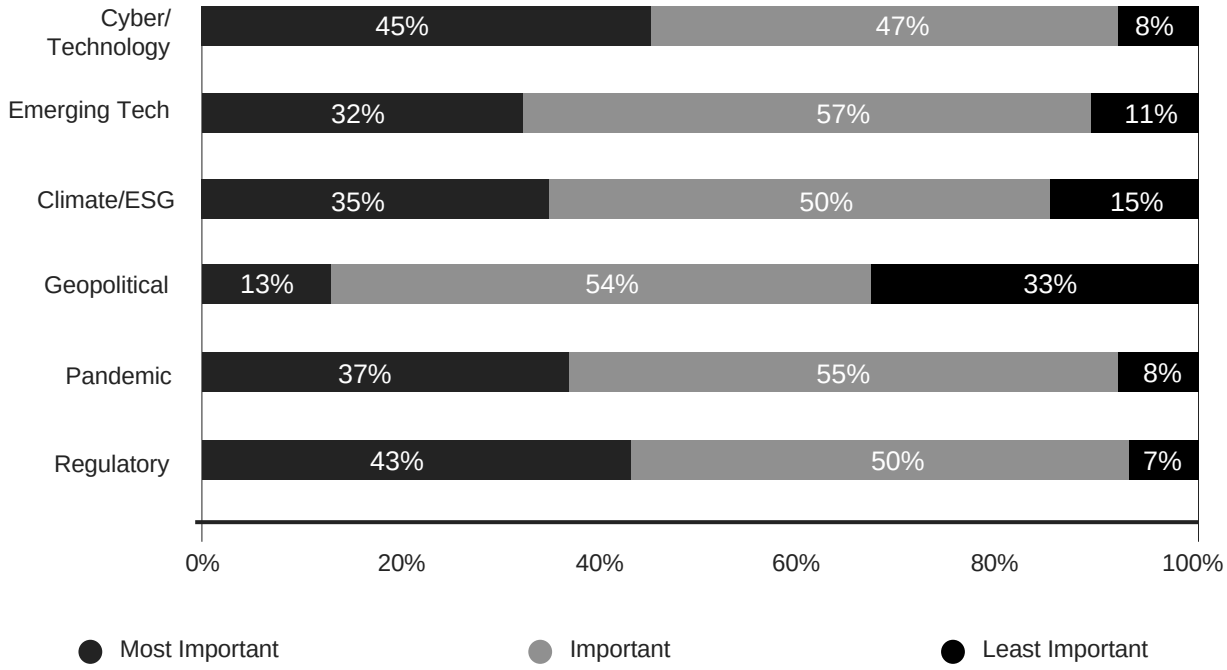
Risk Resilience Report

ys to Building a More
silient Business: Anticipation,
recasting, and Agility

May 2021

01| There is broad agreement on the importance of various emerging risks.



Looking at current and emerging risks, one thing is clear: Organizations must be resilient. More than ever, resilience is crucial to organizations' ability to compete and achieve strategic growth. It should be at the top of every organization's agenda.

Why is resilience needed now? There was a time when risk was largely viewed as involving factors that impaired or destroyed value, primarily tangible assets. Today, the risk landscape has shifted. Tangible assets still matter greatly, but most businesses must also protect intangible ones — data, intellectual property, brand, reputation, relationships, and others — from which they derive much of their value. In 1975, intangible assets accounted for 17% of the total among S&P 500 companies; by 2020, that had grown to 90%. [1]

Risk is now seen as an opportunity for organizations to achieve competitive advantages. This shift in mindset requires an expansive, forward-thinking view of risk management and resilience.

Organizational resilience encompasses more than business continuity planning and the capacity to absorb negative events. Beyond the ability to recover quickly from and respond to events, resilience enables organizations to both foresee upcoming threats and capitalize on opportunities.

A risk resilient organization is able to minimize losses and quickly resume business as usual following an event — and more. A risk resilient organization has a strategic competitive advantage over less-prepared peers because it
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Resilience is essential to an organization's future.

Marsh Risk Resilience Diagnostic

To support companies in evaluating and strengthening their resilience, Marsh developed the Risk Resilience Diagnostic. It began with a hypothesis: The impact of risk events during 2020 was heightened because many organizations failed to see their vulnerabilities. We surveyed nearly 1,000 organizations, representing more than three dozen industries across nine regions, ranging in size from less than US$500 million in annualized revenue to more than US$10 billion.

