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► *The risk landscape, or 'riskscape', is an ever changing one, and requires agility to adapt to the environment. Against this backdrop of extreme and varied risks, CIR and Riskconnect surveyed risk practitioner views to assess the readiness for both traditional and emerging risks, and to identify those risks that are most concerning to the sector over the next five years.*

Riskscape 2028



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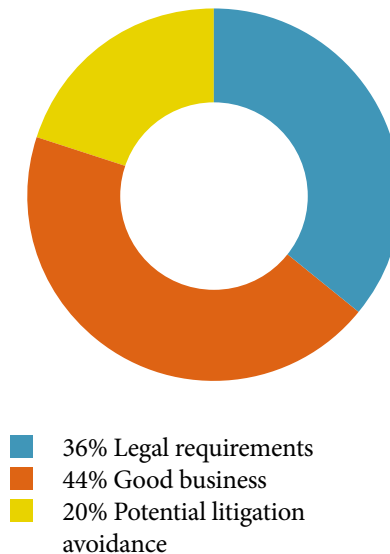
Drivers of compliance

What is the main driver for increased compliance risk? It appears that it is about more than stakeholder expectations alone, with respondents believing that compliance can create positive conditions for businesses to thrive through increased competitive advantage. Our survey found that 43 per cent report compliance exercises as just ‘good business’ practice; 35 per cent see it as the price of doing business and fulfilling legal requirements; and 22 per cent consider its primary function to be the avoidance of litigation (see Diagram 1). Compliance can therefore be seen, by the majority, to be an opportunity as opposed to a chore.

This rather optimistic outlook can be attributed to two factors. First there has been a greater realisation that post-Covid working conditions are likely to change for good but that they require a more stringent compliance framework. This is especially true of the digital aspects of compliance. Research conducted in 2021 by EY, *Compliance Risk Management: Four Key Areas of Opportunity for a Stronger Compliance Program* [sic], emphasises this point.

A further finding is a changed perception from compliance being something that holds businesses back to being something of an enabler. This latter perception has been helped by a greater call for transparency, both from employees, as well as from risk practitioners and other stakeholders. Again, EY identifies risk (and compliance) as one of a number of growth drivers, alongside people, technology, operations, finance and

Diagram 1: Drivers of compliance



transactions. According to EY, good risk management delivers reduced volatility across the business. There is a strong correlation between the maturity of risk management and both top- and bottom-line growth.

The major risks

Having established that there exists a widespread trust in the value of compliance practices, what are the main issues that companies will face in the next five years? We asked respondents to rate the following risks from 1 and 5, where 5 represents ‘higher’ risk, and 1 ‘lower’. Our findings show the following:

Cyber security (see Diagram 2) stands out as the main concern, with 62 per cent of respondents seeing the risk of cyber attack as a high or very high concern. Very few respondents see the issue as a low concern, which

begs the question of what their organisations have in place to address a clearly widespread risk; to recognise the risk is one thing, to mitigate it, another. Interestingly, one major IT company rates the risk as low. This may be down to their confidence in their security and back-up, but equally could be down to complacency. It is also worth taking into account that the recent wave of cyber attacks in the wake of the invasion of Ukraine may have escalated worries in this arena. Whatever the reason, the figures tell us that cyber risk is the issue keeping most of our respondents awake at night.

Supply chain disruption (see Diagram 3) Given the effects of the pandemic and, to some extent, Brexit, it is not surprising that supply chain disruption appears high on the list of concerns. The pandemic still seems to be rattling the supply chain and we will explore the measures taken to mitigate this risk later, but strangely, the impacts of the Covid-19 pandemic seem more troubling than the event itself. Nonetheless, shortages of parts and equipment have had a significant impact on thinking. One might expect the results to be skewed towards finance-based companies as having lower concerns, but this does not appear to be the case.

Talent acquisition (see Diagram 4) is the next most identified issue. This could be down to the dwindling workforce post-pandemic, but that only as a partial driver; we think that it is down to a tsunami of potential issues. At this point it is speculation,

Diagram 2: Cyber security



On a scale of 1-5, what degree of risk does cyber security present to your organisation over the next five years?

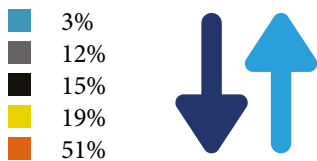


Diagram 3: Supply chain disruption



On a scale of 1-5, what degree of risk does supply chain risk present to your organisation over the next five years?

