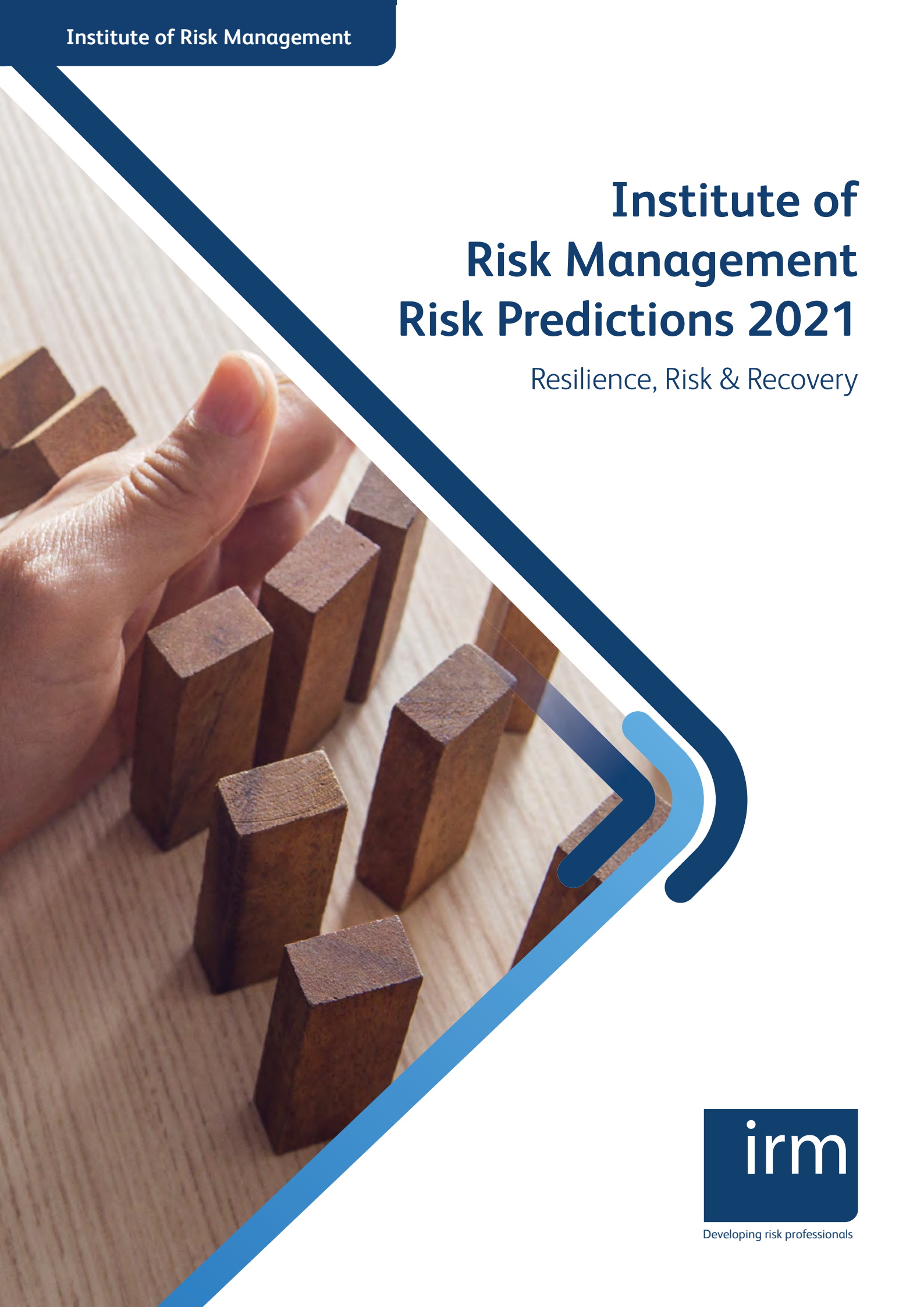


# Institute of Risk Management Risk Predictions 2021

Resilience, Risk & Recovery



# Contents

Introduction	3
<b>Special Interest Groups</b>	
Charities and the Third Sector	4
Climate Change	5
Construction and Infrastructure	5
Energy and Renewables	7
Enterprise Risk Management (ERM) in Insurance	9
Financial Services	10
Health and Care	12
Innovation	14
Non-Executive Directors/Chief Risk Officers (NED/CROs)	15
Nuclear	16
Operational Risk	17
<b>Global View</b>	
Asia-Pacific (APAC)	19
India RIG	21
Iraq RIG	23
Kingdoms of Saudi Arabia and Bahrain RIG	24
South Africa RIG	26
Spain and Latin America	27
United States of America	29
Zimbabwe RIG	31



**A global pandemic, increased geopolitical risk, conflict, bushfires, Brexit, flooding and political unrest – the Institute of Risk Management asks its senior members from our Special/Regional Interest Groups (SIGs/RIGs) and Global Ambassadors about their views on the outlook for risk management in 2021.**

**Iain Wright CFIRM, Chair, Institute of Risk Management**

2021 has got off to a difficult, but not entirely unexpected, start. Many countries are sadly (but necessarily) back into lockdown measures due to the pandemic, but with the vaccine rollout under way we hope for a light at the end of the proverbial tunnel. The world has changed as we know it. Organisations have had to adapt to survive and ways of working are more reliant on technology than ever as many staff work from home. Organisations are facing increased and increasing risks from both internal and external factors that have undoubtedly been exacerbated by Covid-19, including: people risk (mental health, wellbeing, physical health of staff), increased cyber-attacks, supply chain disruption and ongoing market confidence/volatility across sectors, which is exacerbated by geopolitical volatility in some areas.

In the UK the post-Brexit landscape has changed how people and goods move between the UK and mainland Europe. This will undoubtedly be keeping those of you dealing with supply chains busy as you navigate the new ways of working and ensure business continuation.

The IRM has set up SIGs for both Brexit and pandemic risk, details of which can be found on our website.

I think it's fair to say that risk professionals have never been so busy and pivotal to the survival of organisations of all types globally; risk management has been at the heart of the global response and our profession is firmly in the spotlight. Risk managers' competence and resilience have been tested like never before and lessons have undoubtedly been learnt. We'll be releasing the findings of a follow up to our survey of the global risk management response to the pandemic shortly.

\*Please note the view expressed below reflect the individuals rather than their company views.

#### **This year's views focus on:**

- > Charities and the Third Sector
- > Climate Change
- > Construction/infrastructure
- > Energy and Renewables
- > ERM in Insurance
- > Financial Services
- > Health and Care
- > Innovation
- > Non-Executive Directors/Chief Risk Officers (NED/CROs)
- > Nuclear
- > Operational Risk

#### **World view:**

- > APAC
- > India
- > Iraq
- > Kingdoms of Saudi Arabia and Bahrain
- > South Africa
- > Spain/Latin America
- > United States of America
- > Zimbabwe

# Charities and the Third Sector

**Alyson Pepperill CFIRM, Chair of the IRM Charities SIG  
Client Projects Director at Arthur J. Gallagher**

2021 has put further strain on the charity sector. Looking back to January 2020, we commented that those in the sector able to innovate and possessing the scale to do so in a compliant manner stood the best chance of surviving along with those smaller members who could be nimble and were perhaps under less media scrutiny than larger charities. This became even more important as 2020 rolled out and the pandemic struck home across the world.

Many saw fundraising hit hard with staff furloughed, being slow to access emergency funding and donors struggling to give regularly due to increased uncertainty. In addition, the types of charities that the public and major funders give to shifted, with greater focus on grass roots, health and social care organisations. Many funders had to pause long-term funding programmes or updated their funding criteria to meet this change in societal priorities.

There were chinks of bright light through people doing remarkable things for individual or small numbers of charities. The national lockdown drove a huge sense of good will and the being 'in it together'. This saw a significant uptake of volunteering with opportunities for sustained growth in volunteering as people have more time around their working commitments to get involved. However, the government's attempt at a national volunteering programme demonstrated the fragility of volunteering as people become quickly disillusioned when there are delays and barriers to deployment.

Again, where charities focused on highlighting the plight of their beneficiaries in a more immediate manner, or accessing promptly the funds made available by the government and other funders.

Certainly moving forward it remains that those who can be nimble, innovate, and use modern technology to resonate with the public/donors and grab opportunities with both hands that will be more successful than those who remain faithful to what was 'business as usual'. The pandemic has altered societal attitudes about priority issues which charities will need to actively respond to, and as the nation recovers, the pressure on charities to fill gaps in services will likely increase.

The pandemic has brought emerging risks very much into focus and the Charities SIG will be rolling out a series of publications to help the sector identify, tackle, and embed emerging risk management into organisational strategy and planning sessions.

With an uncertain economic future looming, we believe the way to get ready to deal with a multitude of risks and events is to focus on emerging risk and resilience techniques. The charity can apply these techniques to its own strategy and planning activities, and set up structures to enable flexible responses to trigger as and when events happen.