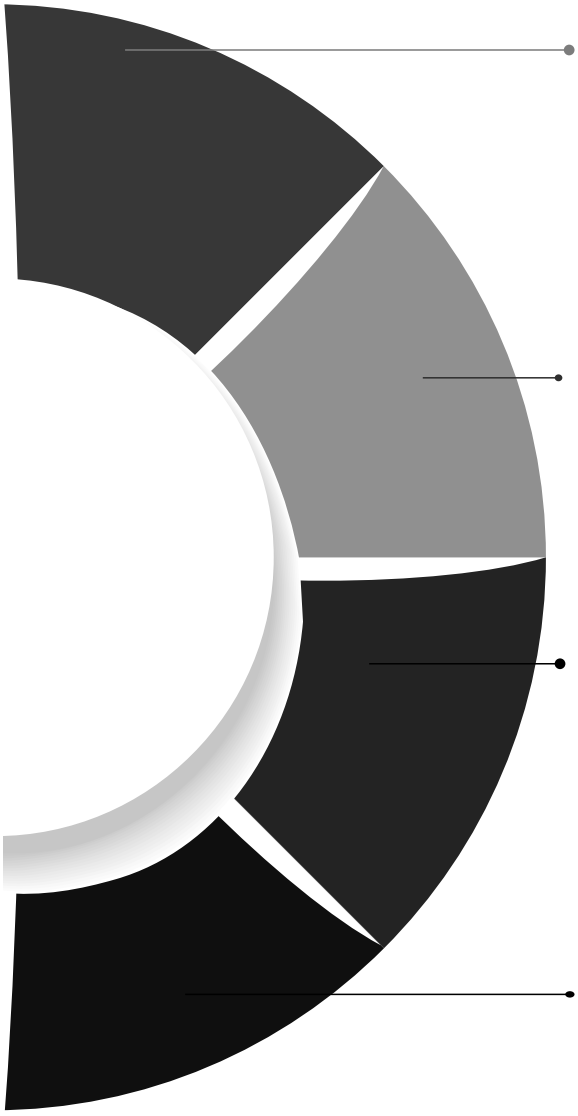
Assessing potential exposures across their complete value chain, the Risk Resilience Diagnostic helps organizations

8

COVID-19: ONE OF MANY PANDEMICS

The COVID-19 pandemic offers valuable lessons on risk and resilience. The pandemic revealed fault lines within many organizations, and degrees of systemic risk that few organizations previously considered. A lack of business continuity planning, the breakdown of supply chains, and overall stresses on business operations have brought to the forefront the need to reimagine approaches to managing enterprise risk.

The human tragedy of COVID-19 is still playing out, with more than 3 million deaths reported to date, a number that continues to rise. Historical data show that COVID-19 is not a unique occurrence. Illness, death, and economic loss come with pandemics, which arise relatively frequently. Since



Suez Canal closure

On March 23, 2021, a grounded container ship blocked marine traffic for a week in the Suez Canal, the fastest shipping route between Europe and Asia, transporting 2% of global trade volume daily. [2] The event disrupted supply chains and delayed the delivery of raw materials to production sites and finished goods to market. The event came at a time when ports and terminals were already experiencing large delays.

Texas power outages

In February 2021, extreme weather caused massive power outages in Texas, leaving nearly 5 million customers without electricity. [3] The event disrupted businesses and individuals, prompting legislators to introduce bills that would require power companies to prepare plants for extreme weather.

Internet of Things growth

By 2027, there could be more than 41 billion IoT devices in use, affecting nearly every aspect of business life. [4] And each device is a potential target for a cyber-attack. Because many IoT devices lack strong security features, they can create a gateway for hackers — posing a liability threat and creating other risks for their designers, manufacturers, and users.

Increased country economic risk

In 2020-21, COVID-19 amplified geopolitical and economic challenges globally. The increase in country economic risk is felt in such areas as sovereign credit risk, currency risk, commercial risk, and a broader rise in social inequality.

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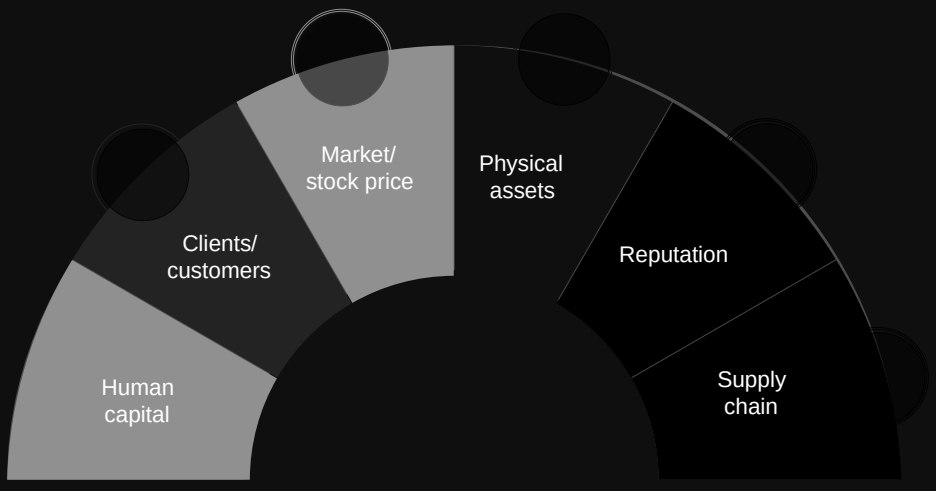
Risk Impacts on Core Business Areas

