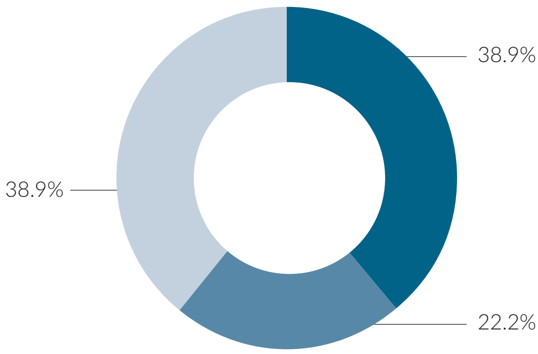
Has your organisation seen a significant change in the turnover of your people during the pandemic?



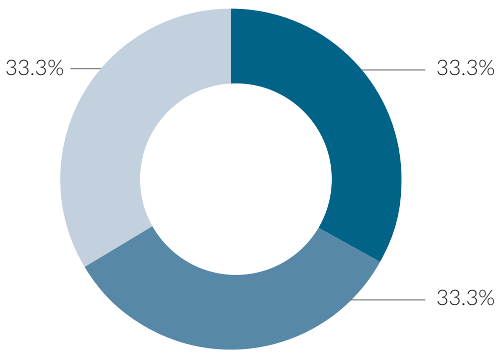
Professional services, banking and financial, legal:



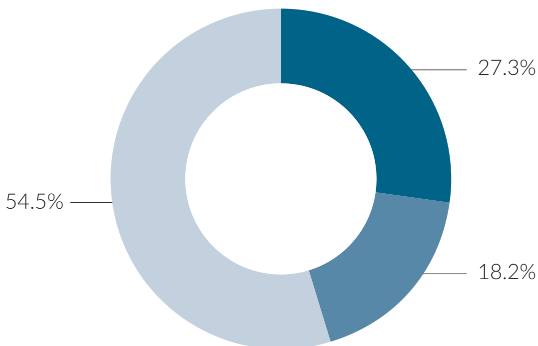
Aerospace and defence, construction, manufacturing:



Government, public sector, not for profit:



Insurance:



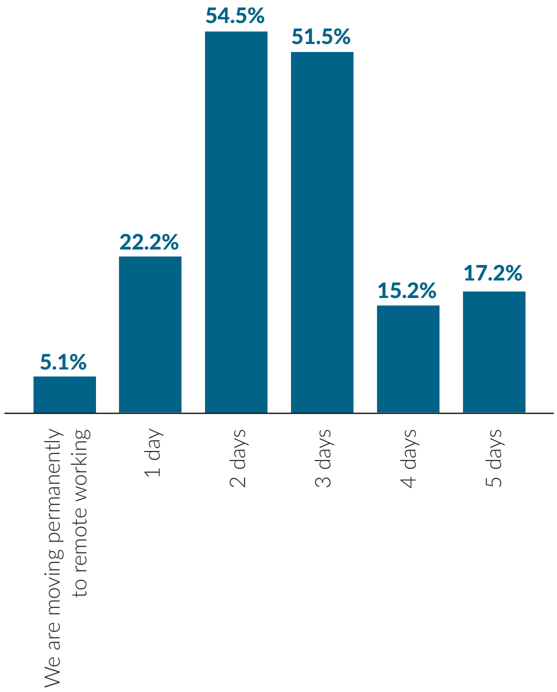
Yes | Yes, but this pattern is not different from pre-pandemic levels | No

XXXXXXXXX

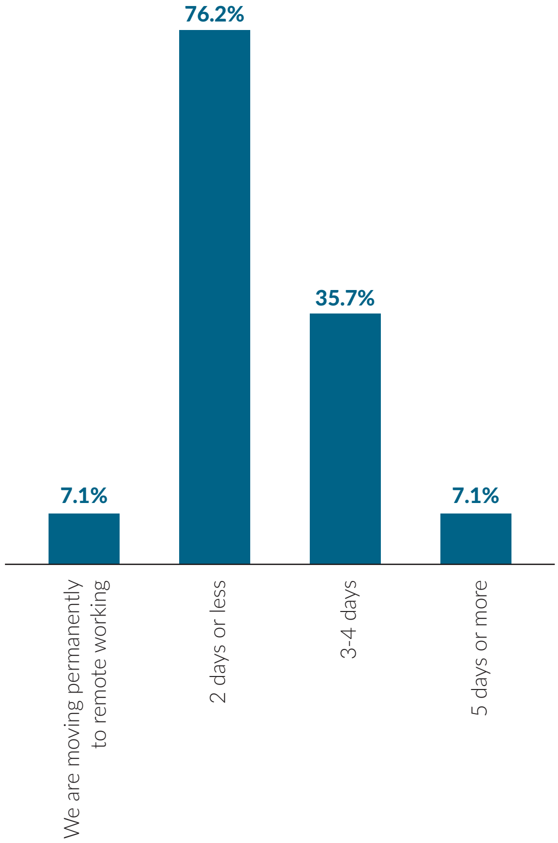
Working two to three days a week in the workplace is the sweet spot for organisations. The trend since 2021 has been towards spending more time in the workplace.

