



WORLD ECONOMIC FORUM *GLOBAL RISKS* 2014 BRIEFING

CAS IN-FOCUS: NAVIGATING RISKY WATERS-ERM FOR P&C

DENVER, JUNE 9, 2014

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Partner, Oliver Wyman

Business confidence may be on the rise, but companies anticipate significant challenges in forecasting critical risks over the next few years

61%

OF COMPANIES ARE RAISING REVENUE GROWTH TARGETS, MOVING FROM DEFENSIVE TO PROACTIVE INITIATIVES

86%

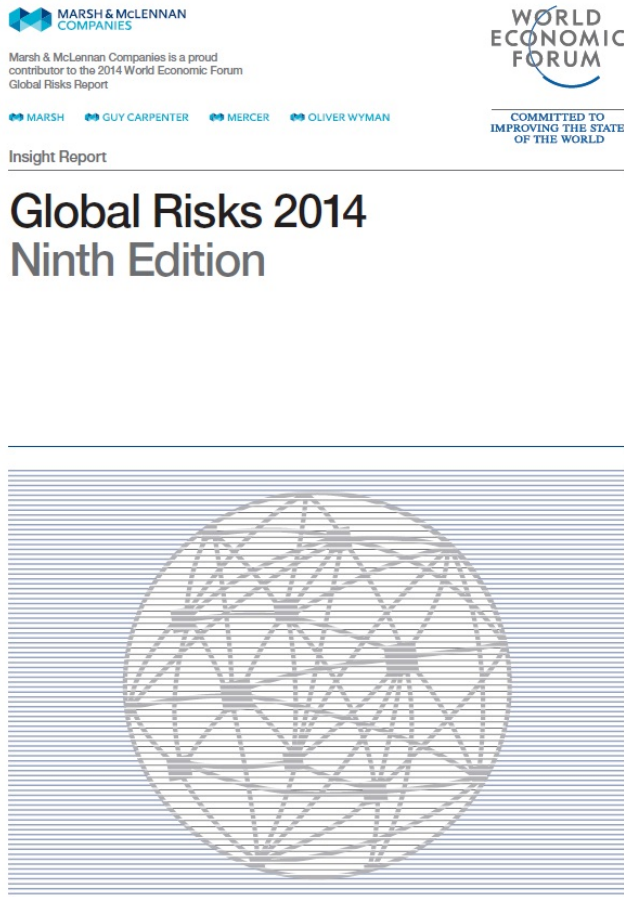
OF COMPANIES ANTICIPATE AS MUCH, OR MORE, DIFFICULTY IN FORECASTING CRITICAL RISKS IN THE NEXT THREE YEARS

42%

OF COMPANIES STRUGGLE TO INTEGRATE RISK AND FORECASTING DATA INTO STRATEGIC DECISION-MAKING

Source: 2014 Association for Financial Professionals / Oliver Wyman Risk Survey

The annual Global Risks report is prepared by the World Economic Forum



1 *Global Risks 2014*
overview

> 2 Three key challenges –
risks in focus

3 Resilience and solutions

But first, a video...



Marsh & McLennan Companies is a proud contributor to the 2014 World Economic Forum Global Risks Report

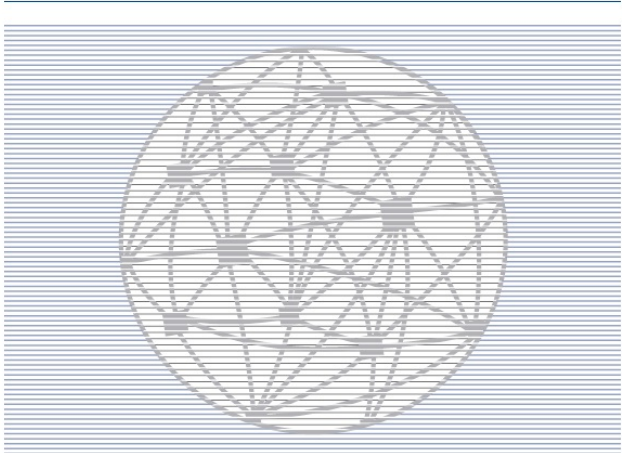
MARSH GUY CARPENTER MERCER OLIVER WYMAN

Insight Report

Global Risks 2014 Ninth Edition



COMMITTED TO IMPROVING THE STATE OF THE WORLD



1 Economic and environmental risks were of most concern, reflecting the fallout from the financial crisis and the growing impacts of climate change

Rank	Global Risk	Type
1	Fiscal crises	Economic
2	Unemployment and underemployment	Economic
3	Water crises	Environmental
4	Income disparity	Societal
5	Climate change	Environmental
6	Extreme weather events	Environmental
7	Global governance failure	Geopolitical
8	Food crises	Societal
9	Failure of financial mechanism or institution	Economic
10	Political and social instability	Societal
11	Cyber attacks	Technological
12	Interstate conflict	Geopolitical
13	Terrorist attack	Geopolitical
14	State collapse	Geopolitical
15	Natural catastrophe	Environmental

Source: World Economic Forum, Global Risks 2014. Survey asked for views on 31 risks in total. 700 respondents.

