

A person wearing a red jacket and dark pants stands on a large, dark, mossy rock in the foreground, looking towards a massive waterfall cascading down a steep, moss-covered cliff. The waterfall is the central focus, with multiple streams of water falling. The surrounding environment is lush and green, with dense vegetation on the cliffside. The overall scene is dramatic and emphasizes the scale of the waterfall compared to the person.

Customer and broker webinar summary
October 26, 2022

Like a waterfall,
cascading global
risks can soak
the unprepared

150
years



Ron Davis, Global Head of Customer Management, Zurich Commercial Insurance

introduced the webinar by saying how proud Zurich is to be celebrating its 150th anniversary. And, he noted, throughout its history, Zurich has successfully navigated many challenging events, adapting to a changing world with a spirit of continuous innovation.

“We’re in a period where all businesses and people across the world are dealing with a changing risk landscape,” he said. Thierry Malleret joined the webinar as the featured speaker to explain risk interconnectivity and how some large global companies mitigate these risks and sometimes transform them into opportunities.

In 2005 when the World Economic Forum’s Global Risk Network began tracking the top global risks that could impact businesses, most senior executives weren’t too concerned about the likelihood of interdependent threats affecting companies worldwide.

That has changed. A lot.

“At that time, of course, operational risks were very prevalent in the life of a company and very few companies were thinking about climate risks, for example, or societal or technological risks,” said **Thierry Malleret**, who is an author, public speaker and co-founder of the Monthly Barometer, a predictive analysis provided to private investors and some of today’s most influential decision-makers. But since then, in an age of climate alarm, pandemics and war in Europe, global risks have become much more of a concern, he added.

Malleret, who shared his views in a webinar presented by Zurich to examine the current risk landscape, pointed out that while the possibility of financial failure was seen as the top risk from 2012 to 2014, climate concerns didn’t make the top spot in the Global Risk Network’s tracking until 2016. It was displaced by the threat of weapons of mass destruction from 2017 to 2019 and reappeared at No. 1 in 2020.

The network found infectious diseases to be the top global risk concern the following year.

...in an age of climate alarm, pandemics and war in Europe, global risks have become much more of a concern...





Tending to global concerns is good business

Awareness of global risks isn't just for curiosity's sake, according to Malleret. Global companies tend to outperform their peers when executive leadership is able to anticipate global challenges, he said.

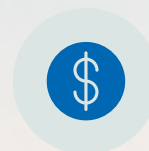
"It's uncomfortable to have to think about non-operational risks," Malleret said of many risk professionals' approach to global risks. While operational risks are their bread and butter, "when you start dealing with global risks, it's a different matter. It's less familiar, it's more complicated, it seems distant," he added. "Yet, the evidence is incontrovertible: global risks affect your P&L."

There are five global macro issues that are creating "a very uncertain and perilous future," Malleret said. They are economic, geopolitical, societal, technological and environmental risks.

"If you take economic risks, the outlook is characterized by great uncertainty and poor outcomes at the moment," Malleret said. The geopolitical outlook is marked by a "conflicted and increasingly divided world," he added, while societies are fragmented, disrupted and retrenching.

"The environmental outlook is very worrying because of the climate emergency and is highly disruptive for business," Malleret said. But technology is something of an outlier, he noted, because while some fear it could contribute to a dystopian world of surveillance and disregard for privacy, there are at the same time "phenomenal opportunities for technology."

Five global macro issues that are creating "a very uncertain and perilous future"



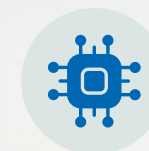
Economic



Geopolitical



Societal



Technological



Environmental

When global risks rock, they roll

Predicting how the risk landscape will be shaped in coming years requires a look at what Malleret called “systemic connectivity” among global risks and how they fuel each other.

A good example of such connectivity can be found in the fallout from Russia’s invasion of Ukraine, Malleret said.

Almost as soon as Russia crossed the border, commodity prices rose, sparking inflation as the price of energy and food soared, he said. “Geopolitical risk translated immediately into economic risk,” partly because Russia and Ukraine account for 25% of the global supply of grain, he explained.

“Geopolitical risks turn into economic risks. Economic risks turn into societal risks and social turmoil,” Malleret said. Today, there are 92 countries affected by demonstrations, industrial actions, social turmoil or political unrest sparked by energy inflation, he noted.

The hardships caused by inflation are made worse by climate-related disasters such as droughts in many parts of the world and flooding in places such as Pakistan and parts of Asia, Malleret pointed out.

“Global risks conflate and amplify each other, and, in the process of doing so, create and trigger new kinds of risks,” he said.

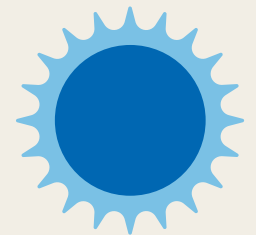
Zurich was a contributor to a **Global Risks Report** study that highlights the connection between energy, water and food security – three critical elements for people and businesses.

Malleret said the traditional business model of relying on energy imports has been destroyed by the Ukraine war and the problem is exacerbated by increasing climate risks. And, while countries would like to be more self-sufficient in terms of energy, water and food, there is also a tendency for global companies to reduce their supply chain risks. These efforts to shorten supply chains are costly, but are part of the shift in business models from a “just in time” approach to “just in case,” he said.

Companies are sometimes “surprised” by the cascading effect of global risks, Malleret said.

He acts as a consultant to companies with operations in Russia and Ukraine that were caught off guard without contingency plans when the war began, he said. “Why? Because they didn’t listen to the right experts. They went to economists instead of political scientists. Economists said the risks of war were extremely limited,” because it would be counter-productive to Russia’s regime, Malleret explained. “If you want to get a sense of whether you are likely to have a war or not, it’s better to talk to a political scientist or war expert than an economist.”

Russia and Ukraine account for **25%** of the global supply of grain



The hardships caused by inflation are made worse by climate-related disasters such as droughts in many parts of the world

Not all gloom and doom

Malleret acknowledged that opportunities can be found in ever-expanding global risks. “As countries try to achieve energy sovereignty, which is very difficult, there is an explosion of investment opportunities,” he said.

Smart meters, for example, have been developed to help minimize water and energy consumption, Malleret pointed out. There are “zillions of startups” working on such innovative new products, he said, including those that focus on food security. Vertical farming in places that have little farmable land, such as Singapore, is helping meet food supply needs.

In a recently **published report**, Zurich recommends actions that should be considered as businesses ready themselves for the possibility that adequate power supplies will be difficult to access this winter. The report also stresses the importance of businesses being aware of situations that can call for revising business continuity management plans.

Malleret said the risk timeline developed by the Global Risk Network shows that environmental risks are likely to dominate the business landscape for years. And they come with upside opportunities as well as downside threats.

Investment opportunities abound in environmental work and green energy initiatives, he said. “On the downside, there are also very many risks that could develop” if companies don’t carefully consider their environmental exposures, Malleret said. He warned that companies should be particularly concerned about environmental activism that could affect their operations.

“The fact that the world is in such a difficult situation at the moment doesn’t prevent great opportunities from being explored and exploited across a spectrum of different domains,” according to Malleret. “Everything that is going to help our individual and collective lives moving forward will present great investment opportunities, even more so as we face global challenges.

The webinar was one of a series hosted by Zurich that examine timely risk management issues. It was moderated by Ron Davis, Zurich’s Global Head of Customer Management, Commercial Insurance.

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