How many days a week are your people spending in the workplace?
(If different employees spend a different number of days in the workplace, due to the nature of their roles, respondents were told to select all options that apply.)

2022 survey



2021 survey



sedgwick

The Great Resignation: What’s causing it? What are the steps to take?

Geraldine O’Sullivan, Head of Human Resources Business Partnering UK, Sedgwick

The last two years have resulted in employers having to be more flexible than ever in adapting to the changing landscape in which they operate as a result of the pandemic. This has meant modifying operating models to meet changing client needs, embracing different ways of working, advancing digital strategies, taking advantage of new and different opportunities, and re-prioritising risk and talent strategies.

Colleagues, now more than ever, have different expectations of their employer, and for many, the pandemic offered a period of self-reflection and a time to take stock of priorities, including their career choices and chosen vocations. It also prioritised the importance of achieving a better work-life balance and flexibility within working practices, and for some, expedited their decision to make an early exit from the workforce. These contributory factors have prompted employers to place a greater emphasis on what colleagues value the most in order to drive higher levels of engagement and increase resilience within their talent strategies, doing things differently to attract and retain top talent.

At the height of the pandemic, and with an increased uncertainty in the labour market, many individuals had a desire for job stability, while others put their plans to seek alternative employment temporarily on hold. These behaviours were reflected in labour turnover figures, with many organisations seeing a reduction in turnover. This was true for Sedgwick, where voluntary turnover in the UK reduced by 37.7% in 2020 compared to 2019.

As the labour market opened up and demand for new talent increased, there was a new-found confidence from those looking for a new role – marking the start of the reported US phenomenon that was named ‘the Great Resignation’ by organisational psychologist, Dr Anthony Klotz.

In April 2021, Microsoft reported that 41% of workers globally were likely to consider leaving their employer within the next year. The US went on to experience high turnover in 2021 (25% voluntary turnover, 57.3% overall), according to the 2021 Bureau of Labour Statistics Report.

Now is the time for employers to invest in their colleagues and their talent strategies to ensure they remain resilient in a demanding labour market.

The UK faired a bit better and was arguably more resilient. According to an analysis of labour turnover between January 2021 and January 2022, by Cendex, part of XpertHR, the total voluntary labour turnover of all companies surveyed stood at 9.5%, much lower than the US. That said, many companies saw an increase in turnover when compared to pre-pandemic levels. Sedgwick, by way of example, saw an increase (in 2021) in turnover of more than 20% when compared to pre-pandemic levels.

Looking at the insights gained from the Airmic 2022 survey report, we can see that 34% of participants saw a significant change in turnover during the pandemic, but a higher percentage (41.2%) reported no significant changes – suggesting that organisations faired very differently, with some being more resilient to the impact of the pandemic and more agile in adopting strategies that focused on people resilience as well as business risk.

The survey also reported that some organisations (24.7%) had seen a significant change in turnover, but this pattern was not any different to pre-pandemic levels, suggesting other factors were contributing to labour turnover.

The pandemic has given people time and space to reflect on their personal and professional lives, with many deciding to retire early, move, do something entirely different or take control of where their life is going.

There are, however, many other factors driving the upward trend in turnover:

- The war on talent and the demand for highly skilled professionals within our industry and that of others. As highlighted in the Airmic survey, a loss of or inadequate numbers of people with the right skills, has been identified as one of the top risks for 2022 by 29.1% of participants
- Brexit coinciding with the pandemic
- People leaving their roles due to poor management or the fact that they have never really liked their jobs
- The availability of professional, technical and senior roles created as a result of lifestyle choices and people making an early exit from the workforce
- People seeking a better work-life balance and moving to employers that are embracing the hybrid working models and flexible arrangements
- The rising cost of living influencing people's decision to move roles for a salary increase to meet their pay expectations – this being an emerging risk for many employers, and
- Burnout – particularly amongst women. As reported in People Management in April 2022, women are more likely to be searching for a new role now compared to a year ago, with two in five (39% of survey participants) citing burnout as the reason why they want to leave their current employer despite an increase in hybrid and flexible working arrangements.

With an increasing number of opportunities available, it was and continues to be, a candidate's market, with the employers that can offer a more personalised colleague experience, shared values, flexibility, support on well-being issues, investment in a colleague's development and a rewarding financial package winning the war on talent.

