StrategicRISK
February 05

ROUNDTABLE 2005

EMERGING RISKS

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Emerging risks

An introduction to the StrategicRISK roundtable discussion by **Sue Copeman**

You can plan for the unexpected – even for the most unlikely event, provided it is on your risk radar. But what about those things that you know might cause a loss but whose cause and impact are so far unproven? And what about those risks that you do not yet know about, but which could be lurking on the sidelines?

At this roundtable discussion, risk managers and advisers looked into the crystal ball to define those areas of society, economy, demographics, technological advancement and the world at large where these risks might present themselves. Should you work forward from potential causes or backwards from potential impacts? It was not an easy brief!

Our panel of experts came up with a number of suggestions to protect the organisation against the unknown – and the unknowable. Flexibility in strategic planning and sustainability in development were high on the list. Putting major issues, such as global warming, aside may not be an option for the future. Thinking the unthinkable is a difficult task, but it could make the difference between survival or failure.

Sue Copeman
Editor

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Roundtable participants

Steve Fowler, chief executive, The Institute of Risk Management, chaired the discussion

Alan Burton, BT/group risk management

Gary Marshall, group risk manager, The Polestar Group Ltd

Richard Moor, group risk and insurance manager, RMC Group plc

Hugh Price, partner, director of insurance, Hugh James solicitor

Alan Punter, managing director, chairman's office, Aon Limited

Diane Walker, head of faculty, risk and insurance management, Institute of Financial Services

Michael Walker, director, Currie & Brown

Emerging risks

STEVE FOWLER: Most of us have heard of Donald Rumsfeld's words back in 2002, when he was talking about "known knowns, known unknowns and unknown unknowns". As risk managers, we probably spend the bulk of our time on known knowns – the risks and the consequences that we know about. Today, we have the luxury of spending some time on exploring some of the known unknowns and the unknown unknowns.

Perhaps we ought to start by discussing the known unknowns; the sort of issues that keep us awake at night, whether it be global warming, ageing populations, nano technology, radiation from mobile phones, or anything else that may worry us. What are the ones that are key to our organisations?

MICHAEL WALKER: One of the difficulties is that you don't know what you don't know! In general terms, maybe the only way to counter that is to use the tried and tested methods of risk management, where you have some generic headings, such as political risk, and just brainstorm through them. But if you don't know what you are going to get hit with, the risk is almost impossible to identify. In the special interest group that the Institute of Risk Managers has been running on this subject, one of the points identified was that the things that really seem to have most impact are the things you hadn't thought about. They are the things that you need to try and minimise in some way. There are no answers there, I'm afraid, just a lot of questions.

HUGH PRICE: I find it interesting how the law has adapted itself to these different emerging risks. It is remarkable to think that stress only emerged as a potential kind of claim in the last 10 years. We all accept it as an area of concern now. The law does have a remarkable ability to adopt and adapt. It was only in 1932 that the concept of negligence first reared its head. Prior to that you had to have a contractual relationship. I will be intrigued to see how the law will have to move itself in line with what is reasonable, and what steps people should have taken to anticipate these particular risks.

ALAN BURTON: If we are thinking about totally unknown unknowns, then probably all you can do is develop good responses for when they happen. There is actually a lot that can be done in that area, with exercises and games, and of course there are companies that will take you through real-time scenarios on a minute by minute basis. We certainly think that this sort of planning, whereby you have the right people and know where they are at the right time to be in position and be able to react and take decisions is very important.

RICHARD MOOR: We can take a step back from this and say that the way you look at your strategic pattern and the resource that you have in your business for research and development mean that you are actually looking at future developments in the market. People are generally trying to second guess the future a little bit. The response issue is one part of it but when you look at your strategic response to these things, it is how you market and develop. We've seen certain things like the advance of digital technology, the way the travel market has changed for example, the sheer pace of change in this market. To try and anticipate exactly how things will develop is difficult, but I think a lot of corporations now are looking at how their own markets and sectors will develop and looking at the research and development.

STEVE FOWLER: I was reading a book called 'Inevitable Surprises' by Peter Schwartz, who used to work with the US government and he made the point, an outrageous statement, that there have been few surprises in the last five years that were not predicted beforehand. Just one example of this is that the US government actually had the Hart-Rudman commission looking into the potential terrorist attacks in the US, and that commission had given a severe warning that it was highly likely there was going to be an attack using civilian aircraft on buildings, and that the World Trade Center was a major target. This was flagged to the highest levels in the US government, but one can only assume that the findings seemed to be so outrageous and out of step with what was happening at the time that they were ignored.

RICHARD MOOR: If you actually scope potential disaster scenarios, the boundaries are almost infinite, aren't they? To some extent, if you are looking at the way you are managing the business you are always going to have to look at things like your portfolio spread. For example, if you have 90% of your business in Japan and a Tokyo earthquake is about 50 years overdue, you should be looking at that. I know that is specific, but in a general sense you have got to profile your business in terms of where its key areas are, whether there is any imbalance between revenue and profit and how you can spread that, because you are never going to be able to second-guess every event.

ALAN PUNTER: Going back to the World Trade Center event, I thought one of the main conclusions of the 9/11 commission was that the main failure was one of imagination and that they hadn't thought the unthinkable. Now it sounds as if it was more a failure of communication.

MICHAEL WALKER: So you are saying that to think the unthinkable should be part of our regime of risk identification? I would agree with that.

