



World Economic Forum: Global risks update 2022



Consistent volatility, multiple surprises and fractured trajectories is the **global outlook for at least the next few years**.

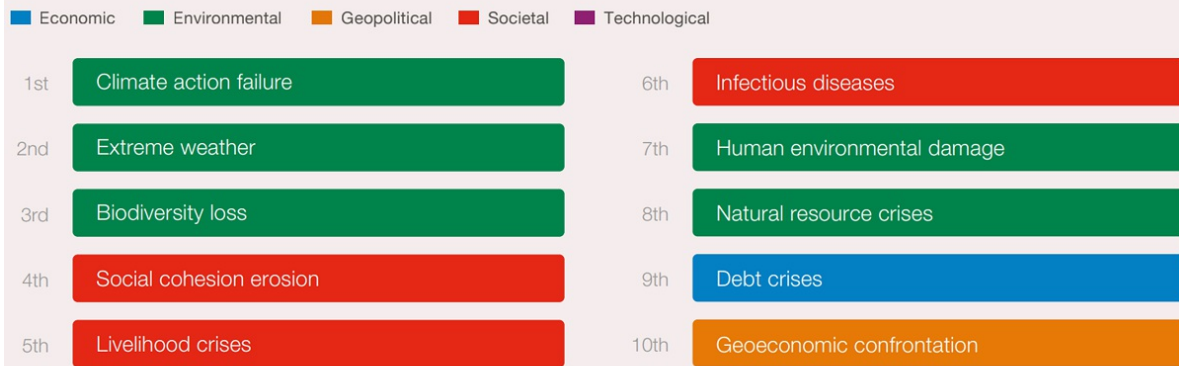
This is the view of the majority of contributors to the annual **Global Risks Report 2022** produced by the World Economic Forum, with **over 80% worried or concerned about the future**, according to WEF's supporting Global Risks Perception Survey 2021 - 2022.

Boards potentially need independent assurance on critical risks now more than ever before. These are tough times. This insightful, hard-hitting read looks through the lens of the Chief Audit Executive (CAE) to give a practical summary of the key points from the 2022 WEF report.

Top risks

Environmental risks continue to dominate. Over the last two years, government struggles to contain the pandemic and a lack of global collaboration offer a sobering view of prospects for addressing the climate crisis.

“Identify the most severe risks on a global scale over the next 10 years”



Source: World Economic Forum Global Risks Perception Survey 2021-2022

But crises also lead us down unexpected paths. Nothing is certain and WEF's report encourages readers to consider that the consequences of stakeholder behaviours and actions will drive a range of risk outcomes. Be prepared for the probable to the improbable and the manageable to the severe.

Internal auditors gain insight into national and business perspectives on risk priorities from the WEF report, which is the output of the Global Risks Perception Survey (GRPS) that brings together over 1000 perspectives from the worlds of commerce, charity, politics, science, activism and academia. Additionally, 12,000 business leaders ranked the same risks for only a 0-2 year time horizon in an Executive Opinion survey.

Unsurprisingly, infectious diseases feature in the risk profile. While developed nations have vaccinated more than 70% of their population, some such as the UK and Ireland receiving boosters, and Israel issuing a second booster, the vaccination rate in the poorest 52 countries, home to 20% of the world's population, lags way behind - only 6% at time of writing. Polarised management of the virus will continue to create supply chain disruption and increase the risk of new vaccine resistant variants.

The impact of the pandemic is clear to see in the short-term risks alongside the environment which continues to dominate the risk profile across all time horizons.