Unemployment, extreme weather events, and technology-based risks were among the main upwards movers in this year's survey



Type	Global Risk
Economic	Unemployment and underemployment
Environmental	Extreme weather events
Environmental	Natural catastrophes
Societal	Political and social instability
Technological	Data fraud / theft
Technological	Critical information infrastructure breakdown

Type	Global Risk
Economic	Failure of financial mechanism or institution
Economic	Oil price shock
Societal	Food crises
Geopolitical	Weapons of mass destruction
Geopolitical	Corruption
Geopolitical	Global governance failure

■ Economic
 ■ Environmental
 ■ Geopolitical
 ■ Societal
 ■ Technological

Source: World Economic Forum, Global Risks reports, 2012-2014. 700 respondents.

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Demographic and societal risks dominate a list of trends that may increasingly shape the risk environment over the long term

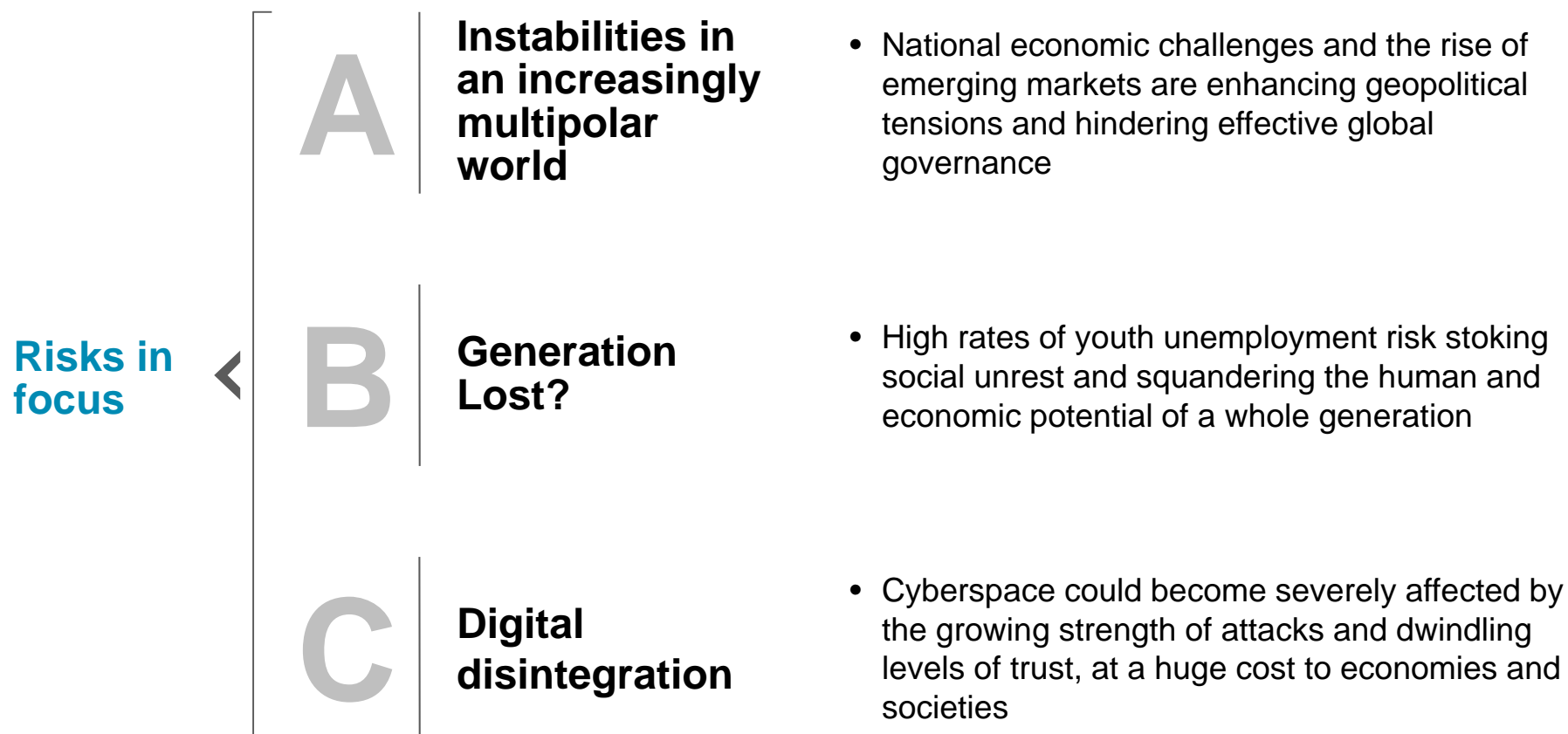
Risks of future concern – perceptions survey