GARY MARSHALL: I would say that part of the problem we have in the risk management community is that we do not do enough thinking. We do plenty of acting and reacting and sometimes we exercise ourselves to some extent, but there is a lot of good work done by academics and others that lead you into areas, but not much is done about it. There was a very interesting debate, probably about 15 years ago now, about the interaction between rich and poor and where it would lead us. To some extent we see it happening now, with all kinds of tensions as people try to move themselves from one group into another – towards rich and away from poor. But at the time there wasn't much said, beyond the first academic view, about what impacts it might have on what areas. I think we are very poor at collectively bringing ourselves together and looking to see where the risk comes from and the interactions that may come out of it.

ALAN PUNTER: I think the risks are not just the unknown unknowns. The greatest risk is not the knowing; it is knowing and not doing. Allianz produced a report with a table in it on early warnings and late interventions, and one example was asbestos. The first UK reports of health problems among industrial workers were in 1898; there was scientific evidence in 1930 that 66% of asbestos cases worked in one factory, and finally, in 1998, one century later, we get some EU intervention – so early warnings and late interventions.

STEVE FOWLER: The biggest example of that now is global warming. There are lots of people warning about what may happen and yet everyone is carrying on just as they were. There was a programme on the television recently which highlighted the fact that in India, for example, everyone wants motor cars, and as a poor country they are not going to spend the money on LPG type things, but are just going to go for the cheapest technology. If they all have a motor car, the impact that will have on global warming is horrific. It certainly opened my eyes to the potential that might be there that nearly every major city in India will go under water. I think there is a tendency with global warming to argue too much about the causes of global warming rather than the impact.

RICHARD MOOR: The imperative for most businesses is short term financial performance.

ALAN PUNTER: The distinction that might be worth drawing out in emerging risks is essentially between the short tail and long tail or property and casualty. I think most of the risks on the property side, such as global warming, are essentially trends and they can be anticipated. You don't quite get the quantum changes because they are trends. The more dangerous areas tend to be the liabilities, primarily because they are latent and by the time they become tangible it is already a big problem. It is very difficult to forecast them and, more importantly, it is very difficult to anticipate them. With most of the emerging property risks, something evolves and you notice it is getting worse, but if you can anticipate it you have got a better chance of financing it, a greater chance of managing it, and a greater chance of transferring it. Liabilities that creep up when you are already a decade or two behind the curve ... that is more serious.

MICHAEL WALKER: I wonder if that is going to be true. If you think of global warming, the sea is gradually going to rise, therefore Calcutta will gradually be submerged and therefore there will be time to move all these millions and millions of inhabitants somewhere else. The picture painted by the TV programme was that suddenly these inhabitants would all rush off somewhere and try and set up home in someone else's country which people would not want. I was reading an article about unpredictable weather events which suggested there might be step changes rather than just a gradual process. There might be some enormous problem, like the Boscastle floods for instance. It doesn't happen gradually; the weather kicks in some way and you get a storm that completely destroys an area of country, leaving the remainder untouched. I am not sure you can say it will be gradual.

ALAN PUNTER: Well it can go in multiples. Hurricane Andrew was in the order of four times more expensive that the previous largest hurricane Hugo in 1989. But the final quarter of last year was probably the worst quarter

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for natural catastrophes that we have ever had, with the four US/Caribbean hurricanes, a series of typhoons in Japan and the great tragedy of the Indian Ocean tsunami, all adding up to probably in excess of $30bn of insured costs. The insurance industry has absorbed and coped with that. What it has had difficulty with are the long lingering things like asbestos.

STEVE FOWLER: Just thinking on the asbestosis problem, I wonder whether the art is deciding and knowing who to listen to rather than just listening to everybody. If you turn on the TV, somewhere there will be a programme about climate change or an impending disaster in some part of the world. Part of it is deciding what messages we listen to and act on and which ones we ignore. If we listen to all of this we won't do anything.

RICHARD MOOR: We are talking about insurable risk. In the music business right now you might be more concerned that downloading of music from the net has now overtaken CD sales. If you had missed the boat there, you would be much more concerned about that and the effects on your business than you would be about the risks of global warming. This to me is what we as risk managers are always trying to refocus people on. Clearly the people at the top of your business are focused on delivering results; they are looking at long term strategy, but a lot of their focus is inevitably going to be on short term performance and market issues and the issues that really affect a company's business.

STEVE FOWLER: Let's explore that issue.

GARY MARSHALL: The internet and the way that it has altered people's patterns of consumption has come through in the figures from the high street retailers in the last few days. One assumes that some of the lack of sales on the high street is due to internet sales, which have zoomed up. Also there are a lot of expectations with the internet, and if those are not being met the internet may not be quite the saviour of businesses that they think it is. In fact one might be starting to store up all sorts of problems. People often tick a box on the internet to accept pages and pages of terms and conditions. Who is vetting all that to make sure that it absolutely hits the nail on the head when you have got millions of customers all over the world who are looking at your products, looking at your service, or looking at the way in which you are communicating? What happens if one day you get it wrong, or the products are wrong, or you are selling a third party product which you think is relatively safe in its context but it isn't? I don't think we have even started to touch on and explore those sorts of areas.

RICHARD MOOR: That is a good example of an area where perhaps people in the business will be concentrating on the sales imperative or whatever. It is a question of focus, and of trying to get people to concentrate on those sorts of issues when you are in that position, because the immediate challenges to your people may not be the longer term challenges you are trying to highlight.

HUGH PRICE: Another interesting thing about the internet is of course its international dimension. A site may provide a contract with three or four pages of terms and conditions, but once you get into the international arena, some of those terms and conditions may not be enforceable. These are issues that those companies that trade on the internet need to be alive to and aware of the potential problems that they can create.

STEVE FOWLER: It's a matter of not being fazed by technology but asking the same questions of any company that you trade with over the internet that you would ask if you were trading with them face to face.