Risk horizon – critical risks timeframe

	1	2	3	4	5
0 - 2 years					
Global view	Extreme weather	Livelihood crises	Climate action failure	Social cohesion erosion	Infectious diseases
UK business leaders	Failure of cybersecurity measures	Debt crises in large economies	Prolonged economic stagnation	Infectious diseases	Extreme weather events
Ireland business leaders	Failure of cybersecurity measures	(joint top rating)	Fracture of interstate relations	Debt crises in large economies	(joint fourth rating)
	Climate action failure			Prolonged economic stagnation	
2 - 5 years					
Global view	Climate action failure	Extreme weather	Social cohesion erosion	Livelihood crises	Debt crises in large economies
5 - 10 years					
Global view	Climate action failure	Extreme weather	Biodiversity loss	Natural resources crises	Human environmental damage

● Economic ● Environmental ● Geopolitical ● Societal ● Technological

It is notable that, from a business perspective, the UK and Ireland, along with respondents to the Chartered IIA's Risk in Focus 2022 report, place cyber risk number one. Of the 124 economies surveyed, only five cited technological risks at number one. Technological risks were largely cited by developing economies, with the most frequent being failure of cybersecurity measures and digital inequality.

What are your thoughts as to why cyber risk maintains such a high profile? Could it be because our economies are service-led and data security is paramount? Is it naïve risk understanding? Does familiarity bias keep it front of mind? Do highly digitalised economies look through a different lens?

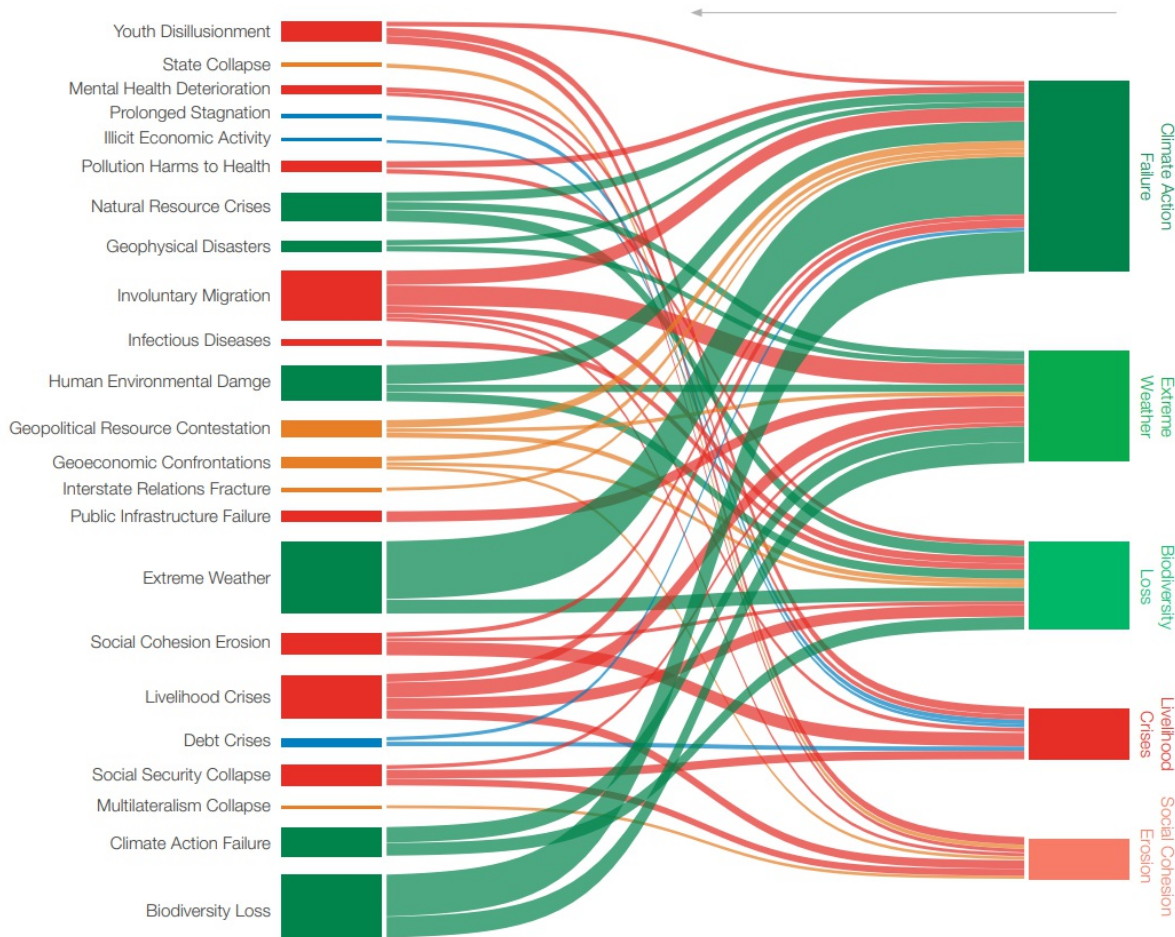
Potentially, the criticality of so many risks themes may be behind the absence of technology in the top risks this year. Given that we are in a digital age and new technologies will be part of mitigation strategies to combat the climate crisis there will undoubtedly be associated risk not least in the aggressive investment in clean energy and rapid transition to electric vehicles agreed at COP26.