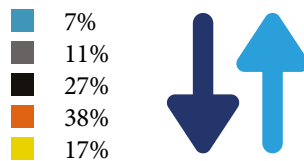
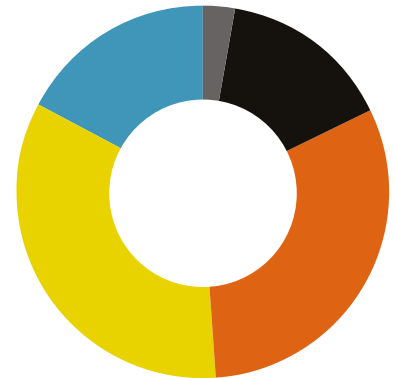
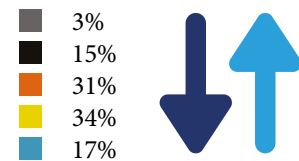


Diagram 4: Talent acquisition



On a scale of 1-5, what degree of risk does talent acquisition present to your organisation over the next five years?



but whilst the 51 per cent rating this as a high risk or above could also be voicing minor concerns over Brexit or the level of retention, the main concern must be the Great Resignation, where employees have left their roles having ‘discovered’ a different lifestyle. *Forbes Magazine* has even flagged this war for talent as a ‘new normal’, and McKinsey notes that past spikes in voluntary attrition often signalled a competition for talent, where “in-demand workers left one job for a similar but better one at another company” but believes that the new wave of attrition is different, with employees operating under extreme circumstances for extended periods choosing “life over work”.

To make matters harder, there is a scarcity of talent in many areas purely because they are new and fast moving. The skills that are demanded today were not all being trained for a decade ago, and again Covid has made a dent in retraining.

Given the market, it is therefore not surprising that the above issues are then compounded by employees becoming choosier about the companies they work for. A DWF survey recently suggested that 40 per cent of companies found it difficult to hire talent due to such issues as a perception of weak ESG policies, and lack of “authenticity”.

Climate change (see Diagram 5) is on every company’s radar, and here 52 per cent showed a higher level of concern. Given the media exposure and potential risks, as recently outlined by the ABI’s *Guide to Action on Nature*, it is a little surprising that it is not a major concern to the majority. This could demonstrate a lack of awareness around the potential climate risk implications within the five-year timeframe. One suspects that if the horizon line was instead a decade, respondents may have rated the risk higher.

Given the knock-on effects on the supply chain, talent acquisition and on political risk, it may seem that half of the respondent companies are taking a somewhat complacent view. Although nearly all major companies have policies on climate; regulation is increasingly far-reaching; and the critical nature of the issue is widely acknowledged, it might be that organisations are simply not factoring in or addressing these issues, despite declaring their significance externally.

Could this be a case of ‘someone else’s problem’? Might it be the case that risk managers are more inclined to see the issue as an external one, rather than one that affects their business, or that they might have some power to avert?

Pandemic (See Diagram 6) This is the surprise one. Given the considerable and widespread impacts of the pandemic, the risk is seen as low. Only 17 per cent see it as a very high

Diagram 5: Climate change



On a scale of 1-5, what degree of risk does climate change present to your organisation over the next five years?

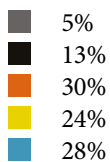


Diagram 6: Pandemic



On a scale of 1-5, what degree of risk does pandemic present to your organisation over the next five years?

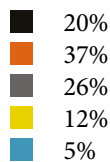
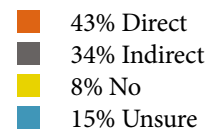


Diagram 7: The voice of risk



Do you have direct access to the C-suite?



or high risk. Possibly because it is seen as a once in a lifetime event unlikely to be repeated in the five-year timeframe; possibly because there is little a business can do; possibly because working from home has worked well. That said, it is a real outlier given the impacts of the pandemic on businesses of all kinds.

It might be worth remembering that pandemic risk was on most risk registers, and yet when Covid arrived it was a major impact. Was this because a pandemic was viewed as the blackest of black swans and therefore rated lower, or because avian flu had been a scare that did not materialise in full? Or was it because, after SARS, it was not felt that it would reach Europe?

Are companies sleepwalking into the same dangers again? Or do they really feel better prepared and safer? Insurers too, seem to consider this a 'done deal'; pandemics do not even

From JP Morgan's 12 Tips for Mitigating Cyber Attacks (2022)

1. Update and upgrade software
2. Limit and control account access
3. Enforce signed software execution policies
4. Formalise a disaster recovery plan
5. Actively manage systems and configurations
6. Hunt for network intrusions
7. Leverage hardware security features
8. Segregate networks using application-aware defences
9. Consider using threat reputation services
10. Leverage multifactor authentication
11. Monitor third-party security posture
12. Assume insider threats exist

make Allianz's *Top Risks for UK Businesses in 2023*.

The voice of risk (see Diagram 7) Only half of our respondents have a seat at the C-suite table. It is worth

noting that 15 per cent of respondents are unsure whether they have a direct access to the C-suite, in which case they do not. In fact, the unsure, those without and those with only indirect access, account for over half (57 per cent) of the sample. If indeed the role of risk is becoming vital, that will need to change; if a company has no CRO in place, and voice directly at table, then companies are gambling their futures given the high levels of risk our survey reveals.

Convincing leadership of the value of risk is a long-running battle, and is one of the most challenging parts of the risk journey. A successful business case will go beyond just pricing risk to one that elevates the conversation to focus on the value, performance, and competitive edge that can be purchased.

