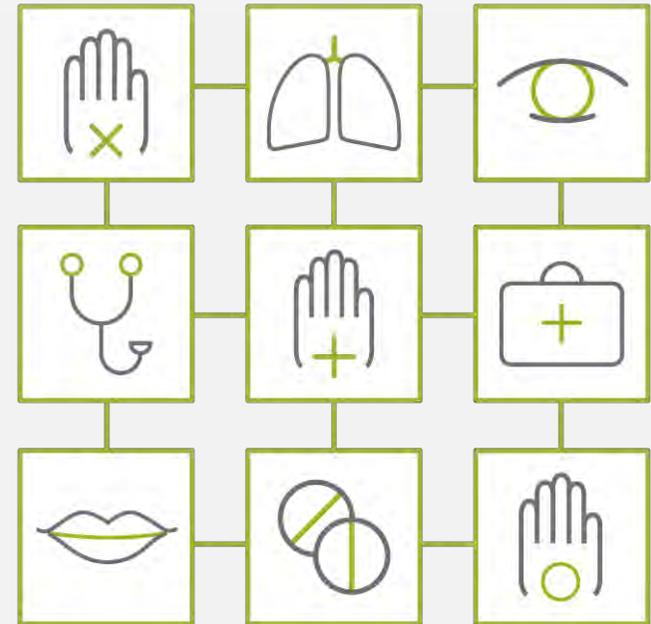


FIGHT OR FLIGHT

BLACK SWANS IN THE RISK ZOO

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Prior to joining JLT he was the Risk Manager at the United Nations Population Fund (UNFPA) based in New York. Whilst there, he managed the organization's ERM, BCM & Fraud Risk programmes.



Craig Paterson
Practice Leader

Specialist Knowledge

- ERM
- BCM
- Product Recall
- Project Risk

Black Swan theory is a **metaphor** that describes an event that comes as a surprise, has a major effect, and is often inappropriately rationalized after the fact with the benefit of hindsight.

Developed by Nassim Nicholas Taleb to explain:

- Disproportionate role of high-profile, hard-to-predict, and rare events that are beyond the realm of normal expectations in history, science, finance, and technology.
- Non-computability of the probability of the consequential rare events using scientific methods (owing to the very nature of small probabilities).
- Psychological biases that blind people, both individually & collectively, to uncertainty and to a rare event's massive role in historical affairs.

A **Zoo** is an establishment which **maintains a collection of wild animals**, typically in a park or gardens, for study, conservation, or display to the public.

Alternatively, a **situation characterized by confusion and disorder**.

Risk Zoo is therefore a metaphor that describes:

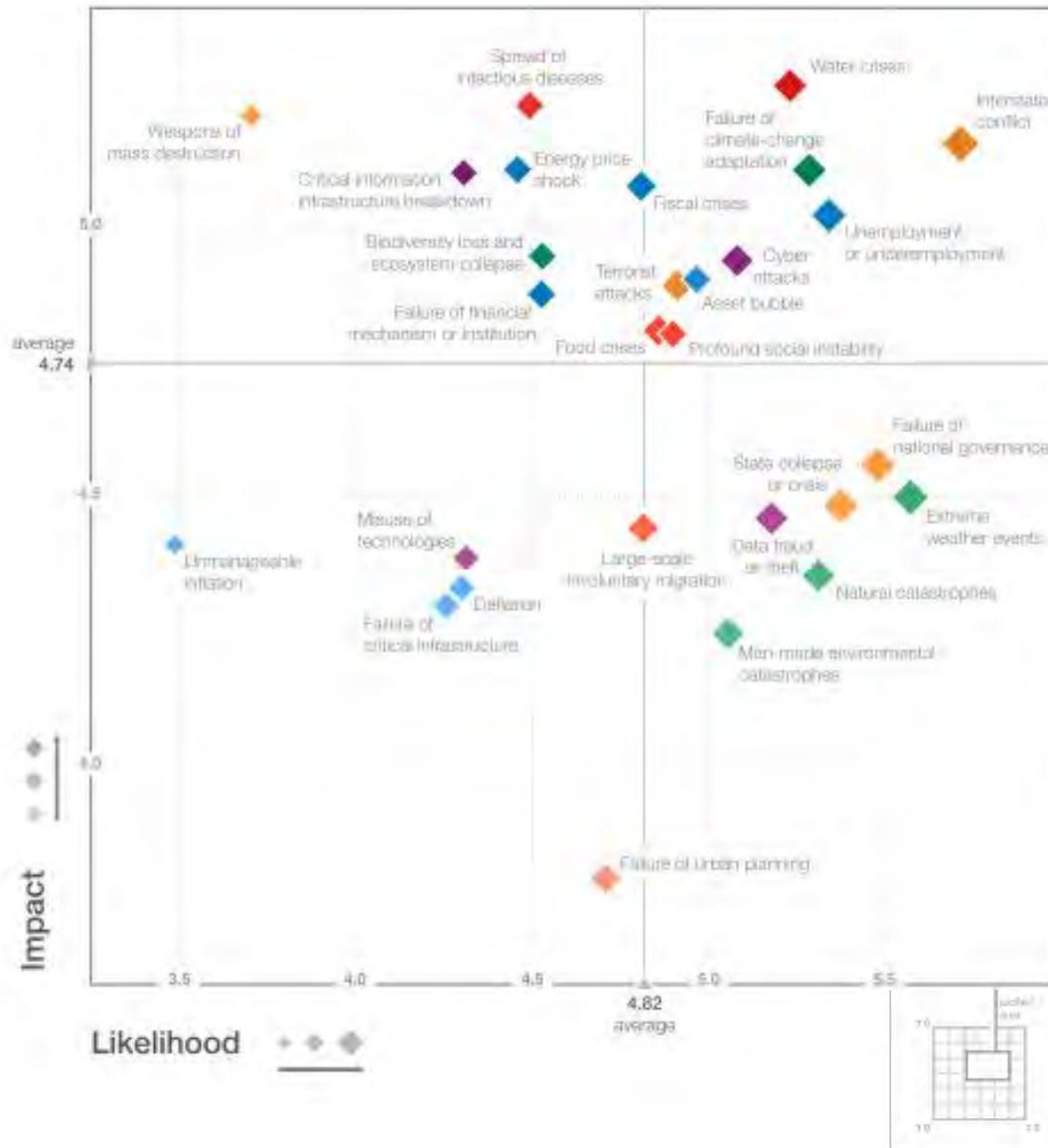
- The excessive proliferation of risks and the inability to differentiate between what is important and what is not
- The continued growth of risks to the extent the list has become almost unimaginable
- The potential for risks to morph as they interact into new and even more diverse and potentially unmanageable outcomes

ACCESS TO RISK INFORMATION



WE KNOW WHAT WE KNOW (1)

Information is available. The WEF report annually highlights global risks.



- Top 10 risks in terms of Likelihood
- 1 Interstate conflict
 - 2 Extreme weather events
 - 3 Failure of national governance
 - 4 State collapse or crisis
 - 5 Unemployment or underemployment
 - 6 Natural catastrophes
 - 7 Failure of climate-change adaptation
 - 8 Water crisis
 - 9 Data fraud or theft
 - 10 Cyberattacks

- Top 10 risks in terms of Impact
- 1 Water crisis
 - 2 Spread of infectious diseases
 - 3 Weapons of mass destruction
 - 4 Interstate conflict
 - 5 Failure of climate-change adaptation
 - 6 Energy price shock
 - 7 Critical information infrastructure breakdown
 - 8 Food crisis
 - 9 Unemployment or underemployment
 - 10 Biodiversity loss and ecosystem collapse

- Categories
- 1 Economic
 - 2 Environmental
 - 3 Geopolitical
 - 4 Technological
 - 5 Societal

WE KNOW WHAT WE KNOW (2)



WEF highlights a number of “big Ticket” risks consistently.

Considerable supporting information is available on these risks.