We can see from the Airmic 2022 survey report that participant organisations are embracing change and introducing the hybrid model, and giving colleagues flexibility and choice around their working locations, with the most popular number of days spent within the office being between two to four per week. Not only does flexible working positively contribute to reducing the risk of turnover, it supports colleague collaboration, connectedness and inclusivity, all contributing to the colleague experience and engagement levels.

Now is the time for employers to invest in their colleagues and their talent strategies to ensure they remain resilient in a demanding labour market. Employers that are listening to their colleagues, embracing the hybrid working model, prioritising colleague well-being, focusing on talent attraction and retention initiatives, putting innovative digital solutions in place and investing significantly in colleague development, from both a personal and professional perspective, will not only overcome the war for talent but ensure their talent strategies are resilient to future risk and counter the impacts of the Great Resignation.

6

Systemic risks and resilience

Systemic risk will drive a greater risk-based focus for government, the insurance industry and risk professionals.

During the early stages of the pandemic, leadership in the business world was challenged by a lack of useful intelligence and data to support business decisions concerning the pandemic, leading to some knee-jerk, short-term reactions. Some supply chains were caught off guard, with limited contingency plans for strategic sourcing options in an interconnected global crisis.

There are many other risks that the UK could face – and possibly more extreme ones – aside from the pandemic. Since 2020, the UK has also had to reckon with severe supply chain disruption and threats to its fuel supply. More recently, inflation has jumped to of 9% – the highest in four decades – as food and energy prices spiral.

The Chartered Insurance Institute defines systemic risks as "risks that are so large in scale that they have the potential to cause economic and societal losses that are sufficiently significant to result in the breakdown of an entire system".

Such risks do not operate in silos and can impact others through a cascading effect. Cumulative risks may impact multiple stakeholders, caused by connected risk failure such as in the supply chain. Systemic risks at the level of an organisation could trigger severe instability or collapse an entire industry or economy.

"We live in an increasingly complex and connected world, and the velocity of change is increasing, but the world hasn't yet experienced a worst-case systemic risk scenario," says Julia Graham, CEO of Airmic.

"Whilst the pandemic was one of the largest catastrophes ever experienced by man, and there are some estimates that pandemic-related losses might ultimately cost the insurance industry up to $100 billion, it's clear that the insurance industry cannot be expected to provide financial protection for a worse-case event."

As the voice of the UK's corporate risk management community, Airmic has been involved in the national debate on how the UK manages risk, such as in consultations launched by the House of Lords Risk Assessment and Risk Planning Committee. Airmic has called for the government to adopt a more corporate approach to managing risk, and to learn from the knowledge and experience of corporates. The National Risk Register, for instance, could provide the agenda for a national conversation about risk. Proposals to strengthen national resilience should also be considered in the context of the private sector. There is much to be gained from considering the public and private sectors in concert, as many of the issues, risks, controls and lessons addressed are shared.

In the same vein, the National Preparedness Commission's 2021 report *Partnering with Purpose* calls for a new national resilience strategy in which the public and private sectors interact to greater effect. "Many corporate leaders recognise the value of both resilient business ecosystems and more general societal commitments," the report said. "The right conditions can enable them to align commercial imperatives with larger national ambitions."

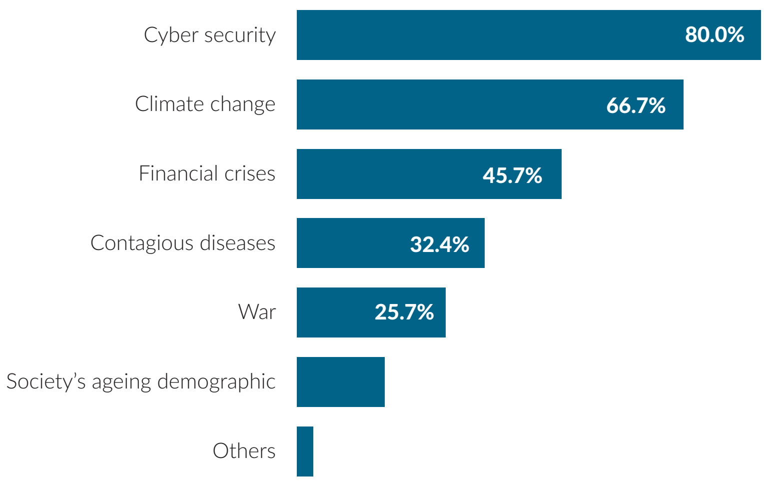
Resilience

The BS 65000:2014 Guidance on Organizational Resilience describes resilience as "a strategic objective intended to help an organisation to survive and prosper". Resilient organisations are more adaptive, competitive, agile and robust than less resilient organisations. It further defines organisational resilience as "the ability of an organisation to anticipate, prepare for, and respond and adapt to everything from minor everyday events to acute shocks and chronic or incremental changes".