ALAN BURTON: It is very difficult. 'Buy one, get one free' is reportedly an illegal practice in some countries. But if you put something like this on the internet – buy one, get one free – anyone can look at it anywhere in the world. I don't know how you get round it.

HUGH PRICE: It is the impossibility of policing it. You are right, I don't think the law has quite caught up yet with issues that the internet has produced. And this is an area of risk for firms trading on the internet.

STEVE FOWLER: I think we have all been conscious that there have been issues with internet banking. I wonder whether you might want to say something about that, Diane.

DIANE WALKER: It seems to me that we are acknowledging that there are many risks that are actually identified, but that we don't do anything about. Where risks are identified that appear to affect us in the short term, particularly those that affect the bottom line in the here and now, resources tend to be allocated to deal with them. What is it going to take for us, as a global community, to grasp the terrible nettle of handling risks that may not actually affect us but will affect our grandchildren? Maybe that sounds an old fashioned view, but we are often driven by the here and now. Who is going to say, 'OK, look after the here and now, but we do also have to manage the risks for the future'? One hundred years from now, someone will be saying 'these risks were identified in the year 2000 and no-one did anything'. I am not cynical, but I wonder whether early warning and late intervention is a human disease – maybe it is the nature of human beings. Maybe we seriously need to think about hearts and minds here.

ALAN PUNTER: It may not be human nature; it may be compounded by commercial considerations. As risk managers know, it is very difficult to prove the cost effectiveness of many risk prevention tools and techniques over the next one, two or three year time span. You would never put a sprinkler system in a factory on a one year basis, you have to take a much longer view of the cost benefit analysis to make those sorts of investments worthwhile.

STEVE FOWLER: I think we need to get the point across that a sustainable business is a good business. I don't know whether anyone else picked up on some work that the Institute of Business Ethics did two years ago. They looked at 100 different organisations from the UK and the US 100 years ago and they looked at what had happened to those organisations and mapped that against whether those organisations had a socially responsible policy in place as far as they could tell. That research tended to show that those organisations that had taken a more sustainable approach to their business were still in business now, whereas those who had taken the quick buck approach went out of business after a fairly short time. It is a shame that work didn't get a greater profile, because potentially that was addressing the question 'why should I spend money on making my business sustainable rather than making a massive profit today?'.

ALAN BURTON: Shareholder value derives from future cash flows, and those future cash flows extend for a very long time, but the further out they are the less the impact is. Our role as risk managers is one we have been practising for many years – to evaluate and prioritise and try and get things on the agenda of the board. We need to put just as much emphasis on the longer term, probably more emphasis, because if it is going to happen next year they are going to take note. If it is going to happen three years out you have got to have a stronger case; it is as simple as that. We need to evaluate, quantify, prioritise, all the traditional risk management approaches – starting of course with thinking. Perhaps we don't do enough thinking?

DIANE WALKER: There are particularly important issues that come out of what you have just said. A lot of it is to do with language. By saying, 'The further out they are the less impact there is' – how are we defining impact? In essence what we are doing is defining impact as being more important in the short term. My question is, what is it going to take for us to recognise that long-term impact is as important, if not more so, if a business is to be sustainable? We have to think of the longer term. When it comes to long term sustainable businesses I would be interested to know how much adverse impact they might have been having globally that we are not taking account of. They may still be in business but what are the impacts? It is an issue of how we are defining what is impact, and how are we defining what is an emerging risk.

STEVE FOWLER: We tend to think about impact being threat not opportunity. Maybe there is a role for risk managers here in terms of environment scanning: identifying the potential risks that are going to impact organisations or society at some future stage, and looking at how organisations can change in order to capitalise on them.

ALAN BURTON: I do not entirely agree that the use of the word impact just implies short term. I think you can identify a long term future risk and if it has a big enough impact and a big enough probability even many years out, you will be able to get it on your board's agenda. What I was saying is that it is harder to get it on the agenda the further away it is. That is a fact of life.

MICHAEL WALKER: Is there a social issue here? Going back to the Victorians for example, among wealthy people there were philanthropists, and it was socially acceptable to make your money and then spend it on helping the poor. Yet no one could pretend that the Victorian commercial model was anything other than exploitative of people. We pride ourselves that in the 21st century we do things differently, but I think society has broken up to a certain extent – it is almost everyone for himself. Maybe it needs to be society that creates the environment for people to take these things on board.

It is very difficult to prove the cost effectiveness of many risk prevention tools

Alan Punter

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GARY MARSHALL: If you look at what goes into risk management culture, it is societal risk. For example, we have spent a number of years, in fact decades, getting to the stage where society has identified smoking, both in terms of generating fumes from open fireplaces and in respect of individuals smoking in public places as unacceptable. But interestingly it has only been within the last five years that we have started to see society identify eating various types of foods and more recently drinking alcohol as big societal issues which need to be tackled. If these are issues in which you have a stake as a provider of a service or product, you need to understand that societal direction because it could affect your business very significantly. If you take the example of McDonald's and their various societal issues, they have been reinventing themselves very fast, because they have probably been wisely counselled that they could not just go on in the way they were. Societal risk is going to become more of a driver in the future. Large groups of people worldwide will rise up against certain issues and will set the policy.

ALAN BURTON: One of the major risks that companies have, or should have, on their risk register is inability to react to changes in the marketplace. Markets are changing so quickly, worldwide regulations can make competitors who react more quickly than you more efficient. If you don't react quickly to changes in society and to economic situations, there is an enormous risk.