Source: World Economic Forum, *Global Risks 2014*

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2 The report explores three broad risks that may affect global development over the coming decade



Source: World Economic Forum, *Global Risks 2014*

A A preoccupation with domestic priorities is increasingly setting the tone for international relations and may threaten the advance of global prosperity

Drivers of uncertainty

Emerging markets

– complexity of reform agendas

Advanced economies

– affordability and legitimacy concerns

Rising / resurgent nations

– scope for missteps in power projection

Populist movements

– influence on national governments

Rogue actors

– asymmetric conflict opportunities

Multilateral organizations

– ageing constitutions and discordant voices

Geopolitical fragmentation may have adverse consequences for three sectors that are critical to the well-being of the global economy



Energy

- Strategic resource plays – at home and abroad
- Assets used as a tool of international statecraft
- Rising resource nationalism?
- Vulnerability of energy-sector revenues



Healthcare

- Overstretched / underfunded “national” healthcare systems
- Poaching of medical expertise and erosion of intellectual property rights
- Price pressure undermining pharmaceutical innovation

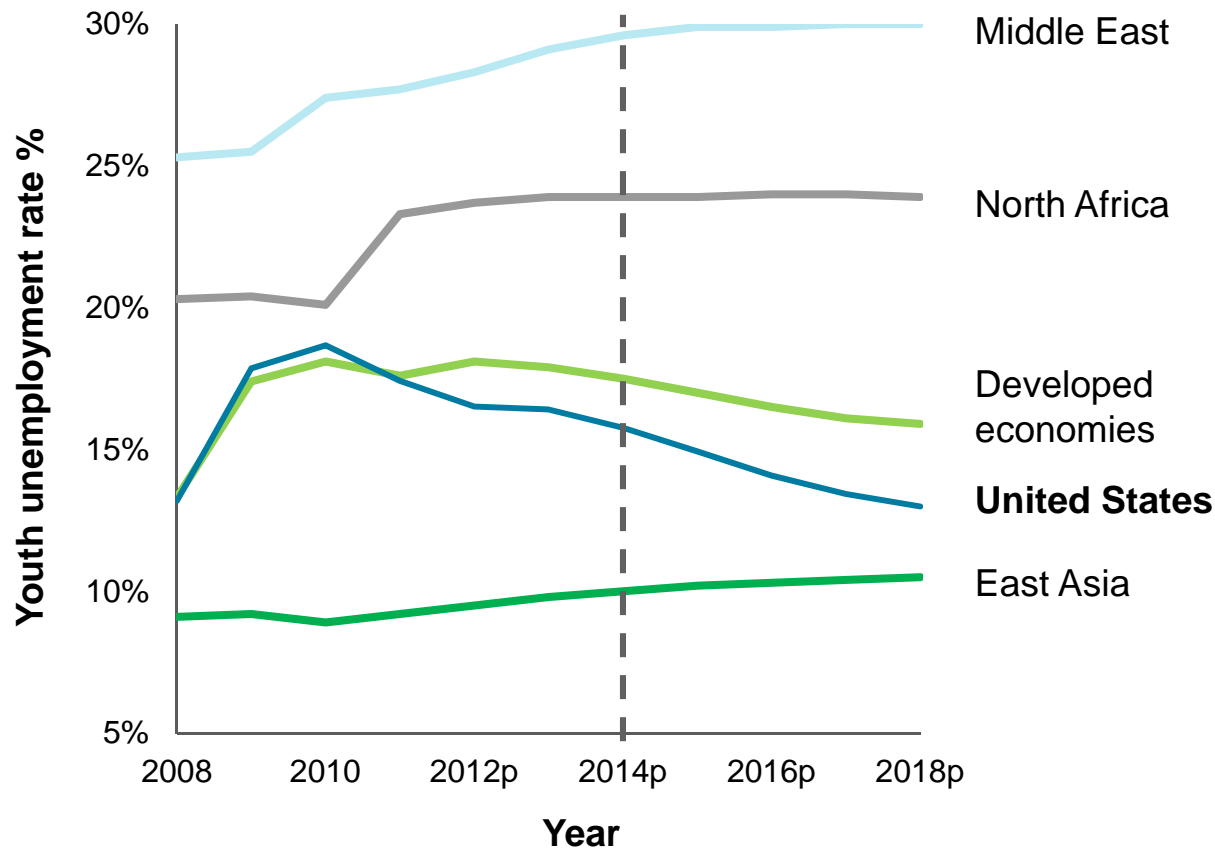


Financial services

- Privileging national systems (and players)
- Repatriation of funds and smaller cross-border flows
- Rise of new systemic risks
- Stop-start liberalization in emerging markets