As Airmic's Roads to Resilience report found, greater organisational resilience can bring increased competitiveness and enhanced reputation, along with effective use of resources and capabilities. In addition, organisational learning and improvement present additional tangible benefits.

The pandemic has catalysed greater collaboration within organisations, which will pave the way for a more cohesive resilience approach. Airmic is working with the Business Continuity Institute (BCI) on a Resilience Good Practice Guide to cement these processes and explore new ways of thinking and being, when faced with systemic risks and other such unprecedented adverse situations. Culture and human behavioural patterns need to encouraged, and boards need to have a representative dedicated to defining and implementing organisational resilience.

Which systemic risk/s concern you the most?



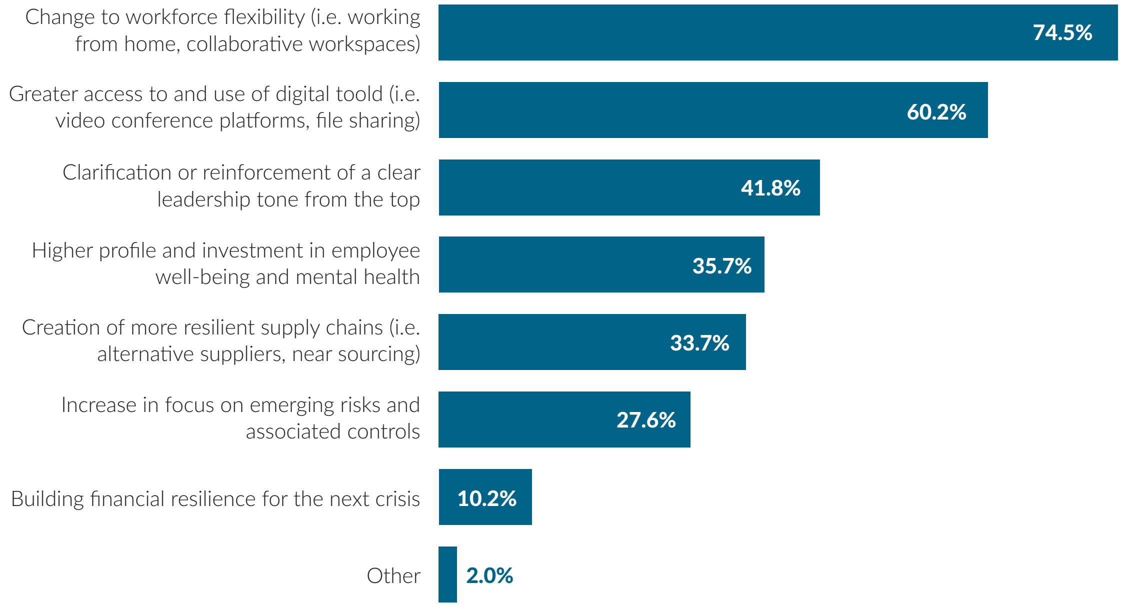
How are risk professionals managing systemic risks?

Cyber security	• Risk transfer through cyber insurance • Implement secure configuration • Implement privileged access management (PAM) of end-users • Implement cyber security awareness training for people • Prepare incident management procedures • Implement malware protection • Implement IT systems monitoring measures • Implement removable media (e.g. memory sticks) controls • Pool resources with other organisations to form a mutual cyber response and support group • Design cyber secure systems, with the help of technology solutions • Increase the headcount of the IT security team • New cyber response playbooks and processes; advanced threat protection • Make continual improvements to system recovery speed and capability.
Climate change	• Risk transfer through property insurance (to transfer some of the consequences of climate change) • Risk transfer through catastrophe bonds (for insurers) • Finance client projects involving low carbon, energy efficient and/or renewable energy • Finance climate change mitigation client projects for existing infrastructures • Migrate pension fund investments to low carbon and energy efficient investment products and projects.
Contagious diseases	• Risk transfer through the communicable disease cover extension of business interruption insurance • Communicable disease management: implement an operational guidance for the organisation • Update business continuity planning.
Financial crises	• Diversify revenue sources • Control costs.
Systemic risks in general	• Monitor and review risks as part of the emerging risks framework • Implement a robust enterprise risk management with risk mitigating measures • Risk transfer through captives • Implement educational programmes and training for people • Relook at the talent management strategy • Engage with external stakeholders as to risk awareness on their part • Exercise risk oversight (for board risk committees) • Assess risks with data and help from the insurance industry • Strengthen processes, programmes and controls through partnerships with NGOs, academia and critical thought leaders • Scenario analysis and stress testing • Horizon scanning.