There are the mega risks which nobody really owns

Richard Moor

ALAN PUNTER: Yes, that has come out in our risk surveys every two years. In 1997, the main risks were fire and property damage. Those have slid down the list. By 1999, the main risk was business interruption, by 2001 it was loss of reputation, in 2003 joint were business interruption and failure to change, with physical damage down to joint tenth. All the ones in between are either liability type risk, product liability, general liability, or things like loss of reputation. An area that we haven't mentioned has come way up the list. In third and fourth positions are employee risks – employee accidents and employee retention. Quite quickly, over a period of five or six years, there has been a turnaround in focus from physical assets to intangible assets – what generates value and where the risks have most impact.

ALAN BURTON: Certainly, we rate employee risks highly, but not in the old fashioned sense of employer's liability and accidents. Yes, we have a very tight approach to accidents, but it is recruiting and retaining the right people to respond to the ability to change quickly. If you haven't got the right people in place you are not going to be able to change and react to markets.

RICHARD MOOR: But we are going back here to the things that effectively have a commercial imperative. There are other things which Gary identified which are coming out of people's attitudes and general scientific and social research. Then there are the mega risks which nobody really owns, and in a sense they are slightly at odds with the commercial realities we all have to face. Who is driving those? You are into areas of political and social change which are very difficult for commercial organisations to deal with.

ALAN PUNTER: Linking that with what Diane was saying earlier, it is touching on society. Is society ever going to have a debate for instance that says we don't want pharmaceutical companies developing new drugs, because if they don't work we could get a situation like thalidomide, and if they do work society can't afford the health care and pension costs of everyone living longer, so no more new drugs please? Society is never going to make that decision. Either way there is a down side with new drugs.

STEVE FOWLER: I think there is going to be an issue with pharmaceutical companies because one begins to see that health is increasingly not defined just as the absence of disease; it is defined as the state of being well. There is a subtle and important difference between the two.

DIANE WALKER: There is another angle as well, an educational angle. One of the risks that we have identified, and not just in my existing role but in previous roles too, is that there is an increasing trend of employees

being trained into their silos – getting them trained to be really good at what they do and keeping them there. Movement across into other technical areas seems to be happening less than it did before. One of the consequences of this that we are attempting to deal with, is to broaden people's views of the business that they are in, because of the impact, the risk, of people of being absolutely brilliant at what they do technically, but not really fully understanding or even buying into the broader brief of what their organisation does or what the impact of their role is. You get people moving into more senior levels of management and they do not know the business they are in. They are great at what they do but they don't really understand the bigger picture. I am not just talking about strategic thinking, which is a state of mind. In terms of education and training, I think it is vital to make sure there are resources to help and encourage people to expand the way they view the business they are in, the way they view the world they are in.

ALAN PUNTER: That has great resonances within the risk management community in terms of the enterprise risk management that has developed over the last few years. Historically risk was looked at in a very isolated fashion, with the silos usually defined by the availability of insurance products to deal with them. Now there is some joined-up risk thinking, taking a more holistic view of risk. That is what has been emerging in the last decade in risk management. But where does it take risk managers?. Does it take them outside insurance risk into financial risk, operational risk, brand risk and so on?

STEVE FOWLER: I can think of a number of major UK organisations that have got several different risk managers who are reporting through to almost every different area of the business. Each one will claim to be the risk manager for that organisation, but one is running risk financing, one is running occupational safety, one is running business continuity, one may be running strategic risk and so on. It is that interconnectivity, bringing things together, that is lacking.

DIANE WALKER: Going back to the point of early warning late intervention, we are now saying that there is a risk that the larger view is not yet endemic. It needs to happen, and the senior managers that I speak to all agree that it is a state to be desired, and it is still not happening. What is it going to take for hearts and minds to turn, to want this to happen and to make it happen? The pressures are still to get everybody technically proficient, to make sure that the people know how to do the jobs they are in.

STEVE FOWLER: Well I guess if you turn that round, you can argue that there is a great opportunity here for us as risk managers to improve our own status, our worth within our own organisations by doing exactly that thing. How do you do it? It is down to the individual and the individual's organisation. Potentially the best way to do it is by spotting and developing future opportunities rather than simply spotting hazards.

ALAN BURTON: You are absolutely right. There are some great opportunities in this scenario, including the brokers and the insurance companies. One of the good things is that, although there are complaints about the increase in the regulatory burden, things like Turnbull and more recently Sarbanes-Oxley have at least forced boards to take a closer interest in some of these issues. And there

are opportunities for professionals in the field to harmonise the techniques, use some of the insurance techniques on non-insurable risks, use the traditional risk management approaches in new areas. Because it is on the board's agenda now is the time we have got to do it.

ALAN PUNTER: As a cautionary note, there is a danger of growing specialisation and growing complexity. We are now dealing with products and processes that have almost got beyond the understanding of one or a small group of humans. They may be supported by software, but do we know that those two million lines of software code are absolutely correct? They may work most of the time and the processes work as designed but what happens when something goes wrong? The human systems and the support systems and safety systems cannot anticipate every way something can go wrong, and when things go wrong they start compounding and interacting in ways that no-one could ever have imagined. When a disaster starts going wrong, it is not usually a single cause, it is usually multiple causes interacting. The day that there is a small fire is the day you are putting some new software in, the day you forgot to make a back-up and in the end you get the non-recoverable situation. I think the complexity of business life, business environment, products and services together in their own right are an emerging risk.

MICHAEL WALKER: And that is what is driving specialisation. You have to be an expert to understand some of these things.

ALAN PUNTER: But when you are deep down in the silo you don't see the big picture.

MICHAEL WALKER: If you think of the way government or the civil service have traditionally operated, they have generalists and they move people around every six months or years or whatever so that people have a general view of how things work. Can that sort of attitude to life still work under the increasing complexities we are facing?

