

Confronting a Fractured Future

Key Takeaways from the World Economic Forum's *Global Risks Report 2021*

Each year, the World Economic Forum's (WEF) *Global Risks Report* — produced with the support of Marsh McLennan and other strategic partners — offers useful guidance on major risks facing businesses, governments, and other organizations globally. Derived from surveys and deeper explorations of a number of short-, medium-, and long-term dangers, the annual report is intended to help risk professionals and senior executives identify critical threats and build greater resilience.

The *Global Risks Report 2021* arrives at a time of great uncertainty for the global economy. While the ultimate impact of COVID-19 remains unknown, the report explores the havoc the pandemic has already wreaked on people and businesses, and the likely significant long-term implications it will have for health systems, workplaces, economies, and societies. Climate change, meanwhile, remains an ever-present threat, and the report also highlights the following accelerating threats:

- **A disorderly industrial shakeout:** The growing power and influence of nation-states, market concentration in the technology sector, and social license challenges from key stakeholders are three critical risk drivers for global businesses. While governments continue to respond to the crisis and conditions for businesses remain volatile and dynamic, avoiding a disorderly industrial shakeout will be critical to long-term sustainability and resilience.
- **A lack of digital inclusivity:** The accelerated push for technology implementations is helping many organizations overcome pandemic challenges, but also exacerbating existing inequalities between individuals — and creating new ones. Progress towards greater digital inclusivity is threatened not just by growing digital dependency and automation, but by regulatory uncertainty and the suppression and manipulation of information.
- **Middle powers in a divided world:** Non-superpower G20 nations face a number of potential challenges in navigating the tensions between the US and China, including growing pressure to align with one or the other on trade, security, and technology. Opportunities for multilateral collaboration may suffer as a result.
- **Youth in an age of lost opportunity:** Already exposed to environmental degradation, rising inequality, varying degrees of violence, and disruption from industrial transformation, young adults worldwide are experiencing their second major global crisis in a decade. The risk of “youth disillusionment” — which may become a critical threat in the short term — is being largely neglected.



A Broader Definition of “Risk”

The *Global Risks Perception Survey* — the World Economic Forum’s source of original risks data — harnesses the expertise of the WEF’s extensive network of business, government, civil society, and thought leaders. This represents the foundation of each year’s *Global Risks Report*.

This year, a dozen new risks were added to the survey, resulting from observations about economic, geopolitical, societal, and technological trends. The names and definitions of the remaining risks have meanwhile been revised, with many being modified and/or expanded to reflect new ways in which the risks may materialize and affect organizations.



FIGURE 1

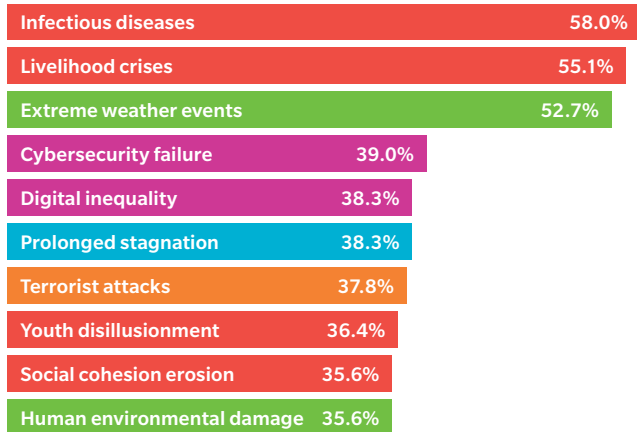
The top risks explored in the *Global Risks Report 2021* include a mix of socioeconomic, political, technological, and environmental.