SYSTEMIC RISKS AND RESILIENCE

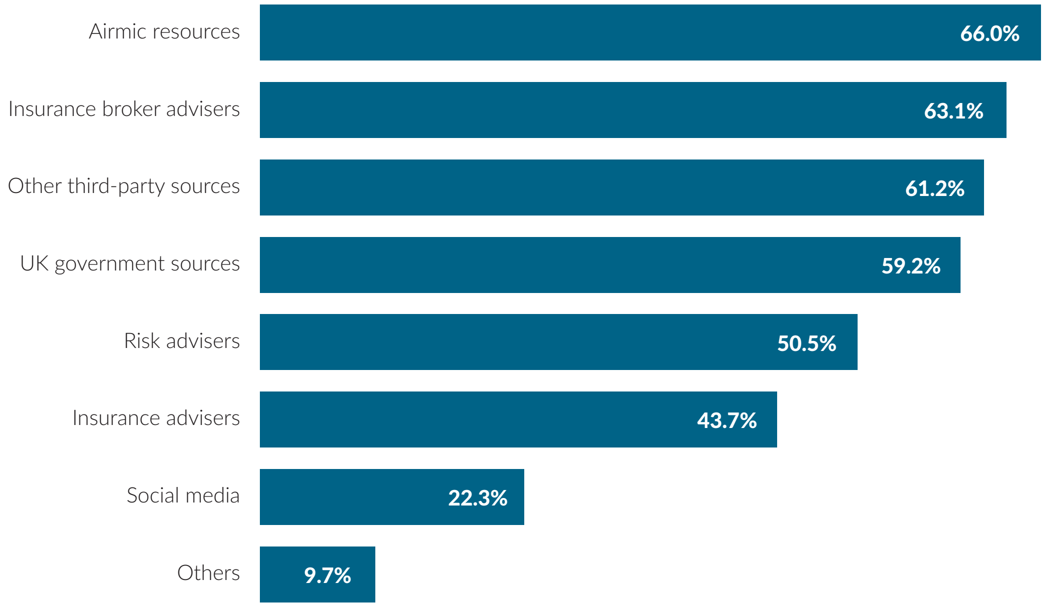
Learning the lessons

What lessons have you and your organisation learnt from the pandemic to take forward?