The Risk Resilience Diagnostic analyzed six emerging risks in relation to the impacts they have on organizations' core business areas:



1. CYBER/TECHNOLOGY

Cyber threats are pervasive and accelerating, costing global businesses billions every year and creating exposures across almost every aspect of an organization’s value chain. For example, the average business interruption outage from a ransomware attack now exceeds 20 days, with demands for more than $1 million common. Despite the resources organizations are committing to cyber risk, gaps remain in understanding preparedness. Technical measures and
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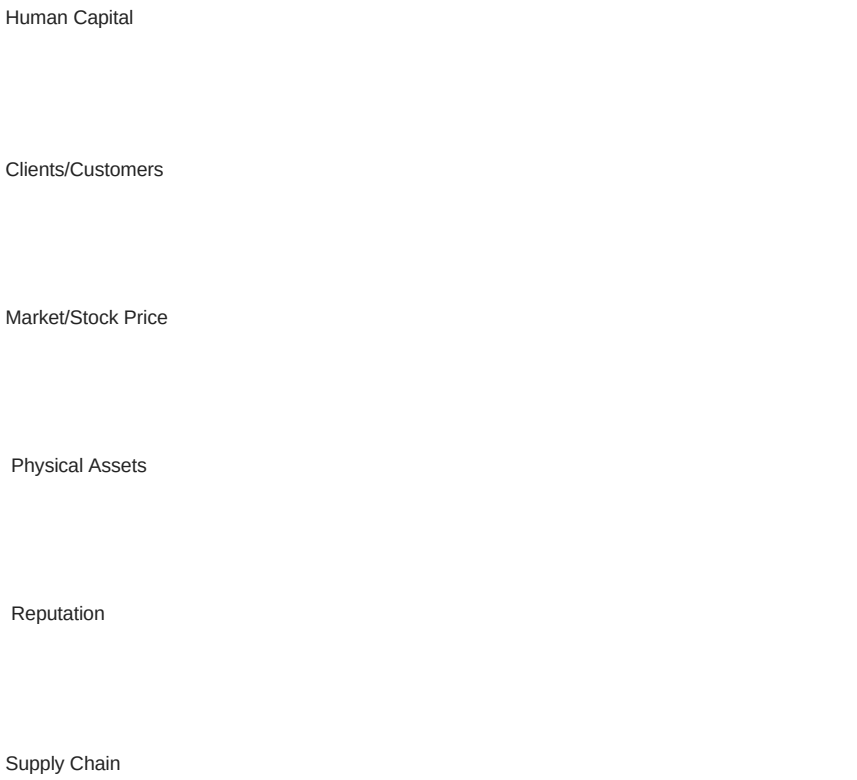
03| Impact on Core Business Areas: Cyber/Technology

Clients/customers and reputation are viewed most often as being impacted by cyber/technology risk.*



*Percentages denote core business areas most likely “impacted” and/or “highly impacted” by emerging risk.

OBSERVATIONS FROM SURVEY RESPONSES

Clients/customers is the core area most commonly cited by survey respondents as being highly impacted by emerging technologies risk (see Figure 4).

More than 80% of organizations surveyed indicate they are prepared or highly prepared for risks from emerging technologies. Yet more than 30% say they are challenged to identify, respond to, and implement changes based on emerging technologies.

81%

Despite the pervasiveness of technology change and adaptation, 81% of respondents only partially measure, or do 9:?:80,>@=0¯:?30:;:?09?4,7: 9,9.4,7:=4>6±:

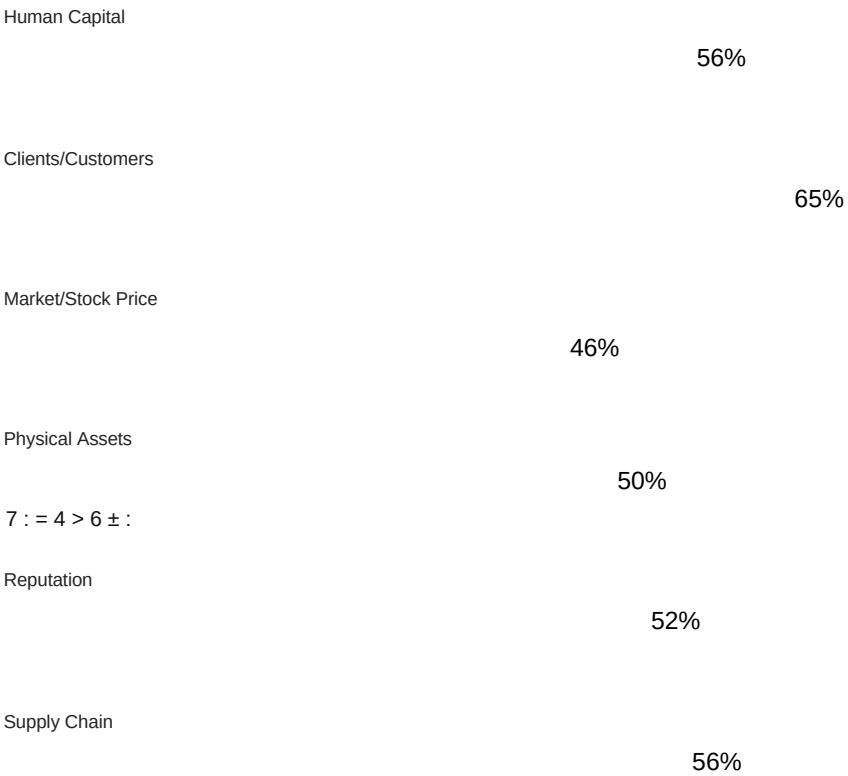
The responsibility for managing the risk of new technologies is often distributed across multiple functions in the organization.