The inter-connectivity of these risks is a key output of the report

Risk	2011	2012	2013	2014	2015
Economic Risks					
Extreme Energy Price Volatility	Red	Red	Red	White	Red
Failure of Financial Mechanism / Institution	White	White	White	Red	Yellow
Fiscal Crisis / Chronic Financial Imbalances	Red	Red	Red	Red	Red
Liquidity / Credit Crunch	Yellow	Red	Yellow	Yellow	Yellow
Geopolitical Risks					
Diplomatic Failures / Political & Social Instability	White	Yellow	Red	Red	Yellow
Fragile States / State Collapse	Yellow	Yellow	Yellow	Yellow	Yellow
Global Governance Failures	Red	Red	Red	White	Yellow
Terrorism	Yellow	Red	White	Yellow	Red
Weapons of Mass Destruction	Yellow	Red	Red	Yellow	Red
Environmental Risks					
Biodiversity Loss / Species Overexploitation	Red	Yellow	Yellow	Red	Red
Climate Change Adaption Failure	Red	Red	Red	Red	Red
Extreme Weather / Natural Catastrophes	White	Yellow	Yellow	Yellow	Yellow
Societal Risks					
Antibiotic resistant bacteria	White	Yellow	Yellow	Yellow	White
Chronic Diseases	Red	Yellow	Yellow	Yellow	White
Food Security / Shortages	Yellow	Red	Red	Yellow	Yellow
Infectious Diseases / Pandemics	Yellow	Yellow	Yellow	Yellow	Red
Unemployment / Underemployment	White	White	White	Red	Red
Water Security / supply crisis	Red	Red	Red	Red	Red
Technological Risks					
Critical Information Infrastructure Breakdown	Yellow	White	White	Red	Red
Cyber attacks	White	Yellow	Yellow	Red	Red

FIGHT OR FLIGHT



Fight-or-flight reaction is the **response** of the sympathetic nervous system to a **stressful event, preparing the body to fight or flee.**

Personal Perspective

Associated with the adrenal secretion of epinephrine and characterized by increased heart rate, increased blood flow to the brain and muscles, raised sugar levels, sweaty palms and soles, dilated pupils, and erect hairs.

Corporate Perspective

Associated with knee-jerk reactions, ad-hoc decision making, personal experience over data analysis, short-term solutions, and inability to see the issue in the larger context.

CONSTRAINTS - PERSONAL



Experience – Your experiences today (and in the past) impact on your ability to understand what the future may look like

Globalization – The changing world makes it more difficult for you as Risk Managers to comprehend risks

Technical Knowledge – Many of the “new” risks faced are in areas where you have limited understanding (e.g. Cyber, Environmental, People)

Capabilities – Understanding these risks and their interconnectivity requires new skill sets – analytics, accounting, modelling, strategic analysis etc.

CONSTRAINTS - CORPORATE



Pace of Change – Many organisations don't understand the changes happening and are afraid of the “unknown”

What If? – Not many companies really focus on this, instead look internally at operational issues and areas of improvement

Pioneering – In a fast changing world many companies are afraid to look to be first, instead willing to be a me-too

Commitment – Risk Management is still a “new” topic here in Asia for many

Experience – Very few companies have suffered major losses

CONSTRAINTS - ENVIRONMENT



Customers – They expect you to understand their concerns and be there for them

Suppliers – They expect you to see the context and how they form part of your corporate vision

Advisers – They expect you to be willing to listen, engage and implement rather than bleed

Regulators – They expect you to understand the environment and adapt to their expectations and needs

Shareholders – They expect the best and will settle for nothing less

WHAT'S NEXT - GRANULAR THINKING (1)



The Risk Manager of today has the opportunity to drive cultural transformation – to engage across the organisation ensure all Risks in the Zoo are managed effectively. **But it requires a considerable mindset change.**

- **Cultivate Networks** - Through these others will listen to the risk story as it relates to them individually
- **Engage & Support** – Understand others needs in relation to risk and focus on addressing their misunderstandings
- **Utilise New Techniques** – Look at how you can develop tools and techniques that link to operational needs rather than corporate needs
- **Learn from Others**- Create structures that allow you to work with the organisation through tapping into its knowledge

WHAT'S NEXT - GRANULAR THINKING (2)



- **Break Silos** – Look to facilitate cross-operations learning to create a more organisational-wide appreciation
- **Access Partnerships** – Look beyond your organisation to access support, knowledge and capabilities
- **Talk to Customers** – Take a customer-centric focus on risk to reflect back your organizations understanding
- **Develop Capabilities** – Understanding and managing risk is not a solo activity; find internal and external talent and cultivate their capabilities
- **Experiment** – Explore different ways to look at risk – don't be afraid of the zoo – the risks are in cages!!

Reframe Your Beliefs

- Yes there are some big and ugly risks out there
- Whilst they are new; they are only new to you
- Take one step at a time
- Look to others to help

Issues to Consider

- Be “bottom-up” not “top-down” in your thinking
- Don’t shoot from the hip – be analytical
- Collaborate, Create, Test then Implement
- Develop general principles
- Don’t copy others

NEXT PRESENTATION:

**DESMOND GAN – ALLIANZ
IDENTIFYING AND TACKLING BIG
EMERGING RISKS**