We rate employee risks highly, but not in the old fashioned sense

Alan Burton

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decision-making. It is a massive benefit, but it is also a weak link that someone should have the ability to create total disruption simply by the way they say, I will do this or I won't do this.

RICHARD MOOR: Here you almost get into the area of risk management as a culture rather than a process. You can have a very robust process, but if the people who are really in the front line – the first point of call with that issue – don't react in the right way, then all of that process is going to be devalued. Yes, it is important to try and model risk and try and second-guess what is coming, but almost as important is the quality of the people you have in the front line, how they are empowered and what their lines of communication are. If there is a situation, can they recognise it? and will they react correctly? If you come to the root cause of a situation, it is often a bad decision, a lack of knowledge – yes, a breakdown of the process, but an awful lot of it is due to people. So I think a great deal of our job is actually getting that culture and thinking process into the organisation, trying to make sure the reporting lines and the controls are there. I think sometimes we over-focus on modelling risk and risk assessment when a lot of the real issues are the people in the front line.

ALAN PUNTER: We have to recognise the limitation of a process or even a risk register. Risk registers are supportive, but they do have limitations and that comes back to the unknown unknowns. If we always work forward from causes, there will always be one we hadn't thought of, and that will be the one that is going to hit us. So we have got to work backwards from the impact. The other endorsement is that there has been a fair amount of research particularly in medicine and aviation where the main cause of accidents has been human failure rather than the systems or bits of metal.

DIANE WALKER: If we are talking about process, modelling risk and things like people being aware of the risk and knowing what to do when they see it happening, in simplistic terms that can be handled with adequate education and training and so on. For me, the bit that is often missing is the human element to do with ownership – if someone doesn't see the risk as their issue, if they see it as someone else's job, if they don't see how actually something 'over there' does affect them as an individual, as part of society, as part of their organisation or whatever. The issue of the ownership of risk is a tremendously important one. How do we engender ownership amongst people? When we as a society own risk, then we will do something about it. If we don't own it we will leave it up to someone else to do something.

STEVE FOWLER: I think financial accountability with people is a great driver.

DIANE WALKER: Yes, if that is one of their key motivations. I know it is a tangible tool, but I would love to be able to find a way of appealing to something even more fundamental than that.

HUGH PRICE: I think that putting it into job descriptions and that sort of thing helps to build ownership into people's work.

DIANE WALKER: Sure, there is an element of compulsion there, but I am talking really about hearts and minds. And there are also some people who on principle break

Do we all feel confident that we always get the right expertise at the table?

Steve Fowler

STEVE FOWLER: Maybe when it comes to identifying risk there is an issue here for us to involve the right people in our organisations. If we accept that we have got to have specialists because of technological development within society at large, bringing the right people to the table to identify the risks and also potentially to start to deal with how we control them has to be a major step forward. Do we all feel confident that we always get all the right expertise at the table?

HUGH PRICE: It seems to me manifestly obvious that if you are going to assess a risk you need to have an expert to help you and advise you. You've got to have specialisation. I would be worried if you brought in a generalist; he is clearly not going to have sufficient knowledge to be able to give the proper advice.

GARY MARSHALL: Leading on from that, we are talking at the end of the day about how we can better evolve a process. This has been partly dealt with through regulatory requirements in the UK, US and other parts of the world, but the issue has been there for 20 odd years. The IRM has been talking for all this time about this whole question of who can bring the process forward. And that process, by its nature, brings in all the people. If you use the simple analogy of a printing press, there are certain things that only the experts who run the press would know. A massive printing press has more component parts than a Boeing 737, so it is not going to be something that you can look at and understand the risk that will flow from it.

Part of the process is to make sure you get a balance between how we understand risk profiles and how we use people because people create all kinds of issues in the process. Their susceptibility to be a silo, their inability to do the thing properly. That is something we looked at earlier on. People were aware of things before the event happened, but did not do anything about it because they made certain decisions. And it was making certain decisions rather than simply saying that they could not do it. The weak link is there. Someone can plug into a computer terminal and affect the whole of people's the rules so job descriptions won't help there.

RICHARD MOOR: It often depends on the people who are leading the business. If risk ownership is implicit in the culture of the business, then it will probably happen. If it isn't, job descriptions are probably going to have limited effect, at best it is going to be patchy. It is both very simple and very difficult, because these people have a lot of important items on their agenda so to change it isn't easy. But the operational people who are running the business are the ones who are going to drive it.

RICHARD MOOR: The key is to produce something that, while it has process, has a visible benefit to the business. If you put anything to your boss he is going to say, what is the cost and what is the benefit? If you don't have some pretty good answers, the business is not going to do it simply for hearts and minds and future of mankind.

DIANE WALKER: Exactly!

RICHARD MOOR: That is the division between the mega risk which is politically and economically beyond the scope of commercial management, and the others.

STEVE FOWLER: In respect of the financial imperative, if someone asks me why they should take the Associateship of the Institute of Risk Management course, the answer I would like to give is because they will be paid more as a qualified individual than as a non-qualified individual.

MICHAEL WALKER: Well it would be the same argument for any activity – pay, flexibility, opportunity, knowledge, recognition. Most people do not just gain knowledge for its own sake. Going back to social responsibility, you really need to be able to impress on an organisation or someone at the top of your organisation that a socially responsible policy is of benefit to the organisation. That is a sort of public opinion thing which is starting to come through. I hope that most of the major corporates now accept that.

STEVE FOWLER: And it has a financial value.

MICHAEL WALKER: You can't perhaps put a financial value on it, but you can't really put a value on advertising either and how much it is worth for an organisation to spend money on advertising. These things are not particularly quantifiable.