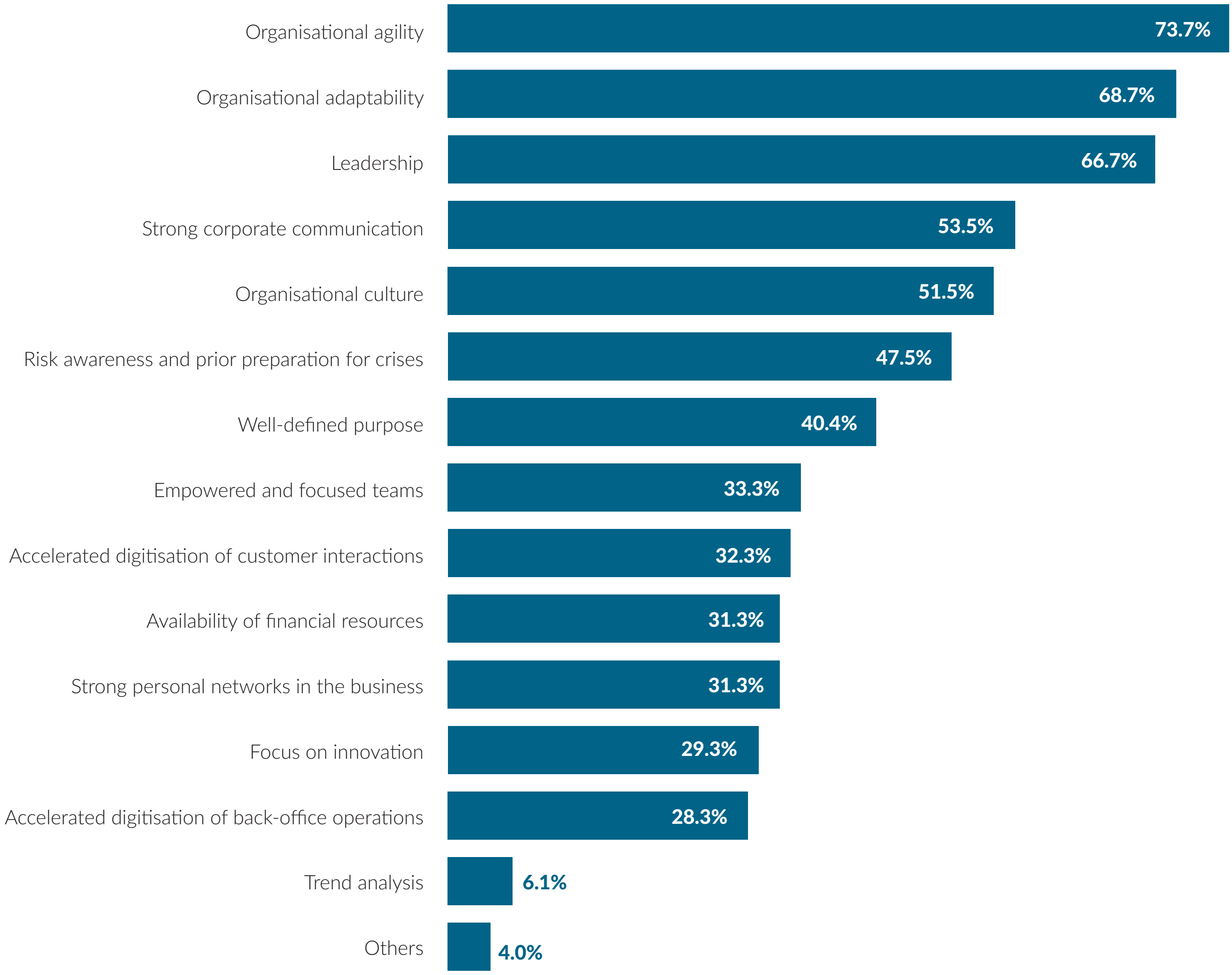
Boosting preparedness

Which risk intelligence sources do you use to identify and assess systemic risks?



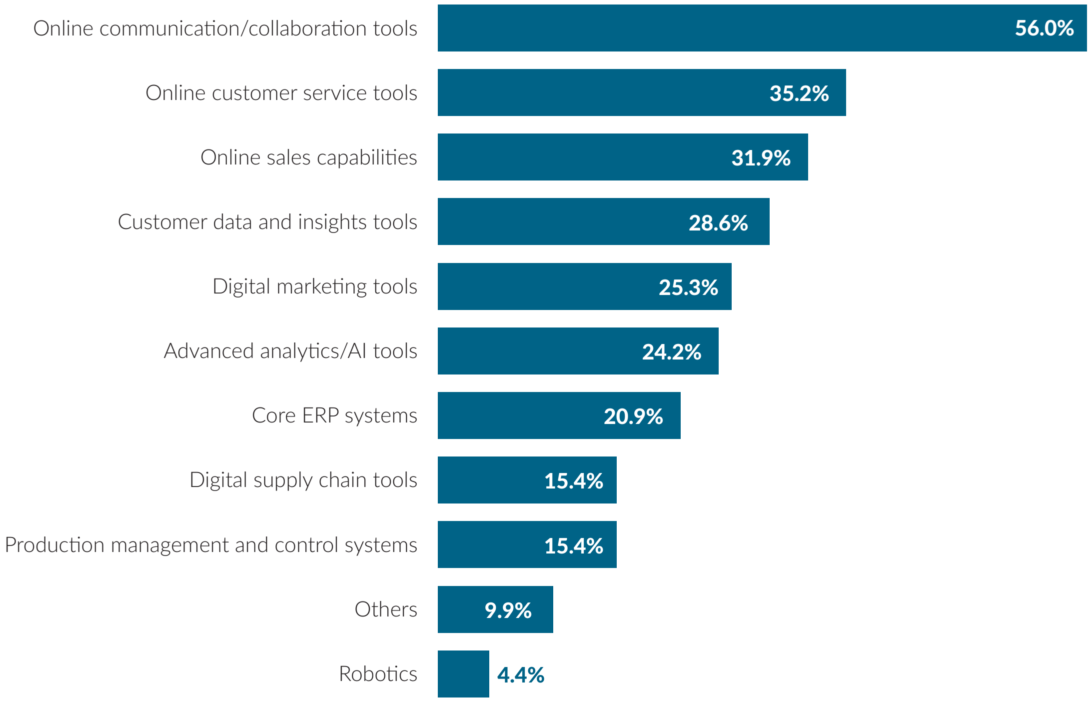
Building resilience, agility and adaptability

What have been the most important factors in enabling your organisation to adapt to changes and enhancing its ability to operate in the past two years?



Financial resilience is not the be all and end all during a systemic crisis such as the pandemic. Communication is key – and technology enhances that with stakeholders, whether internal or external.

Which technologies do you feel have contributed the most in enabling your organisation to adapt to changes and enhancing its ability to operate in the past two years?



Communication & technology: The key to resilience in a perfect storm

Matt Lacy, Programme Director, Construction & Multinational, QBE

Respondents in the 2022 Airmic survey have found organisational agility and adaptability to be the two most important factors that have enabled their organisations to operate in the past two years. In a long-drawn crisis like the Covid-19 pandemic, with its many twists and turns due to the waves of different variants spreading, the ability to quickly think, understand and react to changing market conditions was a make or break for many organisations. A high degree of organisational agility has helped organisations process new information and react successfully to changes in customer behaviours, operating capabilities, and supply chain availability.