2. EMERGING TECHNOLOGIES

80=2492:?0.39:7:240>:Î:49.7@/492:,=?4 .4,7:49?07742 09.0¯ ,9/: 9?0=90?::1:#3492>:« :#¬:Î:=0 0.?:?30:,..070=,?492:/424 businesses. While most organizations believe they are effectively identifying these risks, nearly as many are measuring the potential impacts of these risks only somewhat or not at all. While most organizations struggle to identify and map emerging technology risk, these technologies will cause immense shifts in the cyber-attack surface, organizational liability, and supply chain risk.

04| Impact on Core Business Areas: Emerging Technologies

Clients/customers is the area most often seen as being highly impacted by emerging technologies risk.*



*Percentages denote core business areas most likely “impacted” and/or “highly impacted” by emerging risk.

3.

Climate/ESG issues pose important questions for all organizations. Today, climate sits at the forefront of the environmental agenda, while other issues such as water use, pollution, and stewardship of natural resources present rising environmental concerns. Globally, regulators, investors, and governments are increasingly expecting — and demanding — action and transparency across climate/ESG, on issues including diversity, equity, and inclusion; workforce and product safety; the role and makeup of boards; and executive compensation.

05| Impact on Core Business Areas: Climate/ESG

Clients/customers is the area most often seen as being highly impacted by climate/ESG risk.*

*Percentages denote core business areas most likely “impacted” and/or “highly impacted” by emerging risk.

OBSERVATIONS FROM SURVEY RESPONSES

Clients/customers and supply chain are the core areas most commonly cited by survey respondents as being highly impacted by geopolitical risk (see Figure 6).

40%

40% of organizations with revenue of more than US$10 billion actively monitor geopolitical exposures, compared to 16% : 1 : = 8 > : B 4 ? 3 : = 0 A 0 9 @ 0 : @ 9 / 0 = : $ " ´³ : - 4 7 7 4 : 9 ±

60%

Nearly 60% of companies believe geopolitical risk impacts or highly impacts their clients/customers and supply chain.

40%

Almost 40% have either an ineffective or no process to identify and respond to geopolitical trends.

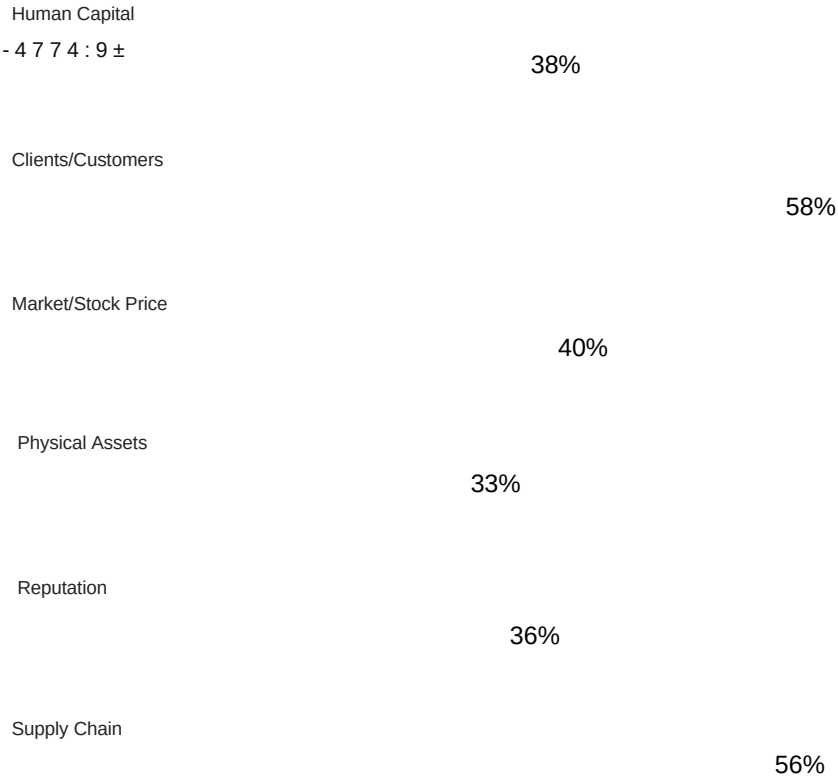
Many respondents say that it is not an important risk, yet subsequently indicate that geopolitical forces hold potentially > 4 2 9 4 . , 9 ? : - @ > 4 9 0 > > : 4 8 ; , . ? ± :

4. GEOPOLITICAL

Geopolitical risk areas are perhaps the least appreciated by survey respondents. When they are considered, supply chains are the primary focus. Geopolitical forces — including fallout from COVID-19 travel restrictions, trade disputes, and regional political violence events — are underappreciated, especially considering they will only increase in complexity for the foreseeable future. The interconnected nature of risk means that whether or not there is a direct relationship to business impacts, geopolitical forces act as an accelerant to other events, including trade/tariffs, security, climate, and cyber events.