ALAN PUNTER: Many of the risks traditionally thought of as emerging, tend to be potential liabilities, and one of the dimensions there is that they are not specific to single firms, industries or even countries. In the case of the recent tsunami, having a warning system is not down to one company or often even one country. It requires some cross-border, cross-company cooperation. Is that going to be an issue in preparing against emerging risks? They are not going to be something you can put on a single person's job description.

MICHAEL WALKER: That really comes under the responsibility of governments.

ALAN PUNTER: But not a single government.

GARY MARSHALL: I wonder whether governments actually don't follow behind something and then act to make things better in the future which is probably where we have got to with the tsunami.

I would like to go back to this idea of where we go in our planning, how we move things forward to a better world of discovery, if I can put it like that, discovery which might be to our benefit and not just to our detriment. It is much easier for a business to operate now on a cost benefit basis. The people that are the major resource of that business, that front it and who are its heart, its mind and its soul, have been squeezed to such an extent that if you have four actions – to plan, to prepare for what you are about to do, to act to do it and to review what you have done afterwards – they haven't got the time. We only have enough people now to act. We have created a society that has no time to think about things deeply, so when we talk about planning, the first thing we have got to do is to have a sensible debate. I wish I knew where the tools were that we could create jointly to give to our managements and say let's do a proper cost benefit analysis. This comes back to the idea that you don't just take the short term view that something that is of benefit has got to happen in the next six months, otherwise it is no good.

RICHARD MOOR: We touched on that earlier when we said that a lot of the strategic planning people do is based around the impact on their markets. If you can produce credible arguments on projected scenarios which could impact the markets you would probably get their ear. If you can't then you probably won't. That is easier said than done. You still have got to overcome the time issue, but a lot of the more successful companies are investing more in looking within their own organisation at trying to second-guess how the markets will develop.

STEVE FOWLER: Instead of the traditional approach to business planning which is to decide what you are going to do, what your vision is and how you are going to get there, you look at alternative scenario planning.

RICHARD MOOR: You are trying to look at product substitution, opportunities, demographic developments, economic developments, all those things. Bigger and

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The issue of the ownership of risk is a tremendously important one

Diane Walker

We have created a society that actually has no time to think about things deeply

Gary Marshall

more enlightened companies can do that. Smaller companies or companies under extreme financial pressure are on the treadmill of short termism.

STEVE FOWLER: We haven't yet touched to any great extent on society change. For example, I read that in the State of California's Berkeley university, 45% of people entering courses last year were of Asian descent, 15% were Hispanic and only 13% were Caucasian. Interestingly, the number of Afro-Caribbean students has declined over the past 10 years from about 7 or 8% 10 years ago to about 2% last year. Taking that trend forward one could argue that if 45% of those entering new courses are of Asian descent, these people will presumably take major roles in society. Will that lead to a change of mindset and values from the traditional white Anglo Saxon model and how do we deal with this issue?

MICHAEL WALKER: What is more of a concern is the reduction in one group. Actually, if you take all the premier universities in the US, Berkeley is taking the largest number of Asian students, but they are all seeing the same trends. And population growth is continuing in Asia although not as fast as it has been. So we are going to see a change in the make-up of society with fewer Caucasians and more people of Asian descent.

RICHARD MOOR: Increasingly, people in business planning are looking at these factors, but then you experience the difficulty of, who can read the future? People are increasingly trying to address this and we get back to the problem of how such changes manifest themselves in reality. If you go back to science fiction novels and movies or statements people have made 20 years ago about how things would be today, you will always find that nobody gets it right.

HUGH PRICE: Is your concern about the economic consequences of the influx of Asian people or the social or religious aspects?

STEVE FOWLER: I guess where I am coming from is that we tend to take a European or US view in terms of what is socially acceptable, what our views as a society are. We need to recognise that those views will change because the make up of the world is changing.

MICHAEL WALKER: So you are saying people's beliefs might affect what they buy and how they act.

ALAN PUNTER: It is actually an economic positive for the US because it is symptomatic of their willingness to allow immigration, which keeps their workforce going whilst Europe is less positive, and that is what is causing our ageing and pension problems.

ALAN BURTON: I was going to make a similar point, but I also think that actually America will cope with the change better than us as they are more used to diversity. At a similar meeting to this in New York you would see a much bigger social and economic diversity.

RICHARD MOOR: Taking the point into an educational environment, we might ask why we are teaching our children French and German. Perhaps we should be teaching them Spanish and Chinese; that is probably how the world is going in terms of linguistics.

STEVE FOWLER: If you take the Chinese for example, most people know that the policy in China for many years has been one child per family with sons being preferred. That has led to a huge imbalance between the male and female population. What is happening in respect of this much higher male population? Many of the men are taking foreign brides who are coming to China from other parts of Asia, but many of them are leaving China to set up shop in businesses all over the world. And that is going to have an impact on the way that we run our organisations here.

MICHAEL WALKER: There is an issue here about improving communications and transport links. In say 300 years maybe the whole world will be Chinese related in some way. If China develops into a major producer, a major first world country, it is difficult to imagine how the world might change. With the increasing speed of transport and transfer of people, we now regularly communicate with, and have people working in, countries that 40 or 50 years ago were just a name, such as Russia or Thailand.

GARY MARSHALL: Still thinking about emerging risks, the fact that you have got this great population of people who have the same ethnicity raises the fundamental issue of genetic makeup and disease. Already we have seen that there are certain illnesses – AIDS and Asian flu for example – which have the potential to have catastrophic effects, but maybe only to certain groupings in certain parts of the world. Do we know what is going to be the earth-shattering risk profile going forward? I don't think we are there yet.

STEVE FOWLER: Do you think we will ever be there?

