



Article from

Risk Management

April 2016

Issue 35

Eighth Annual Emerging Risk Survey

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Risk management practices continue to evolve as new techniques become available and new regulations are enacted. Some feel a new asset bubble may have formed, with leading indicators such as margin debt matching pre-crisis highs. Non-economic emerging risks dominated the news in 2014 as Geopolitical risks were driven by Russia's involvement in the former Soviet states of Crimea and Ukraine, and an Ebola outbreak in West Africa reminded us how destructive infectious diseases can be to economic growth. Cyberrisk continues to evolve in new and scary ways, with companies and governments fighting a losing battle to stay ahead of hackers. This year's Survey of Emerging Risks, the eighth, captures this shift. Geopolitical and technological emerging risks have increased, taking share from economic risks.

Rapidly changing regulations and cyberrisk are replacing economic risks as risk managers prioritize their efforts. Trends across surveys reveal awareness by risk managers of emerging risks prior to their mainstream acceptance, showing some predictive qualities as risks increase or decrease in ranking.

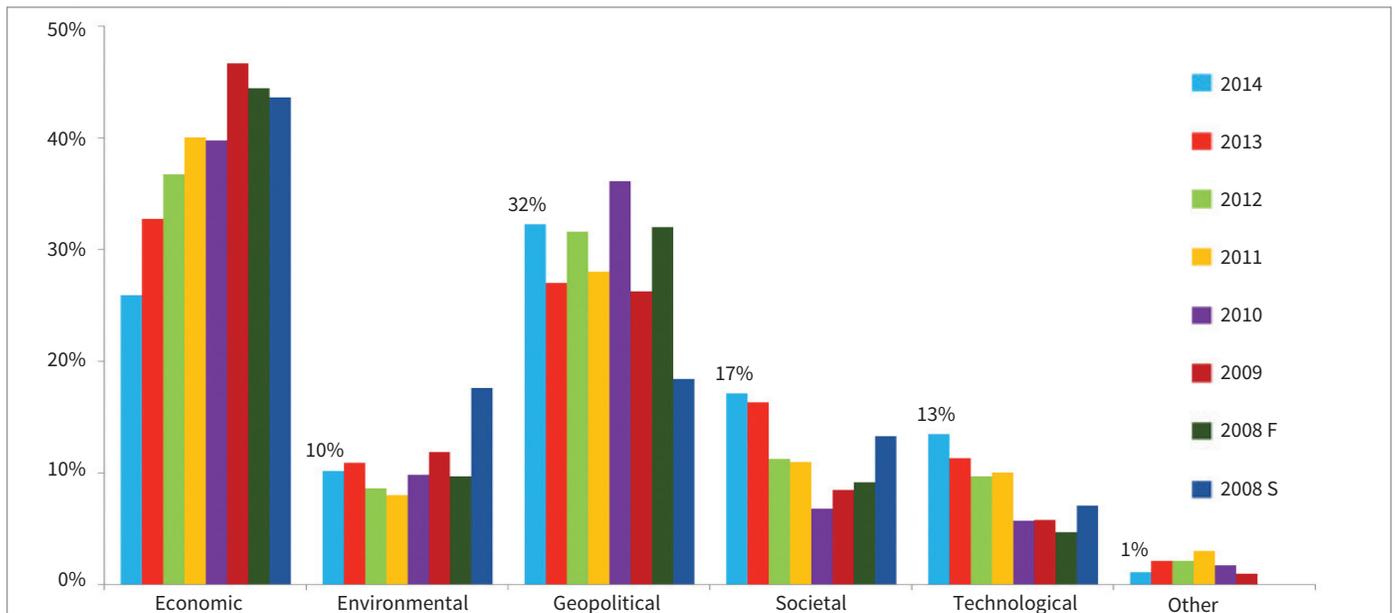
In late 2014 geopolitical and technological headlines anchored results, with *cybersecurity/interconnectedness of infrastructure edging out financial volatility* as the top emerging risk. Risk managers were also worried about topics like ISIS, Russia/Ukraine, asset bubbles and regulatory burdens.

What will become of coastal regions with growing populations as changing climate results in rising sea levels and higher frequency of extreme weather events? The aging demographics of the developed world have major implications for maintenance of infrastructure. How will we react to these types of questions?

TOP FIVE EMERGING RISKS

Each time this survey is completed (spring 2008, fall 2008, then annually) there are nuanced shifts in sentiment, sometimes due to recent events and sometimes due to the evolving experience of the respondents. The economic category of risks ceded ground to both geopolitical and technological risks (when up to five emerging risks were selected), falling to a low of 26 percent. The societal (up slightly to a new high) and environmental (down slightly) categories both recorded double-digit results. Finishing first overall (32 percent), five of the seven geopolitical risks increased. Top choices (all in the top 10) in the category were *international terrorism* (41 percent up from 27 percent), *regional instability* (37 percent up from 29 percent) and *failed and failing states* (28 percent down from 29 percent). Risks with new highs across the survey history were *interstate and civil wars* (19 percent) and *cybersecurity/interconnectedness of infrastructure* (58 percent, overall leader with increasing results for the sixth consecutive year). New lows were recorded by risks *currency trend* (7 percent), *Chinese economic hard landing* (27 percent), *financial volatility* (44 percent), *retrenchment from globalization* (8 percent), and *demographic shift* (23 percent).

Figure 1
Emerging Risks by Category (up to five risks chosen per survey)



Cybersecurity has completed its move to the top of the list of emerging risks, trending up from 21 percent in 2009 to this year's survey where 58 percent listed it among their top five emerging risks. Even five years ago the risk was receiving attention, and every year it has reached a new high point.

The evolution of the top four risks chosen provides evidence that trends can be relied on in this survey. The general continuity between survey iterations is very reassuring. The emergence of risks like *cybersecurity/interconnectedness of infrastructure* (3, 3, 2 and 1 in the past four years) shows how concerns are evolving away from the economic category. In the most recent survey, in the economic category only *financial volatility* made the top four after having two risks in the top five in each of the previous three surveys.

Year	2011	2012	2013	2014
1	Financial volatility	Financial volatility	Financial volatility	Cybersecurity / interconnectedness of infrastructure
2	Failed and failing states	Regional instability	Cybersecurity / interconnectedness of infrastructure	Financial volatility
3	Cybersecurity / interconnectedness of infrastructure	Cybersecurity / interconnectedness of infrastructure	Blow up in asset prices	International terrorism
4	Chinese economic hard landing	Failed and failing states	Demographic shift	Regional instability

These results have evolved over time by risk, with some increasing consistently (*international terrorism—risk no. 11, cybersecurity/interconnectedness of infrastructure—risk no. 22*) and others consistently dropping (*energy price shock—risk no. 1, currency trend—risk no. 2*).



LOOKING AHEAD

2015 was the world's warmest year on record. We continue to get regular reports of extreme climate—strong storms in Australia, drought in California, Arctic and Antarctic ice melts, hurricane like storms occurring more frequently than ever. The financial world balances between a future where central banks lead rates up and one where deflation and recession become common. Regional tensions are growing, due in part to oil prices at recent lows. Cyberrisk is regularly in the news, with health insurers joining the growing club of those breached. 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 can you prepare? The answers will lead to opportunities for some. Will it be you? ■



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