- **How robust is the risk assessment process in your organisation?**
- **Is risk identification transparent or bias towards risks that can be managed?**
- **What are the specifics of cyber risk that need to be addressed?**
- **Which consequences of climate action failure worry your board?**

Interdependencies

The GRPS uses 35 predefined risks for respondents to select from, all of which are interdependent to a greater or lesser extent. The domino effect of climate action failure, extreme weather and biodiversity loss discussed at COP26 is evident in the narrative of the report and emphasised in the diagram below. Scientists are clear in their message that this decade is pivotal for humanity; we are now a fifth of the way through this window of opportunity.

When a risk becomes an issue, it often increases the likelihood of associated risks, introduces new risks or acts as a catalyst for a chain reaction of risks. Does your organisation's risk process look at individual risk or acknowledge where other risks can be aggravated by one materialising?



Source: World Economic Forum Global Risks Perception Survey 2021 - 2022

Regulatory indicators

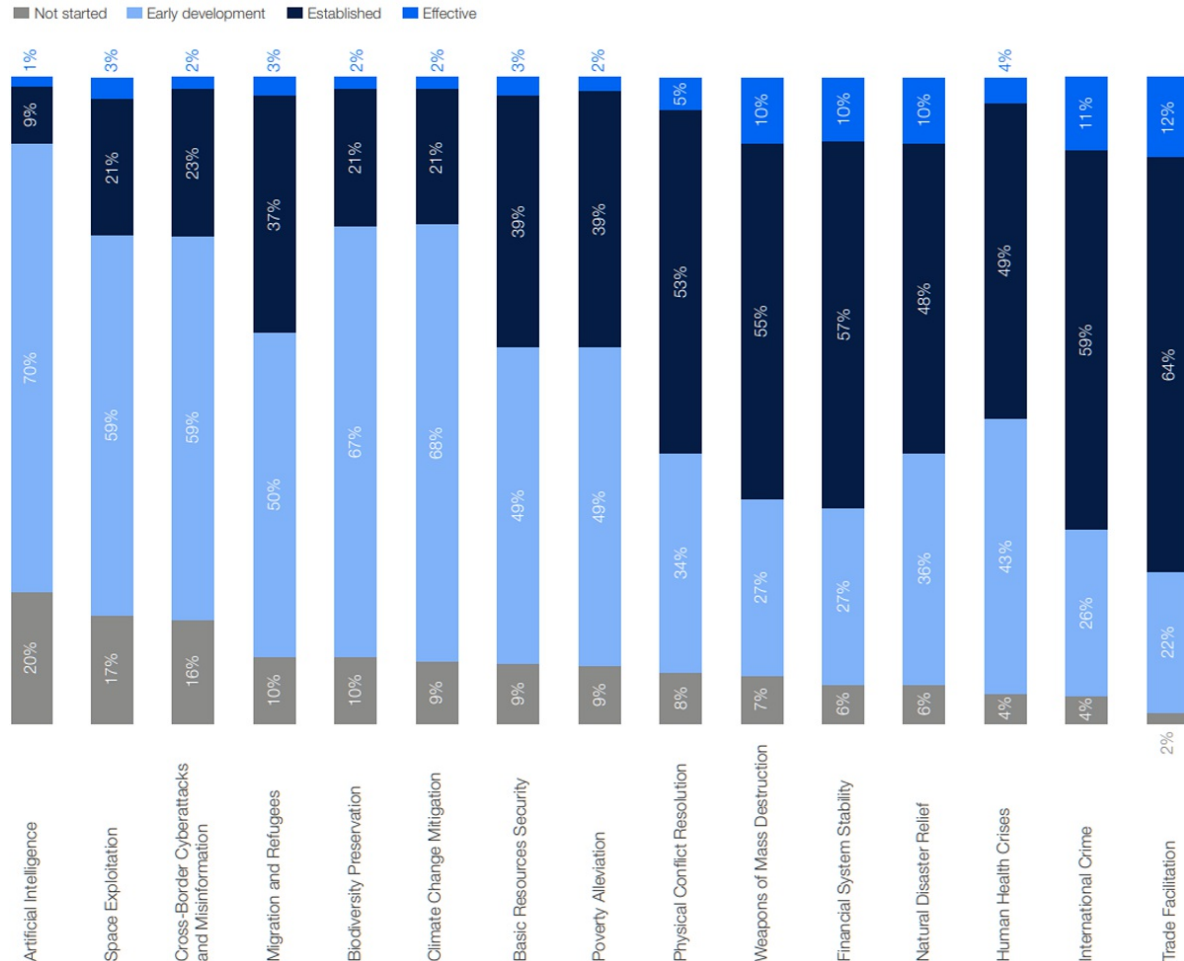
This year, for the first time, the report begins to look at international mitigation efforts for some risk areas. Of the areas surveyed, trade facilitation ranked highest for established and effective measures, although even in this essential part of economic activity there is significant room for improvement.