In terms of 2021, charities will need to cope with:

- Post-Covid recovery processes such as restoring services, working with reduced income but increased capacity pressures
- Post-Brexit changes to free movement of EU nationals, delays to imports/exports, changes to legal challenge and advocacy, and any additional legislation changes
- Changing societal expectations presenting both opportunities and challenges for income generation and volunteering (e.g. renewed focus on health and social care, increasing volunteering, higher expectations of the NHS, Covid fatigue fragmenting goodwill etc.)
- Changing funder expectations (resulting from Covid/societal changes)
- The potential economic / global recession
- Charities filling the gaps for struggling local council services

# Climate Change

**Paul A J May CFIRM, Chairman of Concordia Consultancy Ltd, IRM Ambassador, member of the IRM Climate Change SIG and a former IRM Board Director**

These are two inter-linked topics that are raising challenges and strategy changes in many areas. Uncertainties abound and here are some predictions and questions:

## **Political**

With the UK chairing the COP26 UN climate change conference in November risk managers will have an opportunity to be close to and influence the action.

Incoming President Biden has brought the USA back into the Paris Climate Agreement but will continue to be subject to vested interests such as the energy and concrete industries.

The IMF's world uncertainty index will increase as tensions between nations continue, making climate actions and commitments difficult to verify.

## **Electricity**

Electricity, whatever the generation fuel used to create it, has become the vital driver supporting our lives and businesses. The UK's infrastructure is unlikely to support the expected demands without significant investment especially in rapid charging power sockets for electric cars.

Wind and solar generation have massively increased its contribution to the grid, but with coal and oil becoming less acceptable (and even insurable) sources there will be a need to debate the nuclear option.

## **Insurance**

The issues raised in recent FCA test case judgement on covid business interruption has seen the reputation of insurance providers, buyers and brokers suffer adversely. Urgent reviews of business interruption coverage, pricing and post-event response, for flood especially, will take place to reflect the rejection of the previously prevailing Orient Express approach to minimising/restricting loss calculations.

Flood Re might start to raise its profile and offer pro-active advice via the media.

## **Travel**

Train and plane travel has ground to a halt due to the Covid pandemic. The climate seems to have benefitted, globally as well as locally, with less pollution and noise. However, is there a pent-up demand that will return planes fuelled by jet oil to the skies sooner than might be expected?

Increasing use of emails, and video services such as Zoom, Teams and WebEx have enabled communication but they depend on electricity which has to be generated.

## **Mining**

Extraction of coal is controversial and will continue to be the cause of continued political risks (e.g., Australia and China recently), as well as extinction rebellion type disruptive attacks on facilities and distribution.

The metals needed for batteries and mobile phones are in short supply and will limit production as well as create political complications.

## **Flood**

It is likely that we will continue to see footage of flooded houses, factories and roads across the UK with the occupants expressing the view that "they" should do more to protect them. Off the shelf physical protections for properties against flood damage may progress a tad further than the sandbag.

# Construction and Infrastructure

**Wes Cadby CFIRM, Chair, Construction and Infrastructure SIG  
Group Enterprise Risk Manager, Nuclear Decommissioning Authority**

For 2021, the construction section faces an uncertain time. Covid-19 has had a huge impact across the sector, with many members of the supply chain ceasing to operate. In a recent survey of construction companies, 87 % of respondents stated that Covid-19 had had a detrimental effect on their business, with 38 % stating significant financial difficulties will be experienced. It is likely that the “new normal” will take time to recover to anything resembling pre-pandemic normal and as such, our ability to invest in, and deliver work will be compromised for some time to come. Network Rail have already had c £1bn cut from the rail infrastructure budget following the Chancellor’s Spending Review, that has put a question mark over some long-planned improvements to rail infrastructure. This will create significant uncertainty in an already stressed supply chain.

In conjunction with the pandemic, BREXIT remains a topical concern for the UK construction industry. The reinstatement of border controls will most certainly impede the free flow of construction materials into the UK and disrupt ‘just in time’ deliveries. Further, already constrained megaproject schedules will have to adopt innovative methods to absorb these delays and maintain expected completion dates. In 2019 the UK imported close to £5b of construction materials, fixtures and plant from the EU with the most commonly imported items including soft timber, sawn wood, lighting fixtures, boilers, AC units and wiring.

Tied to this issue and potentially of greater concern is the reliance of the UK construction industry on skilled European trade labour. Whilst European trades people already in the UK are protected, BREXIT will likely have an impact on the willingness of those already resident to remain so and will certainly make living in the UK a less attractive proposition for those considering moving to the UK. Approximately 32 % of the construction trade jobs in London, for instance, are held by EU citizens. In addition, there will probably be less market competition for major construction projects. Whilst this may benefit contractors and workers, clients could begin to incur cost premiums due to this environment of reduced competition.

As risk management professionals, this year has shown us that resilience is as important as prevention. We need to ensure we scan our horizons and plan for the impacts of those uncertain events over which we have no control. This past year, I’m sure, is a key enabler for businesses and the sector, to put a greater focus on risk management and the obvious value it provides.



# Energy and Renewables

## By the Energy and Renewables SIG

### Economy & Covid

Whilst on the surface things will begin to look more positive in the later half of this year as the vaccine begins to take effect, industrial activity improves, optimism returns and energy demand rises, there are a number of risks and issues that face the industry as a result of the pandemic.

The pandemic will continue to dominate the global economy throughout 2021 due to slow vaccine roll-out and lack of global acceptance of alternatives (e.g. will the EU recognise someone that has had the Sinopharm vaccine as “vaccinated”?) - in addition there will be a significant correction on the stock market (due to the failure of expectations for future growth, already accounted for in current stock rallies, to actually materialise) and a struggle for countries / central banks to absorb the financial fallout of the pandemic and “re-baseline” and reposition themselves monetarily.

Persistent symptoms of long Covid-19 could also potentially threaten not just lives but political stability and the global economy. Some emerging markets could possibly experience a debt crunch this year due to inflation and borrowing costs rising. This could in return have an impact on global energy demand.

### Oil and Gas Demand

Assuming the global impact being negative, energy-producing countries will become more vulnerable, following on from the breakdown in global energy demand in 2020. Governments with less cash flow can expect further weakening of their economies and potential political instability.

Despite this, oil and gas demand is expected to return closer to 2019 levels during late 2021 or into 2022. China plays a major role here, notably on continued use of fossil fuels until 2030 (which will also continue to complicate Environmental, Social and Corporate Governance (ESG) and investment and regulations for energy projects and companies.)

### Green Transition

Climate commitments will matter in 2021 like never before. The Biden administration’s approach will lead to a new wave of long-term climate commitments and targets leading to further pressure on fossil fuels, but an uptake of clean energy, greater competition/pressure on LNG prices and further investments and development into hydrogen. There will also be a far greater impact on companies from ESG investors.

### Digital Technology

The pandemic has seen major digital events unfold from cyberattacks, data leaks to digital transformation projects being accelerated. Tech companies have seen an upward trend to their share prices despite economic turmoil, and 2021 will continue to see this trend as long as the economies continue to survive. A crash is inevitable, however with lockdowns set to continue into March, with fallouts from Brexit and the elections in the USA, and with the extended printing of money throughout the world. This crash will see fewer people buying iPhones, televisions or new technology. It will cut company budgets, and with an end in sight with regards to the pandemic, reliance on technology as we have seen, it will become either less exciting or less critical.

Some tech companies are well-positioned, however, cybersecurity firms offering solutions for protecting data (especially with recent GDPR requirements being implemented) and major networks will see major interest from Governments and large organisations. Tech companies invested in pharmaceuticals too will likely prosper.

## Cryptocurrency

### Bitcoin boom 10x

2021 will be the time for Bitcoin to shine. For years the argument for Bitcoin has always been that it has been a store of value and protection against irresponsible monetary policy. Countermeasure against inflation. This pandemic has only further proven what Bitcoin supporters have been saying. That the money machine keeps on printing. It has piqued the interest of wealthy investors and major companies alike. Microstrategy has already invested the majority of their reserves out of USD into Bitcoin. To be clear... this now values at 1.6 billion USD!

2021 will see more companies follow this strategy. Once budgets are finalized, tax is paid, and investments are to be made, we can expect to see a huge jump in price over the coming year. It has already jumped from the 10,000 marks to the mid 30,000s, and many are predicting a price in the region of anywhere from 100,000 USD – 500,000 USD. This is coming from “reputable” institutions such as JP Morgan, Deutsche Bank and others, although it is also important to remember that these are the same institutions that were very clear in their statements that Bitcoin was a scam only three years ago.

### Altcoin boom 100x

With the rise of Bitcoin, however will also be the rise of altcoins. The altcoins that still have life left in them, and this is where the major gains will be found. Most coins are still down 60-90% from all-time highs whilst some of the more established coins have reached their all-time highs again. As Bitcoin increases and slowly stabilises, much of the money will trickle down to these altcoins which will experience phenomenal growth of 1000% and more.