Mitigating supply chain disruption (see Diagram 8) Supply chain

disruptions are a major concern, with component availability a main worry along with the increased costs of alternative supply arrangements; procurement arrangements, which rely on short term agreements; and pricing policies and delays all adding to a need to create long-term, secure and reliable supply.

The move to diversification, or intention to do so, and the shortening of supply chains is one reason political risk might have dropped down the list of concerns. Cutting the length of the chain is clearly popular and has not only the advantage of speedier deliveries that are less prone to disruption, but also benefits in terms of ESG (potentially cutting carbon emissions in the whole lifecycle and less likely to suffer from unsafe practices).

Conclusions

Irrespective of sector, the issues facing risk managers in the next five years are universal and although there are differences in priorities and perceived risks, it is clear that the majority are wary of cyber risks, worry over supply chain and are concerned about finding talent in a changed, post-pandemic world.

However, it might be said that all of these are immediate issues and that at least two of these are likely to resolved soon – certainly within five years. Some issues, such as political risk and pandemic are flagged as presenting a curiously low level of risk.

A major take-away of this exercise is that only half of the respondents have a direct voice on the board, and that risk is still seen by many companies as a process rather than an integral part of decision-making, or

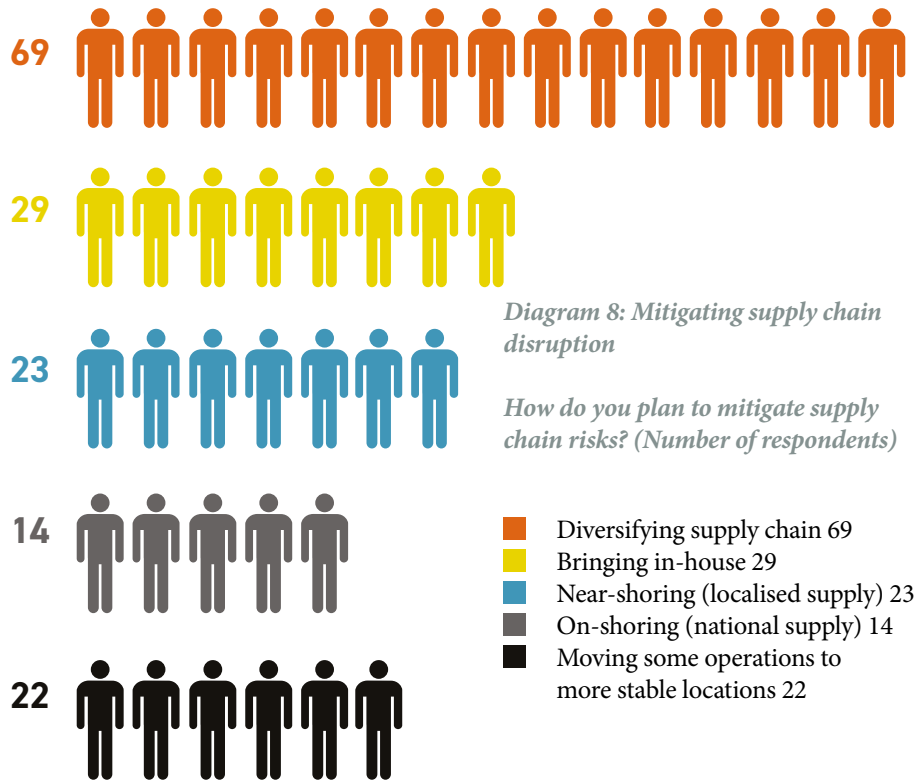


Diagram 8: Mitigating supply chain disruption

How do you plan to mitigate supply chain risks? (Number of respondents)

- Diversifying supply chain 69
- Bringing in-house 29
- Near-shoring (localised supply) 23
- On-shoring (national supply) 14
- Moving some operations to more stable locations 22

part of growth drivers.

Technology can add efficiency, accuracy and speed to the business of managing risk, and organisations that are serious about improving their efforts concerning any form of risk will amplify the power of that technology with the power multiplier of a chief risk officer.

The CRO is the point person in charge of the processes, technology, and structure to tie all the pieces together into a cohesive risk story.

A CRO also has the ability to cut through the red tape and eliminate bottlenecks that often stand in the way of getting the necessary, and reliable risk information on which to base decisions – fast.

Leadership has gained an appreciation for the discipline of

risk management over the recent crisis-filled years – and is slowly welcoming risk representation to the all-important strategy table. A CRO can offer strategic guidance on high-impact risks and how to handle upstream and downstream consequences. Elevating risk to a ‘chief’ role also signals the importance of risk awareness to the organisation’s stakeholders – from potential investors to potential new recruits.

Resilience is about being prepared for future disruptions in any form. Integrated risk management technology can arm you with information to strengthen your resilience to match the speed and scale of current threats. And that intelligence is even more powerful when you give it a voice.

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