- **Are there established but ineffective mitigations in your organisation?**
- **Could you create a chart like this for your organisations key risk areas?**
- **Does your organisation engage with government and industry consultations?**
- **How well does it stay abreast of regulatory and legislative developments?**
- **In what ways is your organisation embracing artificial intelligence?**

International governance translates into legislation and regulation, so it is probable that the areas chosen for this survey will be the focus of attention in the coming years.

International Risk Mitigation Efforts

Current state of international risk mitigation efforts in each area



Source: World Economic Forum Global Risks Perception Survey 2021 - 2022

Action for audit leaders

Whilst the macro risks in the WEF report can seem too remote from the day-to-day of most organisations and beyond the sphere of influence for decision-making, businesses, governments, charities and the public all have a role to play. Recognising the risk is the first step to identifying mitigations and ensuring appropriate accountability is taken to manage it.

We suggest four simple steps – **READ**

- **Research the risks:** Our summary section provides highlights but there is no substitute for reading the

WEF report. Yes, it takes a couple of hours, but a worthwhile investment of time. Some topics will be familiar, others will be enlightening.

- **Evaluate the information:** How does it relate to your organisation? Stretch your thinking, go beyond the boundaries of strategy, partnerships, operations - think about all stakeholders and consequences.
- **Adjust the audit plan:** Challenge yourself to add at least one audit into the plan for 2022 that stretches the capabilities of the team and will lead to your organisation doing its part in managing the top global risks.
- **Do it:** Don't just think about it. Do it this week. Make it happen.

The **UN's 17 Global Goals** for sustainable development are a useful guide for making many of the WEF risks manageable at an organisational level.

Highlighted risk themes

Each year, the WEF report focuses on themes that traverse geography and industry, for 2022 we have:

- **Disorderly climate transition**
- **Digital dependencies and cyber vulnerabilities**
- **Refreshing resilience**
- **Barriers to migration**
- **Crowding and competition in space**

Before we look ahead, it is worth remembering that risk themes from 2021 are still relevant: fractured future, digital inclusivity barriers, pandemics – lost opportunity for youth, navigating global divides and disorderly industrial shakeout. Check out last year's summary [here](#).

Disorderly climate transition

An increase of 1.8oC is the most optimistic scenario of global warming following COP26; current trajectory however predicts 2.4oC by 2100.