This will of course, lead to another crash/bubble burst with altcoins expected to crash as spectacularly as they rose. However, Bitcoin will unlikely see such radical falls.

### The rise of Defi & Stable Coins

Unlike the previous altcoin boom of 2017, where Initial Coin Offerings (ICO's) drove growth, this Altcoin cycle will be riding off wave of decentralized finance. If ICO's were the theme of the 2017 cycle, Defi is the main theme for this one. Defi is an experimental form of finance which utilizes smart contracts on blockchains. Defi platforms allow people to lend or borrow funds from others, insure against risks, trade and speculate as well as earn interest in a savings-like account. It does away with the usual financial intermediaries such as brokerages, exchanges, or banks.

Last year we predicted the rise of Stable coins, and whilst it wasn't necessarily visible, it seems that country governments globally have been taking notice and making preparations. An article by the International Monetary Fund highlighting this rise was published at the end of 2020 and can be found here:

<https://blogs.imf.org/2019/09/19/digital-currencies-the-rise-of-stablecoins/>

As an example, regulators in the USA have accepted the use of stable coins by banks, whilst numerous banks and countries globally are working on their own stable coins. 2021 could see the introduction of an official country stable coin or country approved stable coin (such as Facebook's Libra). At the very least, a white paper will be published.





# Enterprise Risk Management (ERM) in Insurance

## Isaac Alfon and Justin Elks, Co-chairs - ERM in Insurance SIG

2021 is a year of opportunity for the insurance industry. The UK government is increasingly looking to the industry to support the recovery and help it to achieve its climate ambitions. How can the industry step up to this challenge?

Insurers can do this in two ways. Firstly, by taking risk on behalf of customers, to provide financial protection and security, avoiding them having to self-insure and tie up capital. Secondly, by investing in assets that support sustainable economic growth. To do this, there are two key imperatives for the industry – build resilience to risk and the trust and confidence of customers.

The insurance industry has been resilient during the crisis. However, this was a crisis that impacted all companies in a similar way, and we were able to see the crisis unfold over weeks. While companies typically responded well, a number weren't prepared and struggled, with third party exposures a particular weakness. Being ready to respond and adapt to fast, specific events that impact the extended enterprise will be key in 2021.

The pandemic has accelerated digital transformation, in part driven by increasing customer acceptance. However, the industry has (at best) a patchy record on delivering transformation. Before the pandemic, most operational failures and adverse customer impacts were caused by companies own change initiatives. Managing transformation effectively needs to be a key competency for insurance. On the downside, the focus on cyber threats will continue, as threats become increasingly sophisticated and pandemic working arrangements have the potential to worsen exposures.

While a vaccine is being rolled out during 2021, insurers are likely to be managing the economic consequences of the pandemic, and Brexit fallout. While central banks quantitative easing (QE) and fiscal stimulus packages have protected the economy, they may have introduced a chasm between the risk profile of corporate debt issuers and observed spreads. What will happen when the support is phased out is anyone's guess, but further credit deterioration cannot be ruled out. Insurers need to be aware of the impact of stresses on their portfolios in particular credit falling below investment grade.

Insurers' profitability may also be affected. Profitability may suffer if the pandemic subdues savings or the demand for insurance changes. The catch-up effects of decisions deferred in 2020 could matter. Insurers should review drivers of business profitability and stress their vulnerabilities.

At a global level we are starting finally to face the climate emergency. Insurance companies have an important role to play. While UK regulators are taking a lead, insurers need to think strategically too - about how they can make a difference to the world and to their stakeholders, rather than just seeing this as a compliance matter.

Regulatory rules are also in the spotlight, with consultation on changes to Solvency II and the Financial Services Future Regulatory Framework. Much of what insurers do is constrained by regulation and capital requirements— an open discussion about what is working, and what needs to be improved, will be key in empowering insurers to use their capabilities to address the world's problems.

A key area for insurers to address is reputation. The challenges around business interruption insurance have reinforced the image of the industry as one that is eager for premiums, but slow to settle claims and fast to argue over the detail. To take risk on behalf of others requires trust – and humility in admitting mistakes and moving on.

This has been a tough year for everyone. The industry has a lot of work to do if it is going to thrive in a post Covid-19 world. Insurers need to develop strategies for a world still evolving to build resilience and trust. We hope the industry is ready to step up.

## Financial Services

The Covid-19 pandemic led to the worst recession on record. Widespread lockdowns brought business to a standstill during the beginning of 2020. Gradual lifting of restrictions from the second quarter saw some recovery however this resulted in second waves across countries leading to new lockdowns. The second slowdown has been lower due to better understanding of the virus and rollout of vaccines. Vaccine success is yet to be seen therefore a period of great uncertainty continues. Full recovery is expected during 2021 and relies heavily on effectiveness of the vaccines.

Cybersecurity risks and ransomware attacks will continue to increase due to widespread working from home and rise in online transactions. Technology resilience will continue to be vital.

As travel and leisure sectors continue to face financial losses due to lockdowns, higher levels of defaults on debt are expected. Resultant rise in unemployment will lead to lower customer borrowing affordability and shrinking balance sheets.

Social unrest may result if the pandemic continues beyond the first half of 2021 due to rising unemployment and the recurrence of lockdowns.

Climate change is both a risk and an opportunity (investing in green initiatives). Lockdowns have resulted in lower carbon emissions and financial institutions should accelerate low carbon emissions targets.

Higher risks are experienced when organisations introduce new products, enter new markets etc. Faced with the pandemic, new initiatives get postponed/ cancelled hence reduced complex risks.

Overall, reputation risks are expected to be more prominent as organisations try to balance between staying afloat whilst satisfying all stakeholders needs.

### **Recovery from Covid-19, key points to note:**

Throughout 2021, there will be continuing uncertainty and disruption for most aspects of financial services business caused by the Covid-19 pandemic and the required complex challenges needed in response to it by people, firms and countries.

Those challenges have during 2020 included disruption and long-term enforcement due to remote working arrangements and increased diverse challenges for employees, colleagues, clients, overall operational resilience and business readiness.

Probable UK economic disruption caused by underlying commercial weaknesses and UK government budgetary reactions to its significant extra spending throughout 2020 that may result in fiscal and monetary changes such as tax rises for companies and individuals.

#### **> Brexit**

- > Significant uncertainties caused by the end of the UK's transition period to leave the European Union
- > Financial services have been largely out of scope of the UK-EU negotiations for a new trade deal governing their relationship following UK's departure from the EU. Instead, future access to financial services markets will depend primarily on unilateral equivalence decisions taken by each party. There remain many major areas of uncertainty
- > On 31 December 2020 at 11pm, the transition period ended by law. Since then, EU law and the single market rules no longer apply in the UK
- > At the end of the transition period, firms will have substantially the same regulatory requirements as before leaving
- > HM Treasury has on-shored EU legislation and the Financial Conduct Authority (FCA) intends to use its temporary transitional power (TTP) on a broad basis to allow firms more time to adjust to most new requirements

- > End of passporting
  - > After 31 December 2020, EU law will no longer apply. Passporting for all UK financial services firms will end. All future business in the EU requires UK firms to negotiate in every EU state, either individually or together if that is possible
- > New rules and regulations – a need for equivalence
  - > Although the UK has already granted a package of equivalence decisions to the EEA states, providing EEA firms with greater certainty to continue their activities in the UK after 1 January 2021, the EU has not yet reciprocated and granted any equivalence decisions to the UK apart from a temporary decision on central counterparties
  - > There are at least 40 significant business areas requiring equivalence. The EU is entitled to withdraw any equivalence decision unilaterally at any time with only 30 days' notice. This creates further uncertainty and unpredictability for UK financial services firms
- > Examples of uncertainties include the following themes:
  - > Application of TTP in relation to intra-group transactions; regulated markets; market-making exemptions for EEA firms; certification of EEA credit rating agencies by the FCA; and any continuing use of EEA benchmarks
  - > Financial Services Contracts Regime - the financial services contracts regime (FSCR) will enable EEA passporting firms that do not enter the temporary permissions regime (TPR) to wind down their UK business in an orderly fashion
  - > Continuation of supporting services to EEA-resident customers - UK firms need to understand all relevant EU local regulations and take legal advice. There may be disruption to business activities and related adverse publicity if customers are disadvantaged
  - > Share Trading Obligations and Trade and transaction reporting need to be factored in
- > Data protection and data transfer
  - > Data protection is very important for all business activities. All firms must think about where data are processed and stored. The UK has confirmed the acceptability of firms transferring data to the EU but there has so far been no reciprocal confirmation that the UK would be “adequate” for continuation of data transfers from the EU
  - > If the EU does not grant data adequacy to the UK, companies that want to transfer data from the EU to the UK may not have a legal basis on which to do so. This will affect hundreds of thousands of companies. Until such equivalence is granted, firms will need to put in place alternative arrangements to comply with GDPR and ensure a high standard of protection for individuals' personal data
- > UK professional qualifications for UK individuals
  - > Depending on the deal that is reached between the UK and EU, UK professional qualifications may not be recognised in the EU after the transition period
  - > This will affect a range of professions including lawyers, bankers, accountants and investment management so that those wishing to practice their trade in the EU after 31 December 2020 may need to requalify in the EU
  - > Rules on whether UK qualifications will be recognised and who is eligible to hold certain professional roles vary between EU member states; many, including Belgium and Luxembourg, allow only EU citizens to qualify

# Health and Care

## Steve Treece CFIRM, Chair of the Health and Care SIG

It seems strange now to reflect that, this time last year, Covid-19 and the resulting global pandemic was not on our radar, beyond initial reports of a new virus in China. How different things feel now, as the UK heads into a third national lockdown and our Covid death toll has exceeded 100,000.

