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Seventh Risk Manager Survey of Emerging Risks

By Max J. Rudolph

OVER THE PAST YEAR THERE HAS BEEN lots of publicity about cyber security risk. Data breaches and NSA surveillance may be top of mind, but a host of emerging risks show concerning signs and interaction possibilities. In the 7th survey of emerging risks, a group of risk managers shared their thoughts about current and future risks. Trending up are risks surrounding greater regulatory focus and cyber security, with oil price shock trending down as supplies have picked up.



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Emerging risks look across longer time horizons, 10 years or more, and for outliers that would create disruption to business as usual. An earthquake in Los Angeles or a hurricane in Miami could be a horrific event for those living through it, but historical data shows the likelihood of such events to be high when viewed across centuries or millennium. Emerging risks look at events like plague or space weather that tend not to be considered when making business decisions. These risks evolve over many years, so one would expect stability in risks considered.

Over five years have passed since Bear Stearns and Lehman Brothers ceased to be independent. While many risk managers are concerned about the calm in today's markets, the truth is that they have more time to think about risks that might not impact them for 10 years than they did in 2009. This shows up in trend data and the concentration of risk combinations.

In the year since the previous survey, equity markets and oil prices continued their trend upward, while the dollar reversed course and strengthened versus the Euro. Here are the top six responses, when asked for the top five emerging risks (percentages based on number of surveys).

1. Financial volatility (59%)
2. Cyber security/interconnectedness of infrastructure (47%)

3. Blow up in asset prices (30%)
4. Demographic shift (30%)
5. Failed and failing states (29%)
6. Regional instability (29%)

This represents shifting pattern away from geopolitical and economic categories and toward technological, societal and environmental. Here are the top five choices from a year ago.

1. Financial volatility (62%)
2. Regional instability (42%)
3. Cyber security/interconnectedness of infrastructure (40%)
4. Failed and failing states (33%)
5. Chinese economic hard landing (31%)

TOP FIVE

There were some interesting shifts in the 2013 emerging risk results. While the Economic category of risks continues to be the top choice (when up to five emerging risks were selected) ahead of the Geopolitical, Societal, Technological and Environmental categories, its relative importance continues to drop (33% after a peak of 47% in 2009). The risk *Oil price shock* has fallen consistently in this survey (lower for four consecutive years, down from 31% in 2012 to 7% this year) as oil supply improved due to reduced Middle East tensions and new sources coming on-line in North America. Finishing second (with 27%, down from 32%), Geopolitical risks were mostly down. *Transnational crime and corruption* (8% up from 5%) increased but three risks, *Proliferation of weapons of mass destruction (WMD)* (5% down from 14%), *Failed and failing states* (29% down from 33%) and *Regional stability* (29% down from 42%) all decreased at least 4%. The last two listed remain in the top five choices overall. Other risks with new highs across the survey history were *Natural catastrophes: Severe weather* (11%), *Liability regimes/regulatory frameworks* (23% up from 8%) and *Cyber security/interconnectedness of infrastructure* (47%, second overall). New lows were recorded by risks *Oil price shock* (7%), *Chinese economic hard landing* (28%), *Financial volatility* (59%) and *Proliferation of weapons of mass destruction* (5%).

“What will come next? What emerging risks will we deal with next year, five years from now, or 20 years from now? How will they interact with other risks and events? How will you prepare?”

Cyber security has been a risk of growing importance, trending up from 21% in 2009 to this year’s survey where 47% listed it among their top five emerging risks. With the revelations of the National Security Agency (NSA) surveillance program and retail store Target’s breach of confidential credit card information, this heightened awareness has been justified and provided warning of the need for awareness and mitigation of this risk. Prior survey analysis has focused on anchoring, where respondents get pulled toward recent events. This year results do not confirm these tendencies, and the cyber security results point toward a predictive quality of the survey.

As this report was written in early 2014, extreme weather had impacted the United States and the United Kingdom has experienced torrential rains. China had been damaged by an earthquake and Australia by wildfires. The financial world was deleveraging and unwinding the central bank taper. Regional tensions were relatively tame as Russia hosted the Winter Olympics and cyber hacking had become routine. Then came the Ukrainian geopolitical situation. What will come next? What emerging risks will we deal with next year, five years from now, or 20 years from now? How will they interact with other risks and events? How will you prepare?

All articles and research reports can be found at:

<http://www.soa.org/Research/Research-Projects/Risk-Management/research-emerging-risks-survey-reports.aspx>

Emerging Risks by Category
(up to 5 risks chosen per survey)