SOURCE: WORLD ECONOMIC FORUM GLOBAL RISKS PERCEPTION SURVEY 2021

■ Economic ■ Environmental ■ Geopolitical ■ Societal ■ Technological

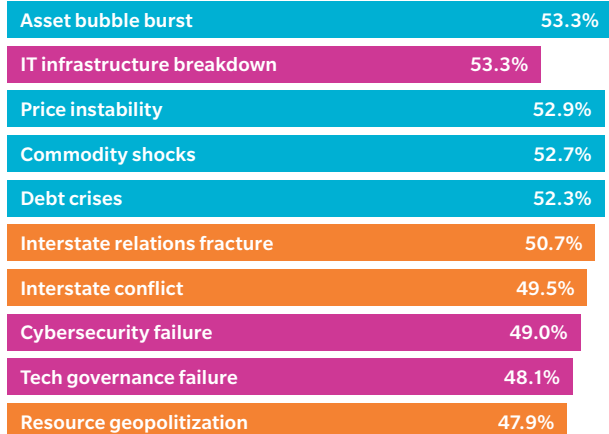
Clear and present dangers

Short-term risks (0-2 years)



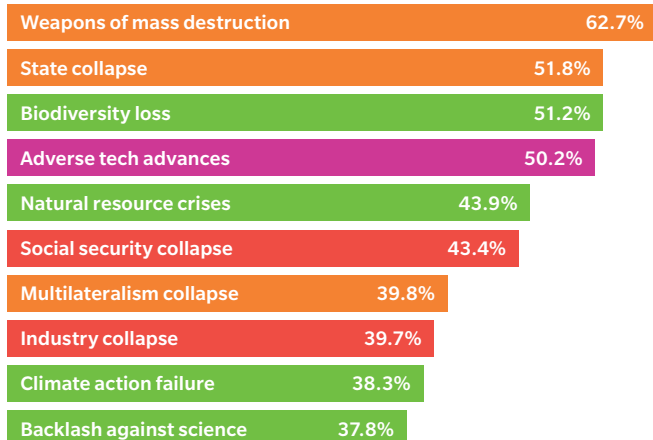
Knock-on effects

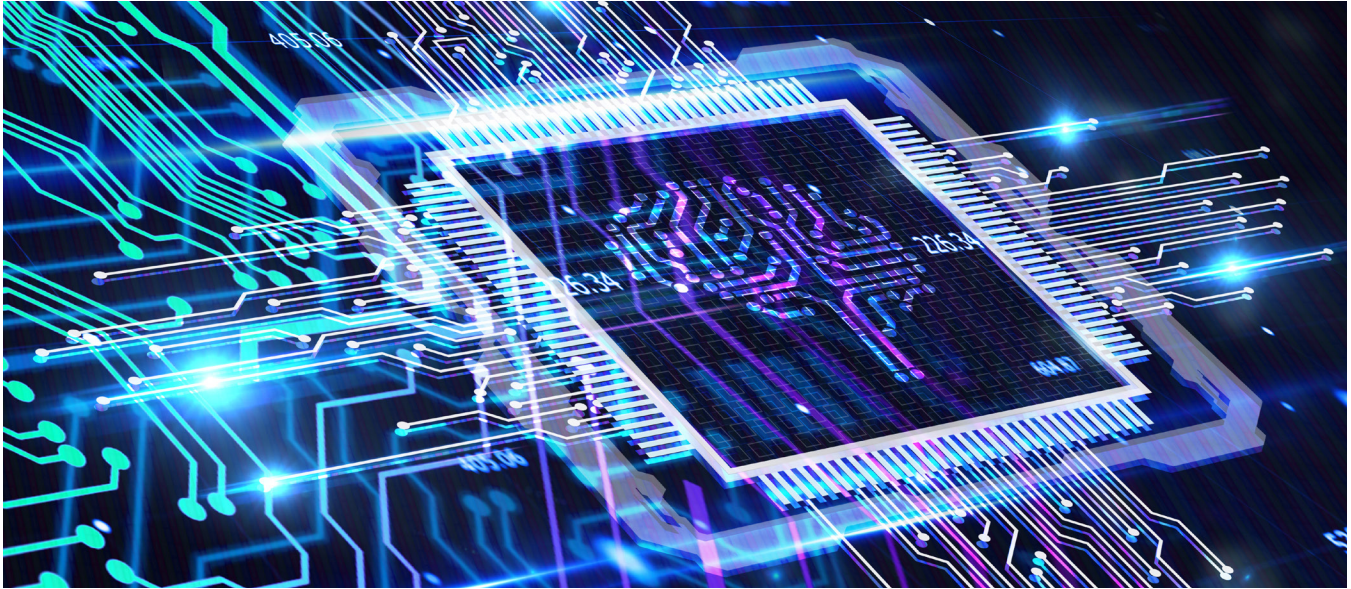
Medium-term risks (3-5 years)



Existential threats

Long-term risks (5-10 years)





A Disorderly Industrial Shakeout

Protectionism, social unrest, and transformations in technology are not new; these and other trends have disrupted industries and economies for years. But they have taken on greater urgency amid the pandemic, and could have significant ripple effects in the years ahead.