06| Impact on Core Business Areas: Geopolitical

Clients/customers and supply chain are the areas most often seen as being highly impacted by geopolitical risk.*



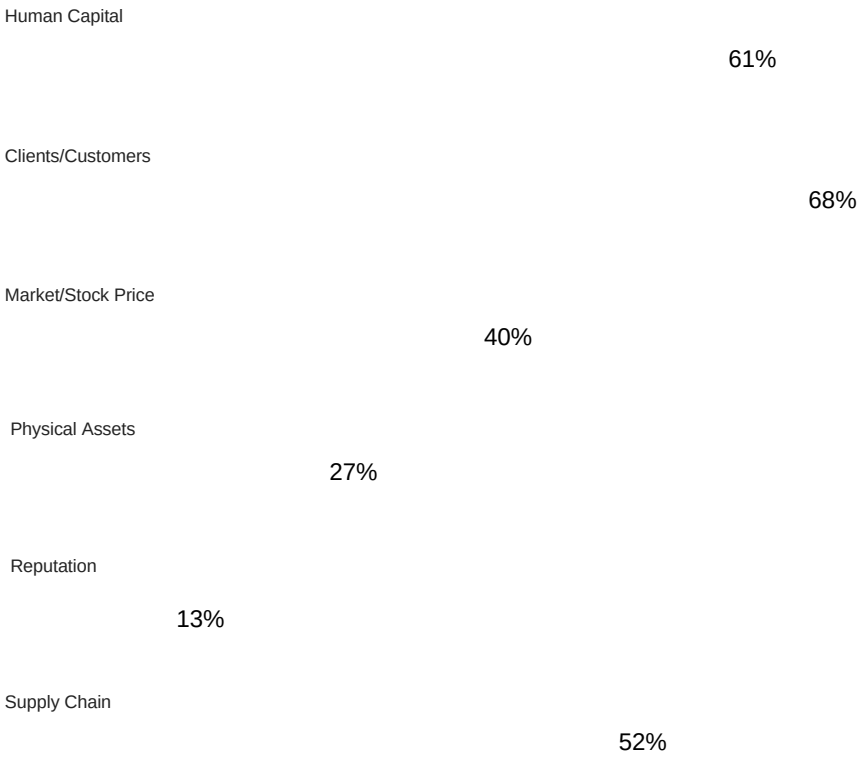
*Percentages denote core business areas most likely “impacted” and/or “highly impacted” by emerging risk.

5. PANDEMIC

As COVID-19 vaccination efforts are underway, organizations are looking to understand and apply lessons learned regarding how to manage future pandemics. Among the six risks we looked at, pandemic has the highest percentage of respondents conducting scenario-based modeling — 46% of companies overall. Organizations should challenge what they have learned from the pandemic to avoid embracing the wrong conclusions.

07| Impact on Core Business Areas: Pandemic

Clients/customers is the area most often seen as being highly impacted by pandemic risk.*



*Percentages denote core business areas most likely “impacted” and/or “highly impacted” by emerging risk.

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OBSERVATIONS FROM SURVEY RESPONSES

Clients/customers and supply chain are the core areas most commonly cited by survey respondents as being highly impacted by regulatory risk (see Figure 8).

While 10% of respondents say they are not well prepared for regulatory risks, 73% say they only partially measure regulatory risks — or not at all. This indicates a > 4 2 9 4 . , 9 ? : / 4 > . : 9 9 0 . ? : 4 9 : : = 2 , 9 4 E , ? 4 : 9 , 7 : perception around regulatory risks.

19%

Only 19% say they have a very effective process for evaluating changing insurance requirements based on the evolving regulatory environment.