GARY MARSHALL: We have got the ability as a society in its entirety to be better able to understand what is earth-shattering, but I don't think enough people are taking notice of the people who are prepared to sit down and think about these things.

STEVE FOWLER: So as organisations and individuals what can we do?

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MICHAEL WALKER: It sounds to me like the world needs a risk manager!

HUGH PRICE: The interesting thing about China is that China is importing so much of the world's steel that there is a huge shortage. They are using it in construction of office buildings and factories, so presumably they must be in strategic terms gearing themselves up for an attack, if that is the right word, on the rest of the industrialised world which is rather worrying. Their products are no longer cheap and tacky as they used to be when I was a child. The quality stuff that we have seen in our lifetime coming out of Japan is now being matched by China. There must be serious risks to the economic well-being of the rest of the world.

STEVE FOWLER: As well as the negative side of demographic and society change we also need to keep in mind that there are great potential benefits that can flow from this across our own organisations.

MICHAEL WALKER: Aren't these short-term benefits? Because once China is financially strong and can make everything we can make then we won't be selling to them; we will be reduced to buying from them.

RICHARD MOOR: The race is on to create some intellectual property and creative abilities that can capitalise on the organisation and manufacturing capabilities that those economies have. It is a big challenge.

ALAN PUNTER: But the contribution of the manufacturing sector to the overall economy compared to the service sector has been diminishing over many years. And we have offshored many of our production functions and we have also now begun to offshore some of the service functions. But there are still a lot of personalised services that cannot be offshored. There is a limit to how much economic activity can be transferred, and the service sector tends to be less amenable to exporting the performance around the world. It also comes back to the importance of intangible rather than tangible assets. Reputation is a key risk that we haven't properly dwelt on so far, and we have seen that it can be spectacularly destroyed in almost a second. These are the risks that companies face; it is not so much the traditional fire and physical damage.

STEVE FOWLER: Your point on reputation links back to sustainability and why organisations should take a long term view. To retain reputation today you have to be socially acceptable in the long term.

ALAN PUNTER: As we know as risk managers and advisers, the value of companies is in their reputation; it is in the franchise; it is in the brand value, patents, intellectual assets; it is not in the bricks and mortar. These are the key drivers of shareholder value and we need to focus on what can affect them.

STEVE FOWLER: We mentioned technological change earlier, and something that occurs to me is that, thinking back over the last 100 or 200 years, things like the steam engine had a product life cycle, if you want to use that term, of something like 100 years. Therefore, if we take insurance as part of risk management, it was quite easy for insurers to look back to history in determining what the risks might be for the future. With today's products, the life cycle is becoming much shorter. For example, fax machines have only really been in use as a tool of communication for about 20 or 30 years, but e-mail has taken over. Looking to tomorrow, we might be using products that have a life cycle of something like a year or a few months before the next technology comes out to replace them. How are insurers going to be able to determine the risks associated with these technical gadgets if they are only going to be in use for such a short period of time? If they can't, will that act as a barrier to technological development?

ALAN PUNTER: It has to inhibit insurers' ability to price if they don't have a loss history to rely on. And the other trend going against insurance companies is that they have a reduced ability to build up a fund before events. The idea of having catastrophic loss reserves that are non-case specific is pretty much being driven out. So insurers lose the ability to have flexibility of funding across policy years with some sort of financial reinsurance. Accounting and tax regulations are driving out the approach of a bit of pre-loss funding, current loss funding and post-loss funding. Insurance companies have very little flexibility about anticipating loss or post-loss funding when it turns out that the losses are higher than anticipated, so it is getting more and more difficult to price risks. You get to a situation where loss is predictable and in certain instances the insurance industry has to and will say, sorry, it is not insurable.

GARY MARSHALL: I think part of technological risk is this idea that groups of people can come together and they can defeat pretty well anything. If you have got someone who is on the inside of your organisation and you have got someone on the outside of the organisation, the two could join together and in effect bridge the wall. Traditionally, they had to physically bridge a door. A high percentage of the UK population will have access to broadband now and that leads to the question of what you can upload and download from your computer

It sounds to me like the world needs a risk manager!

Michael Walker

There is no way that any single human can know all the risks

Steve Fowler

terminal with the complicity of someone else sitting somewhere else, and what you can not so much hack into but legitimately be given access to for whatever purpose. To me that raises the spectre of all kinds of risk, not only related to terrorism but also just malicious attack.

HUGH PRICE: I hadn't realised until recently that the problem with crime and technology is not the outside hackers but the insiders – the guy who has been working with the company for two or three years and is getting information out. That's the biggest danger.

ALAN BURTON: It goes back to the two million lines of code. It's a common situation that the guy who wrote the programme is the only one who knows it; he can activate a problem. It certainly can happen.

RICHARD MOOR: Another area is that the electronic imprint that everybody leaves within an organisation is incredibly detailed. People can be doing things, and whereas before they might be loosely documented or done on the phone, now with so much e-mail traffic you might have a time bomb in your own organisation that you don't know about.

HUGH PRICE: I suppose it is back to due diligence and making sure that that employee who has been trusted for three years is still to be trusted. You need to constantly review the integrity of your employees, which is quite disturbing.

STEVE FOWLER: There are a huge number of things we can worry about – lots of things we perceive and need to decide how we actually deal with. To summarise some of the issues we have covered, we can build some intelligent warning systems within our organisations to be aware of trends and risks. There is no way that any single human being can know all the trends or risks, but we can have the right monitoring radar to pick them up. We can focus on who to believe as well as what to believe. We can carry out scenario planning. When it comes to strategic planning, instead of assuming that the world is going to be static and is going to drive our organisation in one direction, we can look instead at how the world might evolve and the trends that are likely to impact all over the world on society and our organisations in order to build in some flexibility and sustainability in our organisations. We have got to try and avoid denial and defensiveness; we touched on global warming and that it is easy to not do anything about it, as it is too difficult. We have got to somehow avoid that.