The impacts of and response to Covid will loom large in the risk landscape for the health and care system for the coming year and, most probably, the years beyond.

At least for the first part of the year the health sector's focus will include:

- Coping with increased infections and further mutations of the virus
- Simultaneously maintaining and recovering non-Covid critical services which were suspended or significantly reduced/delayed during the pandemic
- Implementing a sustainable strategy to more effectively manage Covid in the longer term, including:
  - Delivering an unprecedented Covid vaccination programme, which has dependencies on the impact of virus mutations on the effectiveness of the vaccines; the willingness of the public to be vaccinated; and the need for action global on a global scale
- Embedding an effective and sustainable, track, trace and isolate system
- Ensuring the well-being of health and care staff, not just regarding sickness levels but also the impact on staff morale of the traumatic consequences of having to deal with patients, family and colleagues suffering from Covid, which cannot be underestimated and is likely to be a long term issue
- Reinforcing the resilience of the sector's supply chains, including medicines, Personal Protective Equipment and other critical supplies, such as oxygen. Supply continuity and costs will be inevitably impacted by the UK's recent departure from the EU

The importance of truly learning lessons and contingency planning to ensure the resilience of the sector has never been more important. The experience of 2020 has demonstrated the need for a robust supply chain; flexibility in procurement processes, whilst maintaining effective oversight and value for money; continuing innovation at pace in treatment, digitisation and other technological advances; and the need to increase collaboration across the health and care sector, including in partnering across the public and private sectors.

It will be interesting to see whether the implicit changes to the sector's risk appetite suggested by decision making in the response to Covid during 2020 are more explicitly maintained for the long-term, at least at the centre of government. Prime examples include the increased pace and scale of technological innovation, data sharing and rapid emergency procurement activity.

Covid has also exacerbated several pre-existing issues, including the adequacy of the health and care workforce to meet all the demands placed on the sector and the well-being of staff. Ensuring an adequate level of pay across the health and care sectors, as well as a sufficient flow of personnel into the sectors following the UK's EU exit remain significant issues.

Long-term funding for the health and care sector still needs to be fully and transparently resolved, moving on from the short-term measures put in place during 2020 to meet the costs of handling Covid.

The "elephant in the room" of effective social care reform, fully integrated with health services still requires serious attention, especially the detail of the government's proposals to address this issue is still awaited, despite having been promised for a number of years.

Having said all of this, there are multiple significant opportunities for improvement open to the health and care sectors this year, including:

Maintaining the scale and pace of innovation demonstrated in 2020, for example, in digitisation and the use of technology to enhance remote delivery of services where appropriate; increased use and integration of data, whilst maintaining security and privacy; the rapid development of effective (and often low cost) Covid treatments; and the use of AI and other new technology in the treatment of conditions such as cancer, diabetes and Alzheimer's.

Harnessing the pace of development (and approval) of Covid vaccines in the response to future changes to the virus and to other diseases, where RNA vaccines appear to offer considerable promise.

Whilst also presenting a risk of disruption and distraction, restructuring of the NHS and local government presents opportunities to improve service integration and efficiency, through devolution (to local level) and collaboration.

A specific example is plans for reforms to Integrated Care Systems (as part of the implementation of the NHS Long Term Plan) to embed these, with the aims of:

- › Improving population health and healthcare
- › Tackling unequal outcomes and access
- › Enhancing productivity and value for money
- › Helping the NHS to support broader social and economic development
- › Using digital and data to drive system working and improved outcomes

Care will be needed to fully consider the impacts of these changes on funding (ICS will distribute financial resources and increasingly take on the main commissioning role), governance (and decision making), accountability (can collective accountability work?) and assurance arrangements (maximising assurance received, whilst reducing duplication and bureaucracy).



# Innovation

## **Innovation SIG Group Co-Chairs:**

**Sarah Gordon IRMCert, CEO, Satarla, Rodrigo Souza Senior Lecturer University of Roehampton and Mark C. Turner CFIRM, Managing Director, Emsity Limited**

In 2021, the global economy may still be adapting to a new normal after the pandemic crisis. Given the global impact of the Covid-19 and its variant unprecedented crisis, companies will be investing more to enhance their organisational resilience, as an imperative from the current VUCA context framed by the dynamics and complexities of interconnected global supply chains and society in general. Resilience in these terms will be about developing and formalising proactive and reactive measurements and strategies to monitor and respond to emerging risks, minimizing exposure to threats and maximizing the benefits of potential opportunities, according to certain thresholds established by organisation's risk appetite and tolerance. That will enable companies to bounce forward rather than a bounce back.

The true spirit of ERM practices should be enhanced in this context, since companies will be required to analyse both threats and opportunities from a holistic and integrated perspective in order to create value. Previously (sometimes ignored) features of ERM will be explored further, such as the intersection with multiple preventive/proactive disciplines (e.g. Compliance, Business Continuity, Crisis Management) and global trends towards a greener and more socially responsible modus operandi, which may, or may not, be expanded by G20 recovery packages. Other aspects such as the future work conditions, modern surveillance, cybercrimes, terrorism and political activism may exacerbate conflicts of interests and regulations, respectively at organisational, and national and international levels.

Digitalisation will certainly pose threats and opportunities to this new society and risk managers will need to be able to scrutinise databases and AI&ML algorithms to avoid concatenated biases. The transference and dissemination of technological solutions among different sectors in the economy will accelerate automatization and robotization of services, requiring the public and private sector to ponder upon short and long term consequences of potential solutions and their impact to multiple stakeholders.

We expect acute demands for health care focused on the relief of physical symptoms and mental health of many people over the next 12 months. Many people have been directly affected by the effect of the Covid-19 virus and its variants, such as ICU patients and NHS workers, whilst others will be suffering from the economic consequence with lost jobs and relationship breakdowns, all of which put significant strain on people's mental wellbeing. Lockdown will also have a short- and long-term impact on many people, increasing the sense of isolation and loneliness.

The unprecedented race to find a vaccine for the Coronavirus, nonetheless, will result in significant investments in biotechnology leading to incredible scientific developments in 2021. For instance, the Moderna vaccine uses mRNA instead of traditional weaker versions of the virus to produce the immune response, and this discovery could lead to other new vaccine treatments for a number of diseases in years to come.

The scenarios presented above, among many others not comported here, will require innovative approaches to risk management. We will need to rethink our role as facilitators and integrators of holistic risk solutions that provide value beyond compliance and picture the complexity of risk networks at multiple levels of companies and society. This will require as much technical skills as emotional intelligence and systems thinking to clearly distil and communicate huge volumes of granular information into clear, concise, coherent and relevant reporting. Innovative risk management approaches to collaborate with the strategic discussions regarding the future of companies and economies will be required more than ever before and we must prepare for that.

# Non-Executive Directors/Chief Risk Officers (NED/CROs)

## Aileen Wallace CIRM and Socrates Coudounaris CFIRM Co-Chairs, NED/CROs SIG

The NED/CRO SIG was formed in February 2020 with its objectives to provide a ‘vertical specialism’ promoting best practices and discuss board governance and risk related matters.

With Covid-19 being the most topical Board risk agenda item, Board expectations are changing fast and relationships between CROs and the Board have never been tested to such an extent.

Our discussions highlighted the importance of having strong and effective relationships between Boards, Risk Committees and the CRO. As the first wave of Covid-19 set in, we saw the willingness to roll up sleeves and make instant decisions, demonstrating a strong and collaborative risk culture. We found that Boards were genuinely enquiring about the health and wellbeing of employees.

Communication, both internally and externally, with the appropriate speed and clarity was key to explaining to clients, regulators and the media, how companies remained in an effective operational mode during the pandemic.

Risk management teams continued to be a consistent critical friend, adapting and innovating their approach with the business; since thousands of staff have been largely working remotely since March 2020. Considerations to appropriate and effective risk controls formed part of such discussions as well as checking in with colleagues on their wellbeing.

As organisations adapted to new ways of working, their operational resilience was being tested. At the end of November 2020, we held a ‘virtual’ round table discussion on operational resilience. We agreed that Covid-19 has been the mother of all stress tests! Covid-19 has acted as a valuable stress test on both organisational culture and operational resilience.