B In many regions, high unemployment is frustrating young people's efforts to earn, generate savings, gain professional experience and build careers

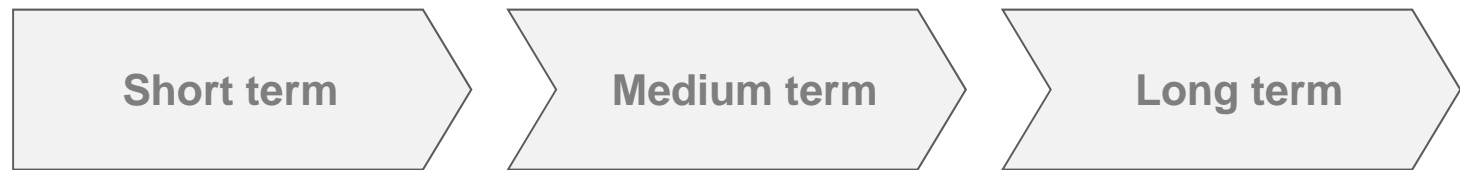
Youth unemployment rates, 2008-18p



➤ **Potential for a lost generation?**

Source: International Labour Organization – Global Employment Trends for Youth 2013

A lost generation may add significant structural costs over both the long and short term



On youth

- Low morale
- Disaffection and declining trust in government

- Lack of career progression
- Lack of job security inhibiting long-term planning

- Potential shortfall in savings for old age

On society

- Increased inequality
- Social instability

- Brain drain to other countries
- Labour force quality impacts due to lower uptake in higher education
- Challenges in supporting an ageing society

- Welfare burden created by a lost generation
- Erosion of long-term national competitiveness

C Increasing connectivity is combining with powerful offensive attacks to undermine trust and raise questions about systemic vulnerabilities

Internet of 'things'



Offense] Defense



Rise in cyber warfare



Systemic physical vulnerabilities

Higher barriers and costs

Society and business faces systemic risks resulting from severe breakdowns in both physical infrastructure and institutional trust in the internet

Systemic physical vulnerabilities

- Source of exposure
 - Cyber attacks – crime, espionage, hactivism, war
 - Physical threats – solar storms, earthquakes, floods
- Key impact areas
 - Critical infrastructure – power grids
 - Shared hosting services and other communications platforms

Higher barriers and costs

- Diverging goals for internet governance
 - Loss of trust between key players
 - Difficulty in developing global secure standards
- Strengthening of national internet boundaries
 - Balkanization of access
 - Restrictions on data location and movement

- 3 To tackle global risks, stakeholders across sectors and countries must combine in creative ways to strengthen resilience and develop solutions

Re-build trust

Incentivise long-term thinking

Encourage multi-stakeholder action

Re-energise global governance

Companies should also build resilience to these risks into their planning processes and governance arrangements

- **Better understand corporate vulnerability** to global risks
 - Develop trusted data sources and leading indicators
 - Encourage information-sharing between governments and industry
 - Use risk appetite questions to define clear tolerances regarding exposures
 - Test long-term planning and capital allocation against key trends and shock scenarios
- **Strengthen strategic corporate agility** to address emerging opportunities / threats
 - Diversify and seeking out natural hedges, where possible
 - Build political capital at multiple levels to understand decision drivers and anticipate surprises
 - Prepare fully for potential crisis situations to safeguard the company reputation
 - Undertake (table-top) simulations based on evolving scenarios

Managing Global Risks Within a P&C Context

- **General**

- Assess frequency (likelihood) and severity (impact) of risks relevant to your firm.
- Lost generation: development and training of staff
- Difficulty in forecasting risks and integrating into strategic decision-making
- Impact of extreme weather events
- Impact of fiscal crises on investments
- Line of business / geographic specific risk: D&O, political risk, international

- **Cyber Risk**

- Increasing frequency of attacks to insurers, to insureds and to insureds' suppliers
- Supply chain failures can significantly impact insureds' (insurers') revenue, credibility and reputation
- Reinsurers' concerns over ability of market to understand risks that are being underwritten and the viability of offering business interruption/contingent business interruption cover.
 - Insurance does not replace need for solid risk management (insureds and insurers)
 - Improved risk management a condition of offering coverage
- Increasing level of insurance limits being purchased
- Potential for litigation over what is and what is not covered