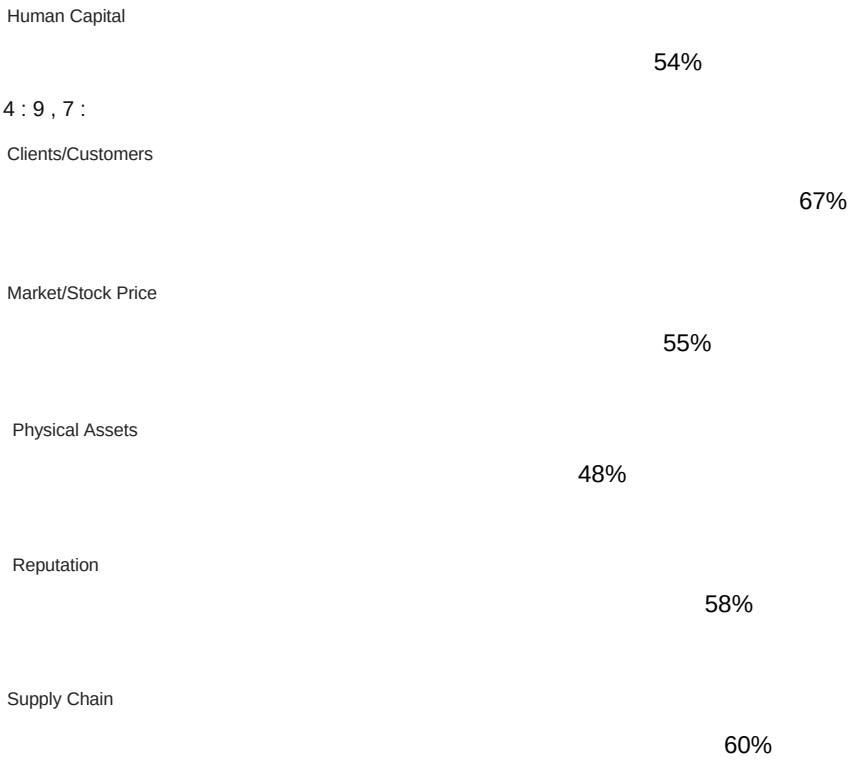
Only 32% are comprehensively evaluating D&O coverage requirements in light of emerging regulatory/legal changes, and 16% have no evaluation in place.

6. REGULATORY

The regulatory environment is constantly changing, particularly for companies operating in multiple countries. From tax codes to data privacy regulations to environmental standards to workforce issues and more, regulatory compliance is complex, and connects to many other risks. For example, the increasing disclosure requirements around climate/ESG are likely to complicate issues ranging from reputational risk to D&O exposures.

08| Impact on Core Business Areas: Regulatory

Clients/customers and supply chain are most often seen as being impacted by regulatory risk.*



*Percentages denote core business areas most likely “impacted” and/or “highly impacted” by emerging risk.

The Journey to Resilience

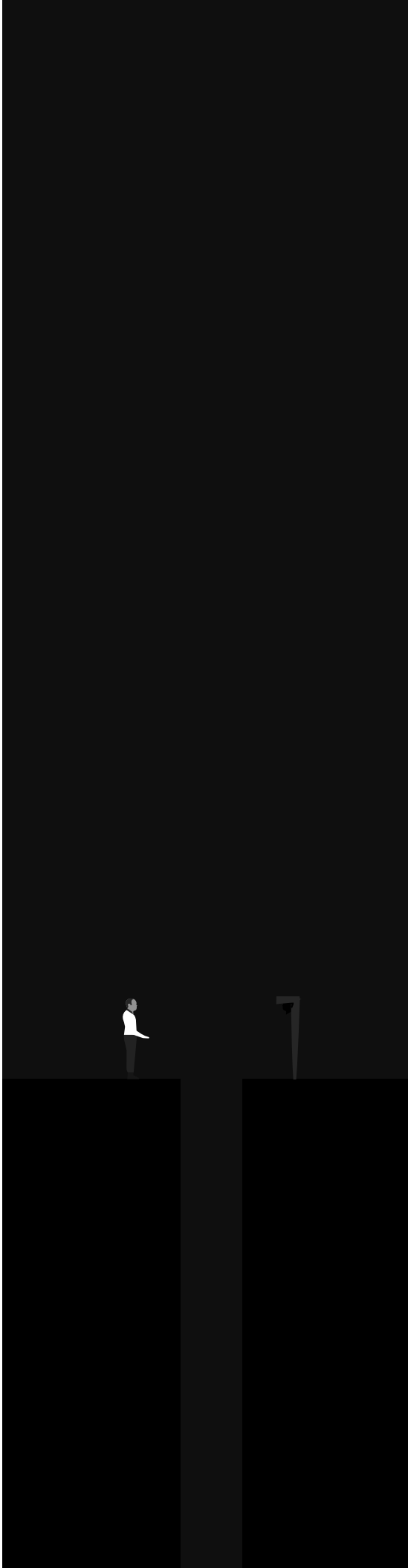
Given the ever-changing nature of emerging risks, it’s not a surprise that resilient organizations tend to outperform their peers. There is a direct correlation between resilience and viability, growth, and competitiveness.