Research conducted by Harvard Business School in collaboration with McKinsey & Co has shown that agile companies have outperformed others in adapting to the pandemic. Nowhere was this more apparent than in the changes they had to make to workforce flexibility. This was the most important lesson respondents to the Airmic survey learned from the experience of the past two years. In fact, the rapid digital transformation brought on by the pandemic[1] lockdowns had given them the tools to work more efficiently, and had aided in adapting to new industry landscapes. Closely related to this was the important use of digital tools to facilitate the kind of flexibility in the workforce that was needed – online communication tools such as Slack and Asana .

Financial resilience was no doubt important to organisations as they navigated through the pandemic to survive and thrive. But most respondents in the Airmic survey indicated that communication was the topmost priority when it comes to facilitating organisational agility and adaptability. Technology and platforms

Communication was the topmost priority for risk professionals when it comes to facilitating organisational agility and adaptability.

[1] McKinsey & Co, "An operating model for the next normal: Lessons from agile organizations in the crisis," 25 June 2020. https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/an-operating-model-for-the-next-normal-lessons-from-agile-organizations-in-the-crisis

What tools or techniques have been most important in helping you plan and execute in periods of uncertainty?

Tool/technique	Overall Rank	Rank Distribution
Scenario Planning	1	
Horizon scanning	2	
Demand forecasting	3	
Cost-benefit analysis	4	
Hindsight analysis	5	
Mathematical modelling	6	
Non-linear modelling	7	

Lowest Rank Highest Rank

that enhance communication with stakeholders, whether internal or external, contributed most in enabling organisations to adapt to changes and operate in the past two years.

Finally, the adroit use of sources of intelligence is crucial to identifying and assessing systemic risks such as the pandemic. Organisations were disincentivised from investing more in pandemic preparedness on the eve of Covid-19 – while pandemics present a high impact risk to organisations and to society, they are a low-frequency risk. Over the course of the pandemic, organisations have diversified their sources of intelligence on such risks. As they take a more proactive role in boosting preparedness, risk professionals are consulting a wide variety of intelligence sources from Airmic resources to their advisers from the insurance industry.

Within their arsenal of tools and techniques, the 2021 Airmic survey showed that risk professionals have largely used scenario planning and horizon planning to help them plan and execute in periods of uncertainty. Demand forecasting, which plays a central role in building sales resilience, is the third most important of the tools and techniques for risk professionals.

While all eyes were focussed on pandemic recovery at the start of 2022, the tragic situation in Ukraine reminded us that geopolitics have the potential to disrupt events when least expected. Given the increasingly interconnected world businesses operate in, risk professionals should explore non-linear modelling further. The benefit of taking a non-linear approach to planning in such uncertain times is that it allows you to take into account seemingly unrelated factors. As the cost of living crisis escalates and geo-political tensions prevail, uncertainty is sure to continue and success or failure will in large part be driven by adequate preparation.