A disorderly shakeout from the pandemic could contribute to economic stagnation in advanced economies and lost potential in emerging and developing markets. It could create larger gaps between major and minor companies and prompt millions of small business failures. And it could counteract global sustainability initiatives.

New challenges to businesses are likely to emerge from three key sources:

- **Nationally-focused agendas:** In response to the pandemic, governments have introduced substantial stimulus packages, which will shape the risks that individual companies face — and if not properly structured, could help prop up large, nonperforming “zombie” companies while starving other organizations of talent and capital. A focus on domestic markets could also contribute to severe disruptions in international supply chains and investment flows.
- **Market concentration:** In many industries — particularly the technology sector — large companies are solidifying their market position and expanding, to the detriment of smaller companies. Governments are seeking to drive competition through interventionist action, which could expose companies to greater scrutiny or create ripple effects for those that depend on large service providers affected by tighter regulation.

- **Social activism:** Investors, consumers, employees, and other stakeholders are increasingly pressuring businesses to show sensitivity to and take action on a range of social issues, including racial injustice, racial and gender diversity, climate change, labor practices, and more. With revenues, reputations, capital, and talent at stake, businesses must take firmer and more active stances in these areas.

A Lack of Digital Inclusivity

The rapid expansion of remote work, e-commerce, and digital health solutions, among other developments, will transform the way people live and work, even after COVID-19 is no longer a public health threat. While some of these changes will represent a net good for businesses and societies, they could also create or deepen inequalities. “Digital inequality” was rated by respondents to the *Global Risks Perception Survey* as both a critical global threat over the next two years and the seventh most likely long-term risk.

Machine learning applied to large data sets is increasingly driving decisions — regarding health care, financial investments, legal matters, and more — that have historically been made by people. While often more efficient, such automation can deepen institutional biases, particularly when the algorithms involved use historical data sets that may be skewed. The volume of data being created, captured, and replicated also presents opportunities for manipulation by malicious actors, who are increasingly capable of launching misinformation campaigns on a national and global scale.

The Fallout From 2020

The central theme of *The Global Risks Report 2021* is “fractured future.” As the report explores in detail, the aftermath of the COVID-19 pandemic threatens to widen already significant disparities and aggravate societal rifts. These trends can pose structural barriers to both individual and collective advancement.

Global economic output is expected to have shrunk by 4.4% in 2020, according to the International Monetary Fund (IMF); by contrast, the 2008-09 financial crisis resulted in a global economic contraction of just 0.1%. With the economy sinking into its deepest crisis in peacetime, billions of people are at heightened risk of missing out on future economic opportunities, social mobility, and the benefits of a resilient global community.

When asked to identify the top short-term threats to the world, nearly three in five respondents to the *Global Risks Perception Survey* selected “infectious diseases” and “livelihood crises.” The loss of both lives and livelihoods will likely contribute to greater “social cohesion erosion” — another significant short-term threat identified by respondents.

COVID-19’s Long-Term Implications

The pandemic will have lasting effects. *Global Risks Perception Survey* respondents identified “state collapse” and “multilateralism collapse” as key long-term threats — and “climate action failure” was rated as the most impactful and second most likely long-term risk.

SARS-CoV-2 is one of the deadliest viruses in recorded history. More than 100 million cases of COVID-19 were reported and more than 2 million people died from the disease through January 2021, according to the World Health Organization. The pandemic, however, has disproportionately affected some populations.

For example, 70% of working women across nine of the world’s largest economies believe their careers will be slowed by the pandemic’s disruption, according to Deloitte. And more than half of all people aged 18 to 29 across more than 100 countries believe their educational progress has been slowed by the pandemic, according to the International Labour Organization.