Transitioning to net zero could be as transformative for economies and societies as past industrial revolutions, yet the myriad of complexities mean that change is happening slowly. This will create disorder as the effects of global warming are not evenly distributed across economies or communities.

Businesses, investors, governments and the general public are now recognising the need for more immediate action. To increase accountability and mitigate against greenwashing, a new International Sustainability Standards Board (ISSB), created by the International Financial Reporting Standards is tasked with delivering a global disclosure standard rather than the plethora of options available today.

Disruption is inevitable. The risk of a disorderly transition is high with conflicting interests at play that create economic and geopolitical tensions with differing motivations for the pace of change. A situation exacerbated by the post-pandemic recovery measures with decision-makers favouring short-term stability above perceived longer-term environmental issues.

Change is inevitable. As policies and regulation evolve there will be forced change. Ahead of this how can we as internal auditors help our organisations make positive choices to adapt, to take opportunities and discover the upside within the uncertainty.

Digital dependencies and cyber vulnerabilities

As with the Chartered IIA's Risk in Focus 2022 report, cyber and digital risk feature strongly in the GRPS responses due to the dependency on digital systems to manage almost everything of importance. The reliance on technology coupled with an insatiable appetite for greater capabilities such as artificial intelligence, internet of things and robotics heightens the risk of cyber intrusion. The Institute's Mind the Gap report looks at this topic and the value of a cybersecurity culture.

Digital stress is emerging. Remote working combined with the interconnectedness of everything is relentless. Criminals exploit this and growing vulnerabilities, not least from the current trend for open-source coding. Identified ransomware payments in 2020 escalated to \$406m from \$92m in 2019.

CAEs may not be surprised to find that 95% of cybersecurity issues result from human error. They are preventable. Cybersecurity failure is also one of the risks that have worsened since the start of the pandemic. Advances in cyber tools, spyware and deepfake technology mean that threat actors are now centring on targets of choice in addition to the random opportunistic attacks. Such goal-oriented activity may lead to higher levels of financial, societal and reputational damage.

According to the report, there is a global deficit of 3 million cyber professionals to provide cyber leadership, test and secure systems and train people in digital hygiene.

Digital trust is the currency that facilitates future innovation and prosperity. What are the consequences if subtle changes to data go undetected for years? Loss of funds is an obvious one but what about health data that could lead to premature death or corporate espionage sabotaging competitiveness? Also, organisations need to start thinking about the nearing proximity of quantum computing breakthroughs which will potentially render even the most sophisticated current encryption obsolete posing a significant threat to national security and sensitive data. The UK's 2022 cyber security strategy is an interesting read.

Refreshing resilience

Shortcomings to the pandemic response are useful reflections for collaborative opportunities to improve preparedness for future crises and organisational resilience.

Organisations can not only learn from global lessons, but can also contribute to national-level preparedness for the next inevitable crisis that demands a whole-of-society response.

Two interlinked factors have proved critical for the effective national management of the pandemic: first, governments' readiness to adjust response strategies according to changing circumstances; and second, their ability to maintain societal trust and compliance through principles-based decisions and effective communications.

There are four areas of opportunity that CAEs can advise on.

1. Organisations of all size and sector need to analyse their supply chains for interruption risks and manage suppliers, utilities and customers to soften the impact of disruptions.
2. Within specific industries and potentially across sectors, organisations can work together to scope codes of conduct for best-practice behaviours for future crises. A good example of this was the supermarkets limiting the sale of products in short supply during the initial lockdown.
3. Workforce resilience has and continues to come under pressure, organisations can consider how they provide health and social support to employees and the communities in which they operate.

4. Proactive engagement in contributing to and challenging government agendas, legislation and regulation through membership of strategic forums, expert or practitioner groups, responding to consultations and advocating for better preparedness.

Within the public sector, crisis events highlight where central and local government agendas are misaligned, often due to struggles for authority or weaknesses in liaison networks which compromise data flows, the effectiveness of initiatives and damage trust within communities.