### Looking ahead

Covid-19 has put companies through a real-life test. It’s been the moment when actual organisational culture crystalizes and staff gets to see through company actions, where they stand on the culture maturity scale.

Companies have recognised the strength of their human capital and their ability to carry on operating via remote connectivity. Nevertheless, the people agenda and mental health and wellbeing have never been of greater importance.

Organisations are revisiting their people agenda which were designed for a different paradigm. If 2021 allows for some return to the office, with social distancing, it would be under a ‘new normal’ offering a physical location for colleagues to meet and interact in person with remote working remaining the norm.

The importance of risk management and operational resilience strategy is front and centre on any Board agenda. Risk professionals are presented with the opportunity to engage with the Board and steer in a dynamic manner towards a truly resilient organisation by design. Key risk areas of focus are new technologies, data protection, cyber security and outsourcing arrangements, whilst keeping an eye on horizon scanning.

For those companies who are taking into consideration the lessons learned from 2020, it will give the Board, the senior leadership team and the staff confidence for dealing with any future demands that may come their way.

# Nuclear

## **Kathryn McCloghrie CFIRM, Chair, Nuclear SIG Head of Corporate Strategy, Sellafield Ltd**

Like everyone, we have learned a lot during 2020. Our business continuity and crisis management arrangements have been tested on a very different scale from previously and, overall, we have come through the test well. In the process, we have developed capabilities we didn't imagine deploying routinely, including widespread abilities to work from home and interact effectively remotely. These provide a different starting point for future business continuity plans, with proven contingency arrangements for some of our premises. Despite the challenges, in some ways we have been fortunate; we have not had dramatic losses of personnel in individual plants or specialisms which have stopped us operating safely and securely and maintaining energy supplies. Nevertheless, we have tested our thinking and our readiness.

There are some significant opportunities from 2020, which we need to address in 2021 if they are not to slip away from us. We can choose which of our temporary working arrangements we keep in our new normal. In doing so, we will need to keep inclusion in mind, looking after all our people with respect for their different personal, practical and professional needs. One challenge for the nuclear industry may be ensuring equity between desk and plant-based teams - the flexibility the former have grown used to cannot be provided to the latter due to the nature of the job. We need to invest appropriately in ICT to realise the benefits of digitisation and data, whilst keeping our focus on cyber security and safety substantiation of designs.

Another key risk area is the supply chain - will we learn from experience to increase the resilience of our supply chain against all threats? Will we support our suppliers in restructuring to improve productivity, or will we constantly be hit by the progressive loss of critical suppliers who are unable to recover from 2020's impact, and the potential impact of Brexit? 2021 needs to see us investing in critical suppliers close to home and in resilient networks to ensure our future demands can be met.

For the nuclear industry net-zero is both a significant threat and a substantial opportunity. Our older facilities and decommissioning sites will struggle to reduce the emissions from our legacy operations without disproportionate investment and we use carbon-intensive materials for major infrastructure projects. We must step up and innovate to play our part. However, nuclear provides low-carbon energy and is expected to be an important part of the future energy mix with renewables. New build plants at scale, small modular reactors and advanced nuclear technologies could all get a boost. The potential for nuclear plants to also produce hydrogen should not be overlooked. Meanwhile, our national investment in fusion could be the low-carbon power of the future.

Sustainability is a philosophy which deals with balancing short- and long-term implications, and few industries have lifecycles as long as ours so this should be a familiar thought process. In addition, we have always been aware of the social contract with our local communities and this should provide a cultural foundation from which to contribute to global society. We are, however, organisations with a strong technical and engineering focus and we will need to develop more in the social science arena to maximise value.

Another significant risk area for 2021 is the siting of the new Geological Disposal Facility (GDF). Work by NDA with potential host communities will be vital if we are to secure a home for a long-term waste solution. All nuclear sites have an interest in the development of the GDF, and a role to play in ensuring we engage positively and openly with our own communities to build the public confidence necessary to enable this vital infrastructure.

Funding will continue to be a risk, with continued dependence on funding from government in the context of economic challenges in the wake of Covid spending, global conditions and the potential impact of Brexit. The new Regulated Asset Base model for new build will impact new projects, whilst decommissioning will depend on continued support through government spending choices. In return, nuclear provides baseload energy, stable employment, investment in skills and education and technological innovation to support the wider UK.



# Operational Risk

**Chair, Paul Saunders, Operational Risk SIG**  
**Managing Partner, GD Financial Markets LLP**

Operational risk professionals are getting ready to deal with a multitude of possible risks and events.

Undoubtedly 2020 was an extraordinary year for a multitude of reasons; for many industries and including financial services, this past year saw a long-term planned for, yet unexpected business continuity event unfold and the determination of Brexit in the final moments of the year! So how have these major and perhaps less high profile events changed risk considerations and the industry's readiness and response?

Resilience has been absolutely key during 2020 and enhancing the operational resilience of the financial services sector remains a strategic priority for both PRA and FCA regulators. The event of Covid-19 has only served to reinforce its importance and although firms successfully responded to the pandemic to ensure operations could continue, in some instances risk appetites were adjusted in order to accommodate deficiencies in controls. Into 2021, regulators will continue to challenge how firms are ensuring that risk and control frameworks are operating effectively under the current working environment. This includes the capabilities of the three lines of defence, and the monitoring of material residual risks against risk appetites.

Additionally, following policy consultations, the industry will be expected to meet formalised standards for operational resilience and also outsourcing during 2021 and firms will need actionable plans in place that enable them to achieve these standards. In the coming year, firms should address the lessons learned from the pandemic, and review how these experiences might impact the development of operational resilience as a continuing discipline.

The regulatory agenda continued and progressed during 2020, despite the challenging conditions that the pandemic brought. Into 2021, firms should continue to recognise that regulatory health and readiness involves not only focussing on the macro picture such as Brexit or Covid-19, or conversely on micro risks in the business as usual domain. Getting ready to manage future regulatory risks means adequately covering all bases and in particular the barometer and somewhat all-encompassing regulations, designed to ensure responsibility and governance (such as SM&CR), customer protection (such as client assets) and market integrity (such as transaction reporting).

During 2020, the industry heard from regulators that regulatory conformance should not be lessened as a by-product of dispersed working. For the year ahead, firms should take this steer and leverage the structure that regulation offers to ensure robust, practical and pragmatic governance and control. With regulation more important than ever in its contribution towards market stability and continued penalties levied; regulatory risk in a new working environment must be adequately managed.

Cybercrime continues to grow exponentially and 2020 saw many firms greater exposed to such risks, as a result of dispersed working. The situation remains amplified by a shortage of cyber professionals, a lack of understanding of the threat and its delivery mechanisms, the continued development and availability of 'cybercrime as a service' and the firm stance of the Information Commissioner's Office; as also accompanied by the levy of significant financial penalties.

The prevalent 2020 risk of a ransomware attack will continue to be faced by firms into 2021 and the impact of such an attack can be devastating and highly disruptive to business. This growing trend has expanded to criminals copying data prior to encrypting systems, limiting a firm's ability to offset risk through the availability of back-up data. Firms therefore face the risk of blackmail to recover data, or the exposure of data being offered for sale in criminal forums. This activity acts as a both an industry and firm level macro risk, together with implicit pockets of risk within the firm's business activity and inadvertent regulatory breach.

Further expanding in this arena to financial crime; many firms continue to refine implementation of the 2017 Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 ('MLR') from 2017. The impending regulatory updates which expand scope and responsibilities could expose individuals to the risk of criminal proceedings, if not adequately managed. Into 2021, firms must ensure they are well positioned to comply with requirements to protect their business and clients and to mitigate this newly introduced personal risk.

Under pandemic conditions, there have been some limitations on the traditional processing approach introduced through dispersed working. Going into 2021 and with the continuation of this working environment, firms should mitigate risk by ensuring that they are addressed on a more permanent and robust basis, to alleviate inadvertent and undue exposure in the MLR and customer due diligence ('CDD') space, which is a fundamental requirement to business operating.

Whilst the pandemic has introduced a blanket operating risk for firms, business operations have moreover continued and firms have adapted, rising to the challenges presented in these areas. Into 2021, firms should remain vigilant, agile, objective and alert in their management of risk. This should put them in position to continue to mitigate against the risks of an ever changing environment, increased regulatory obligations, the growing sophistication of cyber criminality and the real life testing of operational resilience, including as a result of greater supplier reliance that dispersed working brings.



# Global View

## Asia-Pacific (APAC)

**Gareth Byatt IRM Global Ambassador for APAC**  
**Principal Consultant, Risk Insight Consulting**

In the outlook I provided 12 months ago, in January 2020 (back when the world looked very different), I stressed that whilst we cannot predict the future, I felt one thing was fairly certain – that we would face continued change in 2020 and over the next decade.