The pandemic has also had an outside effect on some regions, with the Eurozone and Latin America expected to have contracted the most in 2020, according to IMF data. Lower levels of financial support and a shortage of aid workers could have particularly severe long-term effects on humanitarian efforts in low- and lower-middle-income countries, according to the Food and Agriculture Organization of the United Nations.

These devastating socioeconomic effects will only increase inequality — already a sizable problem in developed and developing markets alike.

Trends in national policymaking, meanwhile, may have broader implications. Even before the pandemic, social cohesion and global coordination were weakening, giving way to more fractured societies and unilateralism. In the past year, individual country responses to COVID-19 have driven new domestic and geopolitical tensions that further endanger international relations, as confrontations between countries occur with greater frequency.



FIGURE
2

Four of the five top risks by likelihood were environmental.

SOURCE: WORLD ECONOMIC FORUM GLOBAL RISKS PERCEPTION SURVEY 2021



Climate Change Still in the Spotlight

Against the backdrop of these myriad challenges is climate change, which remains a catastrophic and existential risk to which no individual, business, and government is immune (see Figure 2). Lockdowns to avoid the spread of COVID-19 — though devastating to economies and businesses — have had at least two silver linings.

First, many governments are focusing on a “green recovery” that includes investments in green infrastructure and clean energy projects. And second, global carbon dioxide emissions in the first half of 2020 were down 8.8% from the same period in 2019, according to a study published in the journal *Nature*.

But past economic downturns — notably, the 2008-09 financial crisis — suggest that this will only be a temporary dip. That means urgent action to build greener economies cannot wait until we return to a state of “normalcy” or the economic and societal shocks of the pandemic recede.

Managing Physical and Mental Health Challenges

One lasting effect of the pandemic is expected to be a rethinking of workplaces and a renewed emphasis on the physical and mental well-being of workforces. The transformation of many industries — including a move toward greater automation and digitalization and the transition of employees into new roles — will often require more agile and distributed workforces and hybrid working options. Not only will businesses need to rethink physical spaces, they’ll also need to focus on ergonomic needs related to remote work, which will not simply disappear post-pandemic.

At the same time, signs were mounting even before COVID-19 that employees expect employers to provide robust digital health benefits, including access to mental health

care. The psychological toll of prolonged isolation and lockdowns has made this even clearer: Less than one month after the WHO declared COVID-19 a pandemic, 70% of American adults reported feeling nervous, anxious, or on edge, and 40% said they were depressed, according to the Pew Research Center.

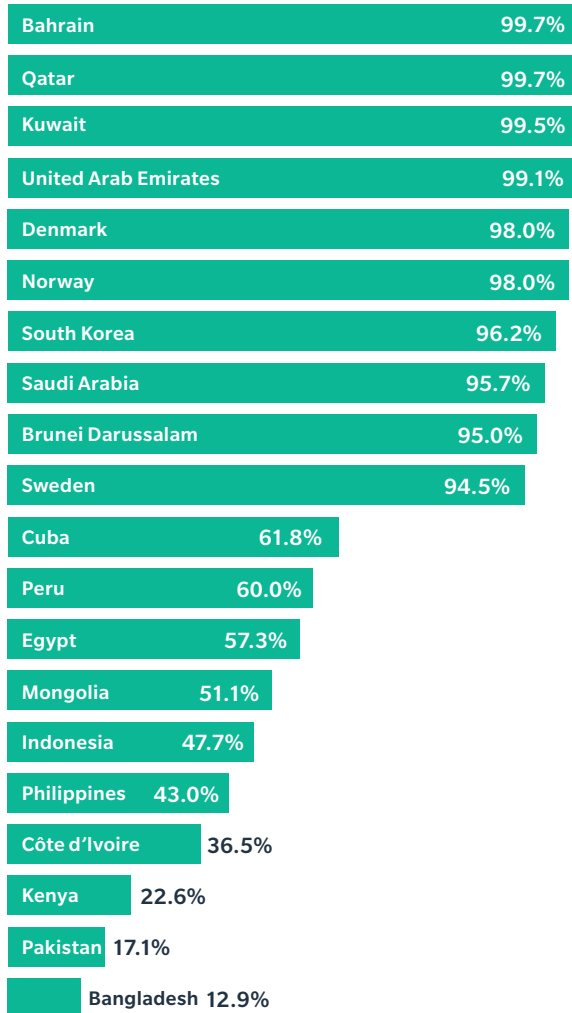
Introducing digital health services as the pandemic continues can be a crucial way to support staff during a difficult time, especially given the stigma often associated with mental health issues. Mercer Marsh Benefits research shows that nearly half of all workers are willing to try virtual mental health counseling via video chat to address mental health issues. And while some employees will likely prefer face-to-face services after the pandemic ends, digital offerings — as part of a broader health and well-being strategy — will remain useful to many.