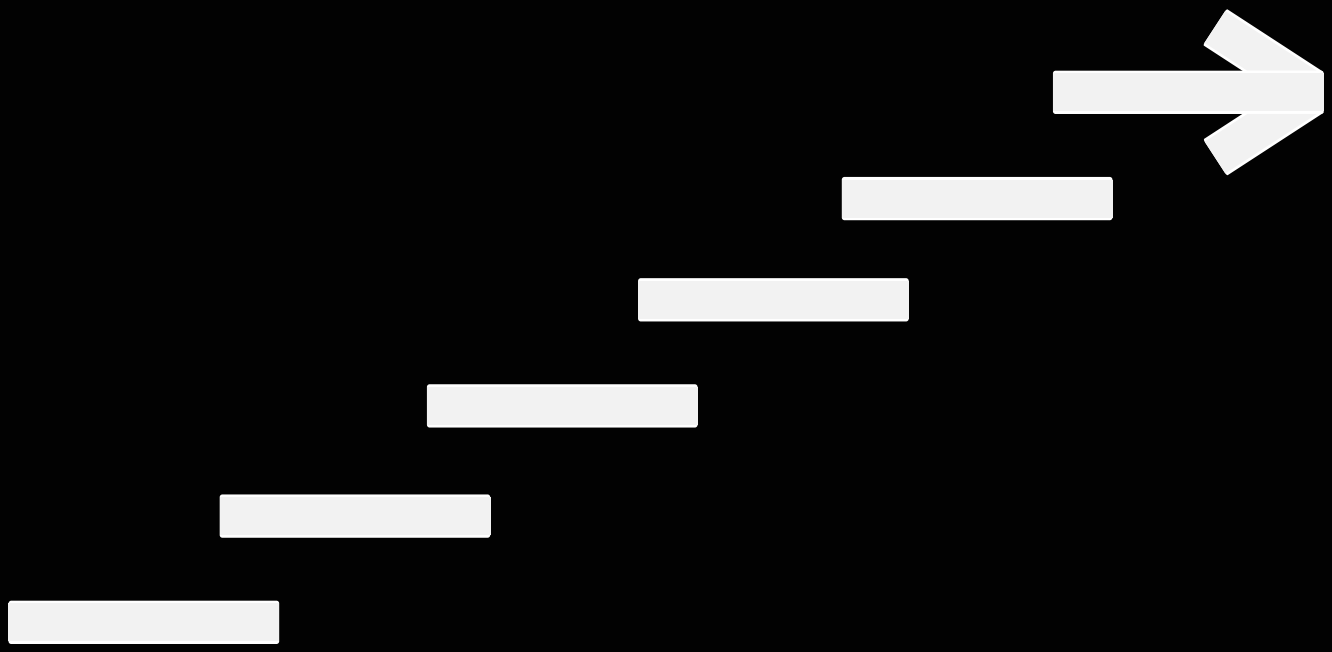
The ability to anticipate risks means to expect the unexpected. It involves more than just having a crisis management plan in place — it means looking farther and deeper.

During the pandemic, even organizations with robust business continuity plans struggled because they failed to fully anticipate the extent of its impacts. Across

Another critical step toward resilience is to ensure that risk management is fully integrated with the organization’s operations and strategy.

When organizations do not anticipate risks or align them with strategies, they





Culture of Anticipation and Collaboration

9 ? 4 . 4 ; , ? 4 : 9 ¯ : ? 3 0 : = > ? : > ? 0 ; : ? : B , = / : = 0 > 4 7 4 0 9 1 : 0 ¯ : 4 => 2 , 0 9 4 , E 7 0 4 / : 9 D , 9 ? 4 . 4 ; , ? 0 > : = 4 > 6 > ¯ : , : > 4 2 9 4 . , 9 ? collaboration across the enterprise. Without collaboration, organizational silos develop, often resulting in a failure to identify exposures.

Our survey found that, on an aggregated basis:

- 24% of respondents anticipate emerging risk categories with a comprehensive and/or formal process.
- 52% are somewhat or partially anticipating emerging risks, but not in a comprehensive fashion.
- 19% do not have any process for anticipating emerging risks.

Because organizations cannot anticipate everything, they should prioritize risk categories based on factors including their risk , ; ; 0 ? 4 ? 0 ¯ : = 0 > : @ = . 4 9 2 : . : 9 > ? = , 4 9 ? > ¯ : , 9 / : : ; 0 = , ? 4 9 2 : ; = : 7 0 ± : 8 0 ; > @ = 0 : , 9 / : 8 : / 0 7 : ? 3 0 : 9 , 9 . 4 , 7 : 4 8 ; , . ? > : : 1 : . = 4 ? 4 . , doing so in a forward-looking manner that connects the risk with our growth strategy?

As risks grow increasingly interconnected, an organization's ability to anticipate one category may relate to its anticipation of another. Therefore, risk evaluation and treatment can — and should — operate across categories and organizational stakeholders.

It's important to recognize that resilience should be viewed through an enterprise lens. In resilient organizations:

- Senior leaders are responsible for driving risk management strategies and resilience work to achieve a common goal.
- Coordination to align on risks occurs across risk functions, through either a formal risk committee or an ad hoc group. Risk committees — with representation from business units and risk-adjacent teams, such as safety and compliance — help ensure input from a diverse range of stakeholders, including those most in tune with everyday operational risks.
- Alignment of risk evaluation to corporate strategy happens over a multiyear period, which helps drive a culture in which resiliency is embedded in business planning.