So much has happened in 2020, a year dominated by Covid-19. Everyone around the world has been under enormous pressure, and focusing on our wellbeing has been vital. The incredible work of people in healthcare, critical services and science is testament to what humanity can achieve. As we emerge from the tumultuous times of 2020, what can we all do, wherever we live around the world, to play our part in building forwards better?

We think we can see light at the end of the tunnel now we are in 2021, with vaccines being rolled out, although various challenges remain. In the midst of the many hurdles still to overcome, we have a chance to make fundamental and positive changes, to respond to the UN's call for a "decade of action" to deliver the Sustainable Development Goals (SDGs). This is what I would like to focus on in my 2021 outlook (I am not attempting to make predictions).

As Tom Standage, editor of *The World in 2021* by *The Economist* has pointed out, the number 21 is connected with luck, taking chances, risk and rolling the dice. The number of spots on a standard die adds up to 21. The number of shillings in a guinea, the currency of wagers and horse racing, is 21.

Rather than make predictions or roll the dice for 2021, I prefer to focus on how we can think through scenarios and to anticipate and be ready to implement change, particularly with regard to sustainability in all its aspects, in line with the SDGs.

As part of this focus on sustainability and the SDGs, the world has an opportunity in 2021 to make a real impact on tackling climate change (SDG #13). Climate change is a systemic risk that we have to collectively address, and whilst governments around the world (including APAC) are making broad-ranging commitments, concrete actions are required. For the private sector, momentum is growing to require businesses to embed climate risk into their financial decision-making. Central banks around the world are collaborating to make this happen. The aim is to make it mandatory for businesses and investors to demonstrate that their activities and investments are implementing steps to transition to a net zero emissions world. How these requirements are stitched into the global financial system will be a key focus for the 26th UN Climate Change Conference (UN COP 26) in Glasgow in November 2021.

The APAC region is at the forefront of dealing with climate change and all other aspects of sustainability. The APAC economies continue to move forwards, and they will need to demonstrate commitments to curb greenhouse gas emissions and to make inroads into sustainable cities, responsible consumption and production and greater disaster risk preparedness.

Last year, I highlighted four questions relating to businesses in the APAC region, which I still think are appropriate for 2021:

Will capitalism change, as more businesses of all shapes and sizes become more purposeful in their role for society, and their place in the world? Covid-19 may well have speeded up the desire to move forward with this.

1. How will organisations ensure they are flexible and adaptable to fast-changing circumstances, including technology advancement, to capitalise in a responsible and sustainable way on opportunities they see and create? Covid-19 has led to many work changes in 2020.

2. How will local and national government policies, and intergovernmental agreements, help to foster new innovation and better ways of working, including encouraging businesses to tackle climate change and to have closer linkages to society? Covid-19 has spurred action by governments and supranational organisations across the world.
3. How can the private sector be purposeful for society and the environment in which they operate? Many businesses have been tested like never before in 2020. Can we all help to make a difference through taking part in efforts such as the Sustainable Markets Initiative?

Risk professionals in the APAC region (and indeed all other regions) can, I hope, play a valuable role in helping people in their organisations to navigate choppy and highly uncertain waters in 2021. We have an opportunity to assist with important decisions relating to sustainability. Rather than roll the dice and hope for a good outcome, we should help the people we work with to think through the right sustainability outcomes, using risk management and resilience practices to make good decisions that are in line with our risk appetite to achieve objectives. Let's hope we can all build forwards better in 2021.



# India RIG

**Sachin Paranjape, Deputy Chair, India RIG**  
**Partner, Deloitte Touche Tohmatsu India LLP**

The year 2021 may not turn out to be as surprising as 2020 but it will be as volatile. In 2021, we expect to start seeing outcomes of how countries, economies and businesses across the globe reacted to 2020. The inherent risk of Coronavirus will be as severe as it was in 2020 but the residual risk will start tapering down between January-December as the vaccine becomes available and countries begin vaccination.

Covid-19 impacted all almost in a similar manner and in that sense created a level playing field for the post Covid scenario. Those who managed to respond better will recover faster and thrive. 2020 uncovered one side of the risk, downside risk or unrewarded risk. 2021 will be the year of another side of risk i.e. rewarded risk or opportunities. Businesses will still face big risks - continuing Covid, rapidly emerging climate change, fractured geopolitical or cyber but it is time that risk management shifts gear to become more strategic.

**Hersh Shah, Chair, India RIG**  
**CEO, IRM India Affiliate**

Emerging trends and key risks to watch out for in 2021:

- > Mass distribution supply chain risks associated with the Covid-19 vaccine
- > Increasing cyber dependency and vulnerability to data theft and cyber attacks
- > Decreasing water levels
- > Automation leading to many jobs becoming redundant
- > Acceleration in reputation risks with excessive use of social media and rising fake news
- > Increasing poverty in a post-crisis world

**Rama Warriar, Deputy Chair, India RIG**  
**Management Consultant**

## **Micro Small and Medium Enterprises (MSME)**

MSME is the sector that was most severely affected by Covid-19 related lockdowns and the economic shock that followed. But, with the reduction of active infections, towards the end of 2020, this sector has shown signs of bouncing back. MSME is an important cog in the mission “Atmanirbhar Bharat” (self-reliant India). Early to mid-2021 is the period where we are likely to see the recovery of MSME, driven by the stimulus measures in the form of credit guarantees, ease of taking loans etc. Some of the geo-political developments have provided the impetus to many large corporates to de-risk by reducing their country dependence on China. The availability of capacity makes India the right destination to help enterprises to achieve this risk reduction and MSME is likely to be a beneficiary, directly and indirectly, if the country is able to make it an attractive destination.

## **Start-up and early stage companies**

In the second half of 2020, considerable strain on start-up and early stage companies were observed. This period also showed reduction in investor enthusiasm to support new ventures. As a consequence of this, we are likely to witness a consolidation of the start-up enterprises, with the unstable ones withering away and those with good business models emerging stronger. Overall, the start-up environment in India remains very robust and stability in economy should nurture the growth of this sector. We can expect the second half of 2021 to be a period of resurgence, provided there are no significant subsequent waves of Covid-19 affecting the country. FinTech and agri-tech lines are the two likely leaders. With major agriculture reforms being rolled out, time is ripe for start-ups in the agriculture sector to blossom.

## Large technology firms

The political changes in the US are expected to be favourable to the large technology firms operating in India. The financial results of this segment of the tech firms have been excellent, considering the difficult circumstances that have existed in the last couple of quarters. This trend is most likely to continue in the year 2021 as well. Since mid-and-large sized tech firms have shown great ability to adapt to changing conditions, especially in managing the operations, they are likely to see a year of growth and experimentation with new technologies. The trends seen in the recruitment cycle also point to an expected period of steady growth.

### **Sunder Natarajan, CMIRM, Deputy Chair, India RIG Chief Compliance & Risk Officer, IndiaFirst Life Insurance Company Ltd**

The unprecedented environment does have an impact on the risks being faced by the key sectors of the country. The services sector which contributes to a lion's share of the GDP in India today is predominantly young. A dilution of demographic dividend is a distinct possibility on account of the much talked about V shaped recovery does not happen. A good teledensity based on the 1.2 billion mobile subscribers was instrumental in a large shift of the services sector workforce to working from anywhere.

However, Information infrastructure stability and risk of cyber-attacks are likely to shoot up with a larger population getting exposed and perpetrators on the rise. Excess liquidity in the banking sector and inability to harness the same may continue to be a key risk in the services and industrial sectors and may also impact the savings rate. A decent monsoon aided by relocation of urban workforce are positives for agriculture which contributes to 16% of the GDP sector. However, failure to capitalise on the agricultural reforms could impact the sector.



# Iraq RIG

## Hisham Khalid SIRM, Chair, Iraq RIG

One of the biggest risks that could effect Iraq in 2021 in is the unstable economy and the fluctuation of exchange rates for foreign currencies, as well as the inactivity in the private sector due to previous reasons, except for the risks of Covid-19, and these challenges can be summarized as follows:

The low exchange rate of the local currency against the US dollar is one of the biggest problems facing the economy in 2021, as it decreased by 20%, and this led to a rise in the prices of goods and commodities as a cost because Iraq is a consumer country and there is no industry in it, we should be importing all goods and needs from outside Iraq in US dollars. If the price of goods is raised locally consequently the financial damage occurs directly to the consumer. This leads to a decrease in sales in general because the value of money has decreased against the dollar and this reduces the process of disposing of goods, and here we mention one of the most important points. The elements that contributed to holding back the movement of the wheel of the economy in general.

Iraq suffered in the war with ISIS with many losses, including human and material, the supply of weapons and the suspension of the economy in the areas where the wars took place and the closure of many border outlets that generate economic resources for the state, meaning that the spending process here was in one direction without any resource.

Iraq faces economic risks because there is no alternative financial resource other than crude oil. This point can be summarised in that Iraq sells oil for the dollar price to provide financial liquidity from which it can be spent on local projects and infrastructure, and there is no alternative economic resource other than fees. It is surprising to mention that oil revenue represents approximately 98% of the total resource, and this result is strange because Iraq has many other resources that cannot be used.