FIGURE
3

Internet usage ranges from more than 87% of the population in high-income countries to less than 17% in low-income countries.

SOURCE: WORLD BANK

% of population, 2019



The gap between those who can access data and digital technologies and those who cannot is also widening, even in countries with high per capita income (see Figure 3). A digital underclass is emerging, comprised of consumers and workers who will miss out on educational and employment opportunities created by the global digital economy. They also face a heightened risk of losing their digital autonomy as power is increasingly concentrated in online retail, online payments, and communication services.

Middle Powers in a Divided World

Beyond the world's superpowers, there are smaller countries that can still strongly influence international relations. Despite their varying interests and governance structures, these middle powers — comprised of both advanced and emerging economies — are often those that champion multilateral cooperation in a number of areas, including trade, security, and global health.

Amid the pandemic, however, these countries may find it difficult to stay resilient against a variety of crises, many of which could be addressed or ameliorated via multilateralism. Respondents to the *Global Risks Perception Survey* forecast that “interstate relations fracture,” “interstate conflict,” and “resource geopoliticization” will become critical global threats in the medium term (see Figure 4).

COVID-19 has revealed intensifying stresses to the geopolitical landscape, and points to a continuing move toward unilateralism. The escalating US-China rivalry, growing nationalism, and the aggressive use of subversive tools are driving a shift to a new global order rooted in power rather than rules.

Middle powers that champion inclusivity, channel resources towards multilateralism, and insist on adherence to increasingly fluid international norms can play a unique role and provide critical support to a weakening system.

Middle powers can also find opportunities in collaborating with non-state actors. Partnerships with the private sector and academia to develop a COVID-19 vaccine have proceeded at an astonishing pace — Canada, Germany, Italy, Sweden, and the United Kingdom have pledged nearly US\$1 billion to finance vaccine access for nearly 100 low- and middle-income countries. Likewise, many middle power governments are teaming with investors and others on climate change initiatives, such as green investment plans that could drive greater resilience for both the public and private sectors.

Youth in an Age of Lost Opportunity

For people of all ages, the pandemic represents a major crisis event, a health and livelihood threat unlike any seen in generations. For young people in particular — who are entering adulthood already bearing the scars of the financial crisis, climate change, and other threats — it could have lasting implications for their education, mental health, and livelihoods.

“Widespread youth disillusionment” was identified in the *Global Risks Perception Survey* as a top neglected risk that will become a critical threat to the world over the next two years — and is especially concerning to the World Economic Forum’s Global Shapers Community, its network of young people driving dialogue,

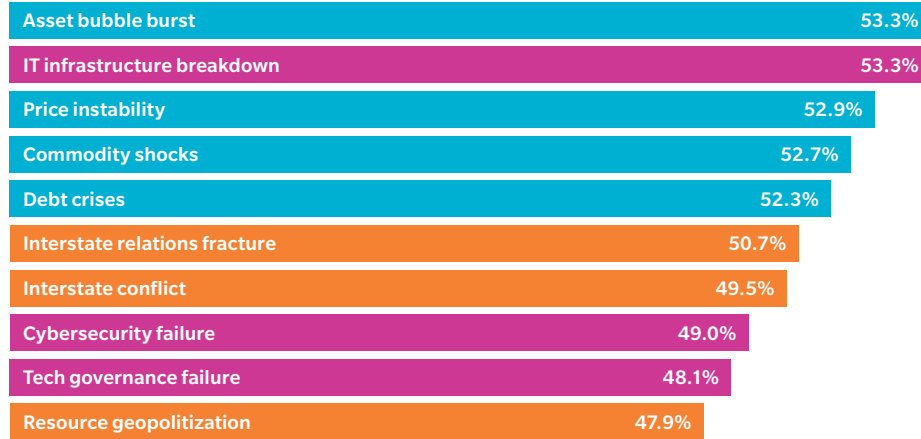
FIGURE
4

Sociopolitical threats feature prominently on the list of medium-term threats.