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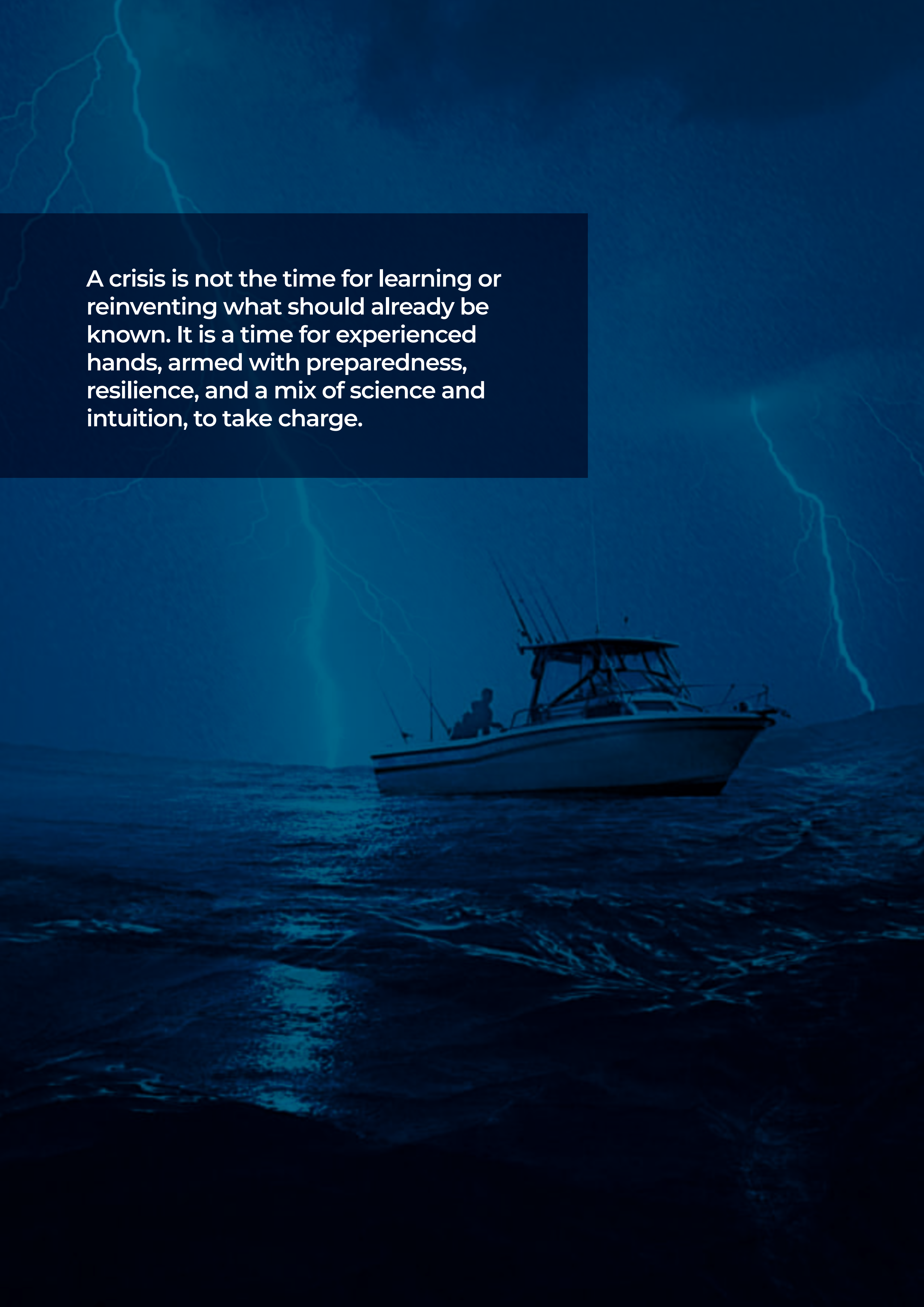

Conclusion

An onslaught of interconnected risks is confronting risk professionals and their organisations. Cyber, geopolitical, climate and supply chain risks are coming together in a perfect storm, keeping them awake at night – all of this after two sleepless years of the pandemic.

This is the time for organisations to think about any previous lack of preparedness and to change things going forward so that they are better prepared for the next pandemic wave or major crisis. These discussions on these issues should be used to identify potential emerging risks as the crisis continues to unfold and slow down. Identifying the risks now, ahead of them materialising, puts the company in a stronger position to avoid them, or at least minimise their impact.

Cyber threats are considered worse in 2022 than they were last year and are the greatest risk for business, according to the Airmic 2022 survey. Geopolitical, climate and supply chain risks are tied at second place. Diseases and pandemic have dropped out of the top 10 list of risks – but have we learnt the lessons from Covid-19?

Risk professionals are even more concerned about cyber security than six months ago – but cyber budgets have not changed.

Reputational damage from Environmental, Social and Governance (ESG) issues concern risk professionals most. But a closer look reveals the complexity of the challenge – we need to be much more attuned to the different problems confronting different organisations and sectors.

The talent crunch has clearly been one feature of the pandemic. But it would be misleading to assume that the Great Resignation is impacting every country and every organisation in the same way.

Systemic risk will drive a greater risk-based focus for the government, the insurance industry and risk professionals. Proposals to strengthen national resilience should also be considered in the context of the private sector. There is much to be gained from considering the public and private sectors in concert, as many of the issues, risks, controls and lessons addressed are shared.

The events of the past three years have reaffirmed the vital role of the risk professional in times of the greatest flux. The risk profession is adapting to better meet the challenges posed by systemic crises such as the pandemic. Dealing with long-term, recurring crises such as pandemics is not something that current organisational resilience has been set up to manage. Risk professionals and their organisations are now actively reviewing and changing their strategic approach to resilience.

A crisis is not the time for learning or reinventing what should already be known. It is a time for experienced hands, armed with preparedness, resilience, and a mix of science and intuition, to take charge. These are not just lessons and fixes for the pandemic, but for the new normal where risk management must be a dynamic and continuous process.

ANNEX

Acknowledgements

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Airmic – Technical & Research team

Julia Graham
CEO
julia.graham@airmic.com

Hoe-Yeong Loke
Head of Research
hoeyeong.loke@airmic.com

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QBE European Operations
Tel +44 (0)20 7105 4000
www.QBEeurope.com

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www.airmic.com

Marlow House
1a Lloyd’s Avenue
London
EC3N 3AA
+44 207 680 3088
enquiries@airmic.com
www.airmic.com