Iraq's situation with Covid-19 is that the discharge of crude oil has become insignificant and cannot be relied upon entirely because the resources are not sufficient due to the drop in oil prices in the local markets to stop factories and production all over the world.

Failure to support the private sector and open a good space for it is one of the biggest types of risks in Iraq, because the private sector is ahead of the government sector in most respects, both intellectual and technological, and among the most prominent examples are the banks that are considered one of the pillars of the countries economy that do not receive adequate support from government agencies to take real space for it in the financial and banking sector.

Lack of insurance culture: Here we highlight that the lack of insurance or failure to properly activate insurance companies which may lead to disasters in the public and private sectors.

Disguised unemployment: A lot of state employees do not have a clear job description and the Iraqi government sector is considered one of the largest sectors in the world in terms of the number of its employees. That is, according to indicators that more than 20% of the population of Iraq are state employees, when actually 5% is the real number that performs its role in work and this is considered an expense and a burden on the government, in disbursing dues and burdening it to allocate a budget for more salaries than necessary.

# Kingdoms of Saudi Arabia and Bahrain RIG

**Darren Mullan CFIRM, Chair**  
**Sr. Manager Risk & Compliance, Bahri**

For my risk predictions last year, I selected several trends which presented both risk and opportunity across the Middle East.

For this year's risk predictions, I have provided an update against these trends within the wider context of the ongoing impacts of COVID19, continued regional socio-economic and political reform, as well as some of the well-publicised political and security tensions.

## **Economic Growth**

In January 2021, the IMF forecasted global economic growth for 2021 to be 5.5%, followed by 4.2% for 2022. This improvement follows estimated growth of -3.5% in 2020, versus pre-COVID19 estimates of growth in 2020 at 3.4%.

Whilst the Middle East countries are expected to follow the same overall upward trend in 2021 (e.g. the Saudi Arabian Ministry of Finance projects national GDP growth of 3.2%), they face a double impact from both Covid-19 and lower oil prices. For example, the IMF estimates that oil exporting countries in the region suffered, on average, a 6.6% contraction in their economies during 2020, much worse than the global average.

In general, Middle East countries have adopted a breadth of fiscal and economic mitigation measures in response to these challenges. However, despite this action the IMF has highlighted concerns that some Middle Eastern countries will incur their highest deficits in 20 years. Furthermore, the current crisis has heightened corporate default risk and credit risk for banks in the region, with the IMF estimating potential losses of up to \$190,000 billion, equivalent to 5% of GDP.

Whilst the regional economic growth will unsurprisingly continue to be driven by oil-related revenue, non-oil growth will continue to be a key area of focus (e.g. there have been further recent announcements within Saudi Arabia on the \$500bn NEOM project, as well as major additional local investment by its Public Investment Fund).

## **Taxation**

Whilst the Middle East enjoys much lower overall taxation compared to the global average (e.g. some research indicates 25% regional versus 45% global taxation rates), taxation reform continues to play a key role in the wider economic reform across the Middle East (e.g. Saudi Arabia increased its VAT during 2020 from 5% to 15%).

Whilst any further taxation reform is expected to be incremental, some of the expected areas to be targeted during 2020 include increasing taxation on wealth, property and assets. For example, Saudi Arabia recently replaced VAT on real estate transactions with a dedicated real estate transaction tax.

## **Demographics**

Across the Middle East region, the bulk of the population is predominantly below 30 years old. In last year's predictions, I highlighted that this factor will present both opportunity (e.g. meeting the needs and aspirations of these emerging consumers) and risk (e.g. meeting the increased demand for degree-level education and associated professional employment opportunities).



My own observations in the region indicate that governments, despite the current economic challenges to employment levels, are successfully responding to this increased demand for professional employment opportunities (e.g. broader Saudisation of, combined with increased female participation in, the local workforce), which in turn is fuelling consumer-led economic growth across non-oil sectors.

## **Conclusion**

In conclusion, the Middle East remains a fascinating region and will continue to respond to regional and global events, whether they have potential upside or downside. I also suspect that 2021, like 2020, will also provide some unexpected political and security challenges in the region, which are always difficult to predict but must still be managed.

Unsurprisingly, as a profession we must therefore continue to help our respective employers and clients to anticipate, understand and navigate these risks and opportunities.



# South Africa RIG

**Zanele Makhubo, CFIRM, AMBCI, Chair South Africa RIG  
Director, ERM and Business Continuity in the Public Sector**

## **Increase in mortality rate**

There has been a marked increase in the mortality rate in the country due to South Africa not having a proper risk management plan to deal with the impact of Covid-19 in saving lives and livelihoods.

There is a need for collaboration to develop a proactive risk management plan agreed upon by all stakeholders from all disciplines including: Regulators, health, business, NGOs, community, civil society groups, labour stakeholders, disaster management, and business continuity.

A fine balancing act between compliance with new Covid-19 regulations vs human factors and individual needs

The State decisions versus individual decision has been compromised. There is a need to find a balancing act through collaborated efforts, education, training, awareness campaigns, and sharing of well-vetted information.

## **Mental health and post-traumatic stress disorder**

There has and will be an increase in mental health and Post Traumatic Stress Disorder as many communities and families are trying to cope with losing loved ones, job loss, and income.

Investment by the government and business in this area is critical.

## **Other disaster events**

Drought, global warming and floods will continue in 2021 and beyond. The investment in a mitigation plans for such events is critical as we deal with Covid-19.

## **Socio-economic factors**

An increase in unemployment harms the livelihood of all citizens. This negative impact on all aspects of capitals such as: Human, social, cultural, political, financial, built environment, and natural capital will continue in 2021.



# Spain and Latin America

**José Morago, CFIRM, Global Ambassador for Spain and Latin America and Former Chair of the IRM  
Managing Director at Axon Advisory LTD**

I am relatively optimistic about 2021 and expect a gradual easing of health, macroeconomic and social pressures as the global roll out of the Covid-19 vaccines take effect. However, I cannot ignore the deep economic and social impact that the pandemic has already caused around the world, and Latin America and Spain are no exception to this.

For instance, Latin America has been one of the world's regions worst-hit by the coronavirus pandemic. This health and economic crisis have also magnified the existing vulnerabilities in the region, in terms of economic growth potential, limited fiscal space and social discontent. By the end of 2021, the region's output will still be 4.8 per cent below its pre-pandemic level, the worst performance in the world, according to IMF forecasts. At the same time, there is little chance vaccines will be rolled out speedily enough to help boost growth this year.

For Spain, although the economic prospect are slightly more positive, it is fair to say that Covid-19 crisis has also led the country into an unprecedented downturn in economic activity, with GDP falling by 12.8% during 2021 (according to the IMF), one of the largest contractions in Europe. With an above average dependency to tourism (which makes up 14.3 percent of GDP in Spain, versus 9.5 percent in the European Union), the pace of economic recovery during the year is expected to be uneven across sectors. Overall GDP is, according to the IMF, projected to grow 7.2% in 2021.

This backdrop will likely leave big scars for many economies in the region and drive structural shift in the risk landscape for firms and financial institution in the months and years to come. In particular, I predict the following as the most prominent risk challenges for 2021 and thus key areas of risk management attention for risk professionals:

## **Financial risks**

Governments have played their part by offering business financial aid (e.g. temporary loans, tax payment delays). However, in my view the gradually unwinding of the governments' fiscal and financial support of over \$12 trillion globally will likely show the true extent of the economic damage of the pandemic and crystallise in an increase of business insolvencies across different sectors. For instance, according to S&P, global defaults will rise during 2021 by over 16%. This will likely reveal the extent of credit losses for financial institutions and banks towards the end of the year.

Governments also face the difficult task of balancing near-term risks of economic damage to business and livelihoods with a medium-term need to balance their public finances. As central banks try to normalise their monetary policy or governments try to curb debt expansion through increasing taxes, there is significant risk of material market corrections in capital markets, with potential periods of significant volatility.

## **Business Risks**

As noted, Covid-19 has already had a fatal impact in a number of sectors and organisations (e.g. travel, hospitality, retail) and brought big strategic questions about the sustainability and viability of many pre-pandemic business models in the region.

In fact some the changes instigated by Covid-19 are likely to stay with us, including a new paradigm of customer behaviours (e.g. increased used of digital banking and payments or retail purchases online), an acceleration of the use of technology and the digitalisation of business processes, new ways of working for staff (workers spending more time working from home) etc. The path to the new normal will bring winners and losers and thus the need to re-evaluate the business and strategic risks of the organisation.

## Technology risk

Connected to the point above, and given the increase of digital transformations in businesses, the fight against cyber threats is likely to increase. According to the IMF, the number of cyber-attacks tripled over the past decade. The financial services sector was the most heavily targeted industry. Governments, individuals and companies can expect to continue being hit with ransomware, malware and phishing attacks. Rates of both types of cyber threat will likely to continue, leaving many organizations battling two continuous business continuity events – cybersecurity and the pandemic. The pace of attacks won't lessen in 2021.