SOURCE: WORLD ECONOMIC FORUM GLOBAL RISKS PERCEPTION SURVEY 2021

■ Economic ■ Environmental ■ Geopolitical ■ Societal ■ Technological

Medium-term risks (3-5 years)



action, and change (see Figure 5). Facing a grim economic outlook characterized by unresolved challenges from the Great Recession and opportunities robbed by the pandemic, the deep sense of anxiety felt by today's youth can boil over into anger, backlashes, and societal upheaval.

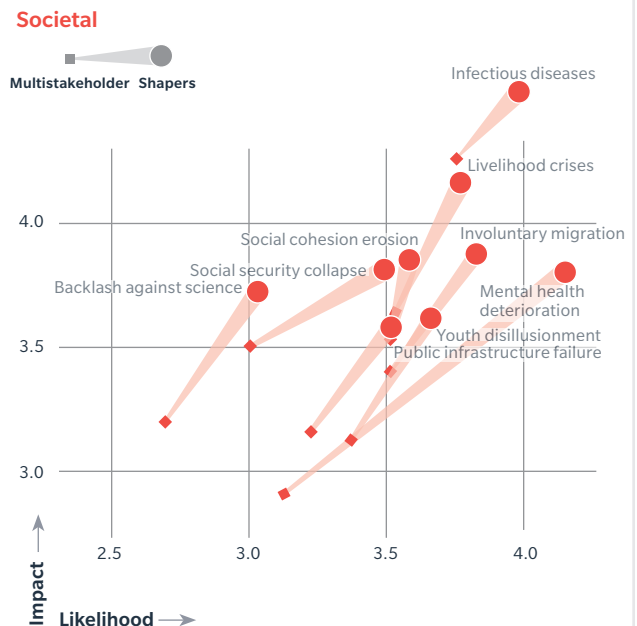
This anxiety can manifest in a number of ways:

- As of 2018, people between the ages of 15 and 24 accounted for two-thirds of the global poor, according to the World Bank. According to UNICEF, the pandemic has worsened this situation, denying children and young adults access to health, education, nutrition, water, sanitation, and housing.
- While some students have benefited from more targeted and individualized learning arrangements during the pandemic, resource-strapped youths have struggled to participate in educational opportunities in the absence of digital connectivity, adult support, and adequate space to study at home. These effects have a severe gender bias: All told, more than 25 years' worth of global gains in girls' education could be undone by the pandemic, according to UNESCO.
- Youth unemployment has risen globally since 2008, according to the World Bank, and policy responses to COVID-19 have further exacerbated the marginalization of young workers: In many economies, young adults were the first to lose their jobs to lockdowns, according to the Pew Research Center.

FIGURE
5

The WEF's Global Shapers network has a far different view of mental health deterioration than the Forum's multistakeholder network.

SOURCE: WORLD ECONOMIC FORUM GLOBAL RISKS REPORT 2021





LONG-TERM GOVERNANCE OPPORTUNITIES

The past year has highlighted the need for global organizations to better prepare for and mitigate a variety of critical risks — and has offered lessons for how they can do so.