Opportunity development came up. It is easy to focus on hazard and downside risk but there is a great opportunity for us as risk managers to develop our own positions in organisations in terms of spotting some of these potential future threats and looking creatively at how we can develop our own organisations to actually take advantage of them. Again as risk managers, there is a good role for us in terms of managing interconnection between different parts of our enterprises.

We all took the view that reliance upon specialists is a fact of life today. Things have become so complicated that we have to do it. But there is a wonderful opportunity for risk managers to position themselves between specialists, acting, if you like, as the voice of sanity, looking both inwardly into the organisation but also outwardly into the world at what might happen. Then, within the organisation itself, we can look both upwards at what strategies we want to form within the organisation, and also downwards to where the troops are on the shop floor, at what is actually happening. If we can actually make that role happen that is an immensely powerful role within an organisation.

Are there any other things that anyone wants to add to that list?

MICHAEL WALKER: Well I came up with four practical things we can do. One was to think long term not just short term, one was to try to work back from impacts rather than just looking at causes, one was to involve the right people at the table when identifying the risk, and the last thing was to have a heading of emerging risk when you are considering risk.

HUGH PRICE: Linking all of these is communication.

GARY MARSHALL: I would just stress that I don't believe that we seek, question and understand trends well enough, whether they are probable, possible or far-fetched. We don't look to the outcomes and we don't do that because we don't have the time. We must give time to understand them and not just get pushed into scenarios where we let things drift or we believe that we have done enough by simply reflecting on past history.

ALAN PUNTER: One plea I would put in is that risk is not all bad. There is no endeavour or innovation or value added without risk, so we do have to embrace it. And, with due deference to Hugh, whatever the next emerging risk is, let's not give too much of the cost to the lawyers!

The Institute of Risk Managers has published a research paper on emerging risks. The Emergent Risk Matrix is a unique, structured approach to identifying, at a very early stage, low probability, high impact risks that could potentially develop into show stoppers and formulating plans to mitigate these risks.
The Emergent Risk Matrix can be downloaded from the IRM website: www.theirm.org

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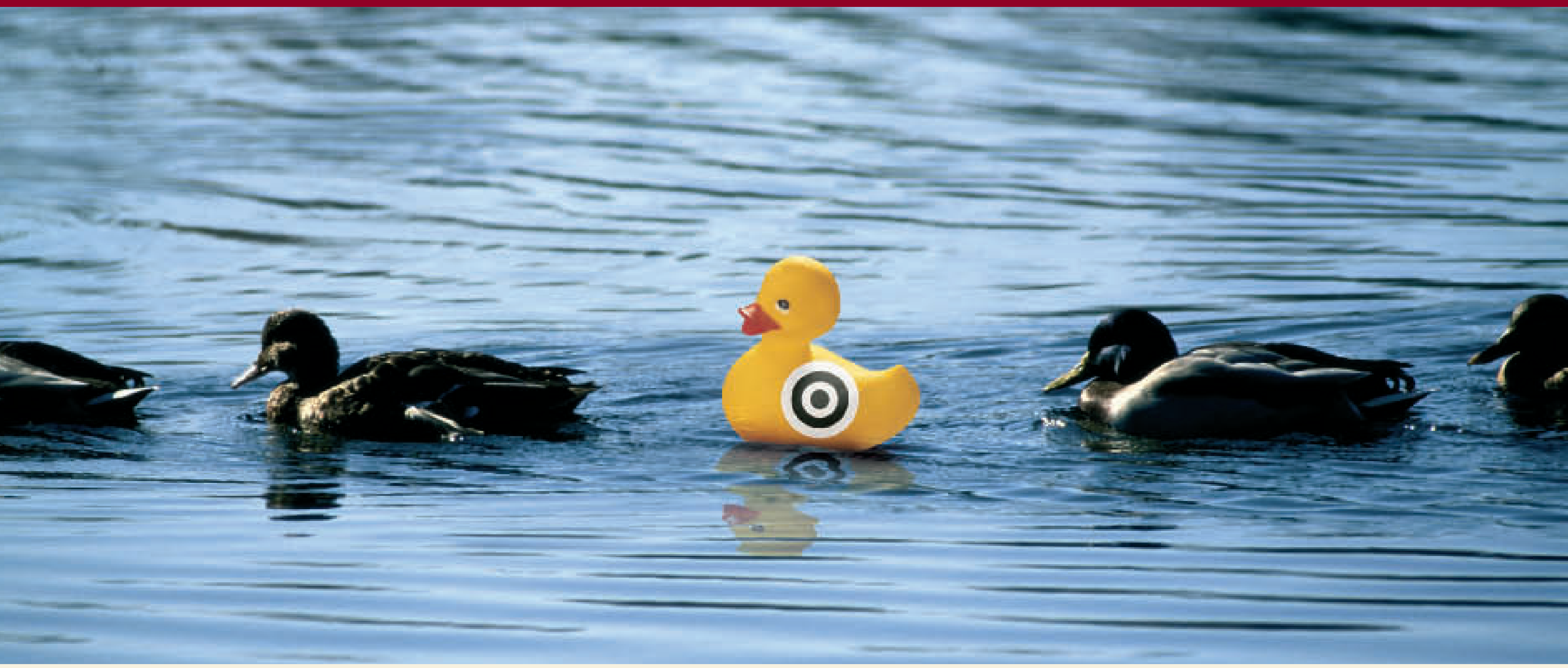

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