Modeling/Forecasting

resilience is to apply modeling and forecasting to assess their potential impact.

A well-known military axiom is that generals often prepare to 2 3 ? : ? 3 0 : 7 , > ? : B , = ¯ : = , ? 3 0 = : ? 3 , 9 : ; 7 , 9 9 4 9 2 : 1 : = : ? 3 0 : 9 / D 9 , 8 4 . : 8 , D : - 0 : ; 7 , D 4 9 2 : : @ ? : 4 9 : . : = ; : = , ? 0 : : 2 . 0 > : , 9 / : - today around the COVID-19 pandemic. Senior leaders need to - 0 : . , = 0 1 @ 7 : ? : : 9 : ? : 1 : . @ > : ? : : : 8 @ . 3 : : 9 : > ; 0 . 4 . : . 3 , 7 7 0 past year as they look for lessons. They should consider how the issues from this event can inform responses to future threats — including some that may look nothing like a pandemic.

It's important to engage in scenario planning to understand emerging threats, and to incorporate data and analytics. Organizations should ask: Are we doing enough to stress test,

Our survey found:

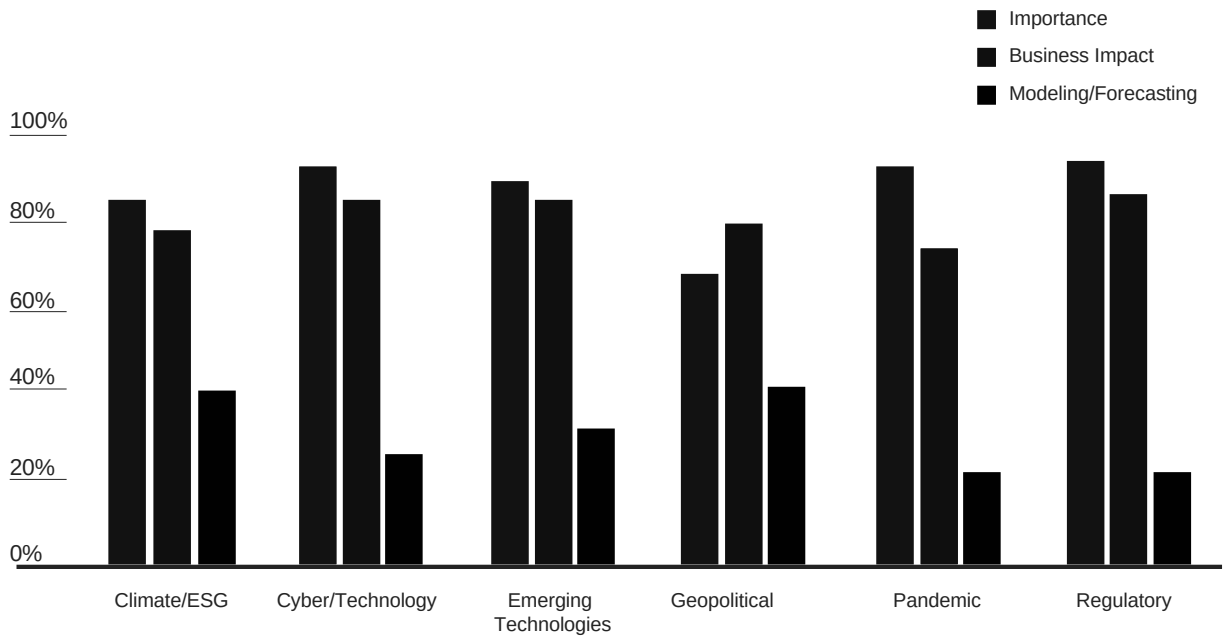
- 25% of respondents use scenario-based modeling across their enterprise or comprehensively.
- 45% use scenario-based modeling somewhat, on selected exposures, or in a limited way.
- 30% do not use scenario-based modeling on risk exposures.

: / 0 7 4 9 2 ² 1 : = 0 . , > ? 4 9 2 : 4 > : , : ; 0 = 4 7 ° > ; 0 . 4 . : , . ? 4 A 4 ? D would be expected to perform modeling/forecasting commensurate with the risks they see as the highest in importance. However, survey results showed that is not always the case.

Survey results indicate misalignment between respondents' focus on forecasting a given risk and the business impact of that risk (see Figure 12). For example:

- 93% of respondents consider regulatory risks to be important or highly important, and 86% indicate this risk has high to mild impact on their core business areas. Yet 71% of respondents are only somewhat forecasting regulatory risks — or not at all.
- Despite an increasing focus on climate/ESG, ¾ ¾ of respondents noted that they are only somewhat or not modeling for this risk, with only 16% modeling it comprehensively.
- ¾ ¿ rate emerging technologies risk as important or highly important, and 85% say it has a high to mild impact, yet 81% conduct only some or do no modeling of this important category.

12| Perceived importance of risk does not always align with the



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