Value can be gained by improving communications, clarity of devolved decision-making authorities, stronger coordination of on-the-ground efforts between agencies and better capacity planning. At a local authority level, enhanced partnerships with organisations and businesses at a community level may build more sustainable resilience solutions, provide insight into vulnerabilities and develop capabilities over the long term that reduce dependencies on central government.

The WEF has worked with risk experts to identify five practical lessons to improve organisational practice for resilience. Full details are on page 89 of the report:

- Ground analyses in delivery requirements - often useful to start not with specific risks but with the types of failure, damage and attrition that could compromise core business goals
- Appreciate vulnerabilities within the broader ecosystem – organisations should examine their resilience to shortfalls, outages and delays of the third-party assets and services on which they depend, and the tolerances of those who depend on them
- Embrace a diversity of resilience strategies - supportive employee behaviours are as vital as structural measures, especially when empowered by good leadership and effective communication
- Connect resilience efforts with other goals - shortening supply chains can advance net zero strategies as well as reduce exposure to adverse geoeconomic developments, while strong community relations may help recovery initiatives in the event of a disaster
- Consider resilience to be a journey not a destination - organisations with leading resilience programmes learn from stress-testing exercises and actual crises to emerge stronger, more supple and better prepared

Barriers to migration

Economic hardship, climate change, conflict and political instability are forcing millions more people to leave their homes. The long-term risk involuntary migration is a high concern.

At least 120,000 migrants arrived in Europe in 2021, of which 28,300 crossed the English Channel in 2021 to come to the UK. Globally, the UN estimated international migrants to have grown to 281m in 2020. Organisations in the Southeast know first-hand the negative impact on the economy and society of unplanned displacement and movement of people between countries.

COVID-19 has exacerbated national interest policies creating even higher barriers to planned and disorderly migration; international mitigation efforts are also falling short according to the GRPS. The WEF's Future of Jobs Report found that 50% of employers globally planned to automate tasks in response to the both the economic disruption of the pandemic and accessibility to digital tools, often in sectors that have relied on migrant workers e.g. hospitality, construction, agriculture, healthcare.

Factors that cause supply chain disruption are also lead indicators for migration. CAEs should maintain awareness of such issues to ensure adequate assurance is provided over the management of significant

risks. Also, where organisations have overseas facilities consideration could be given to tipping points that could see sudden migration from neighbouring countries as factors such as extreme weather and resource scarcity, such as water, worsen.

The International Organization for Migration estimates that organised human-trafficking groups operate in every country. With labour shortages in hospitality, agriculture and supply chains, organisations must have rigorous onboarding processes to ensure that illegal migrants are not being employed. Modern slavery is a domestic issue, and a key element of the 'S' in the ESG agenda.

Organisations can sponsor families via the UN Refugee Agency; a novel way to access skills and demonstrate social commitment..

Crowding and competition in space

It may sound like something from a futuristic sci-fi movie but the governance of space, especially the Low and Medium Earth Orbit zones is becoming increasingly important.

Interruption to satellite signals is the biggest generic risk for organisations due to dependency on broadband internet, monitoring services, broadcasting, timing and GPS. Most of us struggle to do a simple journey without sat nav, imagine the impact on global supply chains!

Although mitigations to solar storms and space debris are beyond the reach of all but a few organisations, CAEs can ensure that the loss of GPS or the internet is a scenario considered as part of desk-top resilience planning.

Closing thoughts

Take time to reflect on this summary and to read WEF's full report for 2022. It's good to dip in and out of.

In a world filled with uncertainty, one thing is certain for CAEs: there is no getting off the rollercoaster for the foreseeable future. It's time to learn, to sleep in motion, eat upside down and provide assurance while defying gravity.

Launching the WEF report this year Peter Giger, Group Chief Risk Officer for Zurich Insurance Group said:

"The climate crisis remains the biggest long-term threat facing humanity...It is not too late for governments and businesses to act on the risks they face and to drive an innovative, determined and inclusive transition that protects economies and people."