Specifically, governments and organizations can focus on the following:

- **Detailed and holistic analytical frameworks** can help organizations identify dependencies and vulnerabilities. Holistic analysis can enable organizations to stress-test assumptions, weigh the trade-offs inherent in various mitigation proposals, and assess response capabilities.
- **High-profile “risk champions”** can bring together various stakeholders and foster innovation in risk analysis, financing, and response capabilities. Although leadership attention to critical risks is still essential, these champions can help enable smarter decision-making before a risk develops into a crisis.
- **Communication** is crucial in responding to any crisis. Misinformation and confusion can undermine the response to major crisis events. Better coordination between the public sector, private sector, communities, and households can help to foster trust, combat misinformation, and enhance resilience.
- **Public-private partnerships** can enhance risk preparedness in technology, logistics, manufacturing, and more. The pandemic — particularly, the rapid development of multiple COVID-19 vaccines — has demonstrated that government engagement of the private sector can spark innovation in response to large-scale challenges. Appropriately sharing risks and rewards can help to develop creative solutions to complex problems.

Finding Opportunities Amid the Fractures

While *The Global Risks Report 2021* primarily explores negative risk developments globally and their socioeconomic, political, technological, and environmental implications, global businesses can take solace in a number of silver linings. These include:

- **A chance for an equitable recovery.** The disparities laid bare by the pandemic have forced a conversation about how to more equitably distribute resources. COVID-19 also presents an opportunity for stimulus funds to be used to transform and invest in public services, including health, education, and technology infrastructure.
- **Increased impetus around technology governance.** Some signs point to greater solidification of the tech regulatory landscape in the years ahead and an acceptance of governments’ role in providing clear guidance to businesses while ensuring a level playing field.
- **A focus on climate change.** The size of economic stimulus packages introduced during the pandemic — many of which include investments in green infrastructure and clean energy — has dispelled the myth that governments cannot financially support the energy transition. Reduced consumption brought about by the pandemic may also persist long after the health threat of COVID-19 has dissipated.
- **New trade alliances.** Superpower rivalries have threatened existing trade relationships, but the pandemic recovery has prompted the formation of new deals and finalization of existing ones in Europe, Asia, and elsewhere.
- **A renewed appreciation of risk.** Governments, people, and businesses are reexamining the way that emerging and complex risks are understood and managed. And they’re asking critical questions that could lead to new approaches, including greater collaboration between public and private entities and across borders.



Planning and Preparing for a World of Risk

In the face of these and other systemic risks, it's vital that businesses enter 2021 with a focus on resilience. So how can businesses use the *Global Risks Report 2021* to improve their resilience?

Among other steps, businesses should:



1. Review and revise their approach to workforce safety and productivity. With a spotlight on physical and mental health, the ability of employers to provide safe and low-stress physical and virtual workplaces will dictate their ability to generate revenues, protect reputations, and attract talent.



2. Anticipate the intensifying operational, ethical, regulatory, and workforce-related risks due to rapid digitalization. Workforce training and upskilling, addressing the implications of new technology, and establishing robust digital infrastructure will be crucial.



3. Recognize the structural changes in the national environment that they operate in and anticipate their own changes in response. With governments increasingly looking inward, businesses should focus on labor challenges, supply chains, and the implications of trading investment from differing regulatory regimes across markets.



4. Anticipate the operational and reputational risks that may arise as popular scrutiny continues to mount globally. Companies are now being held to a higher standard by consumers, employees, investors, and other stakeholders, who are demanding they take action on climate change, inequality, and more.



5. Avoid losing sight of threats from climate change and continue to critically analyze climate-related risks. Rather than risk a disorderly transition to a newer, green economy and stricter regulation, business should leverage increasing government incentives to invest in their own transition now.



6. Appreciate the potential for “forgotten risks” that are low in probability but potentially catastrophic in their impacts and their interaction with other perennial risks. Events such as COVID-19 can coincide with or complicate other major risks, including extreme weather and cyber threats. The *Global Risks Report 2021* can serve as a source of intelligence for boards, executives, and risk professionals to explore such complexity and drive smarter decisions and more appropriate responses.

The *Global Risks Report*, published by the World Economic Forum with support from Marsh McLennan, provides a rich perspective on the major threats to global prosperity in 2021 and over the next decade. The 16th edition of the report draws on feedback and insights from nearly 12,000 global experts and decision-makers who were asked to rank their concerns in terms of likelihood and impact.

For more insight into critical global risks for your organization and how you can take action to manage them, visit marsh.com to read the *Global Risks Report 2021*, contact your Marsh representative, or contact:

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