The pandemic has also intensified companies' dependencies with critical third party suppliers, including cloud computing and data services. For instance, according Gartner, worldwide public cloud service revenue are expected to grow to \$331 billion in 2022 from \$182 billion in 2018.

With this context, understanding the risk of the extended enterprise, including the key dependencies on firm's data processes, value chain and/or customer services, will be key for the success of businesses going forward.

## Social Risks

In a society polarised in many countries and very sensitive to social events (like the Black Lives Matter movement during 2020), a path to normality will likely deepen and bring to the surface existing social vulnerabilities. Issues surrounding the availability of medical services, higher unemployment, access to education, food, poverty and inequality, and speed of access to vaccines are likely to come to the fore.

In my view, this creates the right environment for significant political and social unrest with economic consequences for businesses. For instance, in Latin America, there is a growing risk that a worsening poverty and inequality will trigger political and social instability.

In this context of higher social sensitivity, major corporations and institution will have to pay more attention to this increased scrutiny into how they behave internally and externally and their contribution to society,

Despite the potential bumpy road to recovery, I am still optimistic about 2021. However more than ever, a strategic approach to manage risks will be essential in protecting the organisation, guiding critical decisions, and generating tangible value.



# United States of America

**Michael Rasmussen, IRM Global Ambassador, Honorary Life Member IRM  
The GRC Pundit & Analyst, GRC 20/20 Research, LLC**

## **What have risk management functions learned from 2020?**

2020 brought organisations lots of disruption to objectives, operations, and employees. What started with devastating wildfires in Australia moved into a global pandemic that shut down the world and its various borders. Then, racial tensions and a focus on discrimination led to reevaluating policies and conduct rules within the organisation and across relationships.

Followed by more wildfires in California, disrupting businesses. And the year concluded with significant political turmoil, controversies, and a security breach in a third-party context for the history books with the SolarWinds breach. Throughout all of this was a risk and economic rollercoaster.

The year 2020 was a stress test of GRC related strategies, processes, and integration. Some industries and organisations failed, while others were resilient. But there are lessons to be learned looking back on 2020 for all. These lessons showed us:

- **Interconnected risk.** Organisations face an interconnected risk environment and risk cannot be managed in isolation. What started with a health and safety risk and became a global pandemic had downstream risk impacts on information security, bribery and corruption, fraud, business and operational resiliency, human rights, and other risk areas
- **Objectives became dynamic.** As the pandemic unfolded, it had a specific impact on business objectives. Adapting to the crisis, businesses had to modify their strategies, departments, processes, and project objectives. Objectives became dynamic in reaction to changes in risk exposure. These had to be monitored in the midst of uncertainty in a state of volatility with the pandemic
- **Disruption.** Business is easily disrupted from international to local events. In 2020, organisations had to respond to disruption from the pandemic, political protests and unrest, economic uncertainty, change in business models and a work from home environment, human rights and discrimination protests, environmental disasters (particularly with wildfires), and one of the largest information security breaches in the SolarWinds hack, which impacted over 250 organisations and still is unravelling
- **Dependency on others.** No organisation is an island. The year 2020 showed us that disruption and the interconnectedness of risk impacts more than traditional employees and brick-and-mortar business, but also the range of third-party relationships the organisation depends upon, as well as clients
- **Dynamic and agile business.** Business had to react quickly to stay in business in 2020. This required agility in changing employees, reduced staff with more responsibilities, and shifting to work from home environments. All this introduced new risks, as well as a demand for engaging employees and maintaining a strong corporate culture in the midst of a global concern
- **Values were defined and tested.** Organisations had to react to what their core values were and how they practiced those values. From treating employees and customers fairly in the midst of a crisis, to how they address human rights such as ethnic racism in their business, operations, and third-party relationships.
- **2020 taught us that to reliably achieve objectives, manage uncertainty, and act with integrity requires a 360° view of governance, risk management, and compliance within the organisation and across its relationships**

## What can risk management functions expect in 2021?

The world of business in 2021 is distributed, dynamic, and disrupted. It is distributed and interconnected across a web of business relationships with stakeholders, clients, and third parties. It is dynamic as business changes day-by-day.

Processes change, employees change, relationships change, regulations and risks change, and objectives change. It is disrupted, 2020 was the poster child for business and third-party disruption that rolls into 2021. The ecosystem of business objectives, uncertainty/risk, and integrity is complex, interconnected, and requires a holistic contextual awareness of risk – rather than a dissociated collection of processes and departments. Change in one area has cascading effects that impact the entire ecosystem.

This interconnectedness of business is driving demand for 360° contextual awareness in the organisation's risk processes to reliably achieve objectives, address uncertainty, and act with integrity. The elements of distributed, dynamic, and disrupted business are driving significant changes in GRC strategies in organisations in 2021.

In addressing governance, risk management, and compliance, GRC 20/20 is observing three strategic trends organisations are focusing on in 2021:

- Integrity. Organisations are re-evaluating their internal core values, ethics, and standards of conduct in 2021 and how this extends and is enforced across the organisation. The integrity of the organisation is a front-and-centre concern. Organisations see the need to define and live their corporate values in the business, its transactions, with clients, and in third-party relationships. This includes a focus on human rights, privacy, environmental standards, health and safety, corruption, conflicts of interest, compliance, how risk is managed, conduct with others (e.g., customers, partners), privacy, and security
- Resiliency. Firms globally and across industries are focusing on resiliency. The organisation has to maintain operations in the midst of uncertainty and change, and this is becoming a key regulatory requirement in some industries.<sup>1</sup> This requires a holistic view into the objectives and performance of the organisation in the context of uncertainty and risk. Organisations are striving for business and operational resiliency that requires an integration and symbiotic interaction of risk management and business continuity. The organisation in 2021 has to be a resilient organisation with full situational awareness of the interconnected risk environment that impacts them
- Integration. To support a federated risk management strategy in 2021 the organisation will look to re-architect their risk technology and information architecture. This will involve moving to agile solutions that can manage the range of risk management needs across the organisation and engage back-office risk management functions (2nd and 3rd lines), as well as front-office risk takers and owners (1st lines). Key to this integration is the ability to provide robust analytics and contextual awareness of objectives, risks, and controls to ensure that objectives are met, while uncertainty, risk, and integrity are managed across the business

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<sup>1</sup> This is a particular focus of regulators in the financial services industry. The United Kingdom's Financial Conduct Authority, Prudential Regulatory Authority, and the Bank of England has been leading in operational resiliency regulation. This has now been picked up by the European Union as well as the United States Office of the Comptroller of the Currency to address operational resiliency regulations.

# Zimbabwe RIG

**Margaret Mukurazhizha, Chair**  
**Head of Audit, Zimbabwe Tourism Authority**

## Top risks

The risks below are expected to have a significant impact on business within the country.

Risks	Drivers
Covid-19 pandemic	The country's response to the Covid-19 pandemic is being threatened by the poor state of its healthcare facilities and unavailability of key equipment and consumables. The country may also fail to timely get the Covid-19 vaccine due to supply or funding constraints which may adversely impact on its ability to recover from the pandemic.
Climate risk	With the country still reeling from the effects of Cyclone Idai which ravaged the Eastern parts of the country, two more cyclones have already been experienced as well as other tropical storms. Climate experts however note that as the effects of global warming continue to be felt the world over, extreme weather conditions are expected to continue to be experienced.
Regulatory risk	The country continues to experience frequent changes in laws, regulations and government policies. As a result of these frequent changes there is uncertainty in business planning which can adversely impact on the operations of organisations within the country.
Supply chain risks	The Covid-19 pandemic has resulted in major disruptions to global supply chains. The country has not been spared by these disruptions due to its dependency on global supply chains. Should the lockdown measures being instituted globally continue the impact of these disruptions may be severe.
Inflation	In 2020 Zimbabwe's annual inflation rates reached highs of more than 800% although this has since receded to around 340% as at December 2020. The country however expects the 2021 average inflation rate to be around 135% which is still fairly high.  However, the relative stability of the local currency is expected to stabilise prices within the economy. The good rains that are being received within the country are also expected to boost agricultural production which may reduce food imports and increase agriculture exports. These factors coupled with the expected improvement in revenues from mineral exports will help stabilise the local currency and consequently local prices.
Country political risk	The country's perceived political risk remains high. As the 2023 national elections approach, an escalation in hostilities amongst the country's political players is expected, and the current clampdown and arrest of opposition activists further heightens the country's perceived risk.  The ability of the country to attract foreign direct investment will therefore be impacted. There have also been reports of corruption especially among politically connected people which continue to dent the country's reputation.  The emergence of terrorist groups in Mozambique also poses a threat to the country's stability as the terrorist activities may spread in the region and pose a security threat to the country.

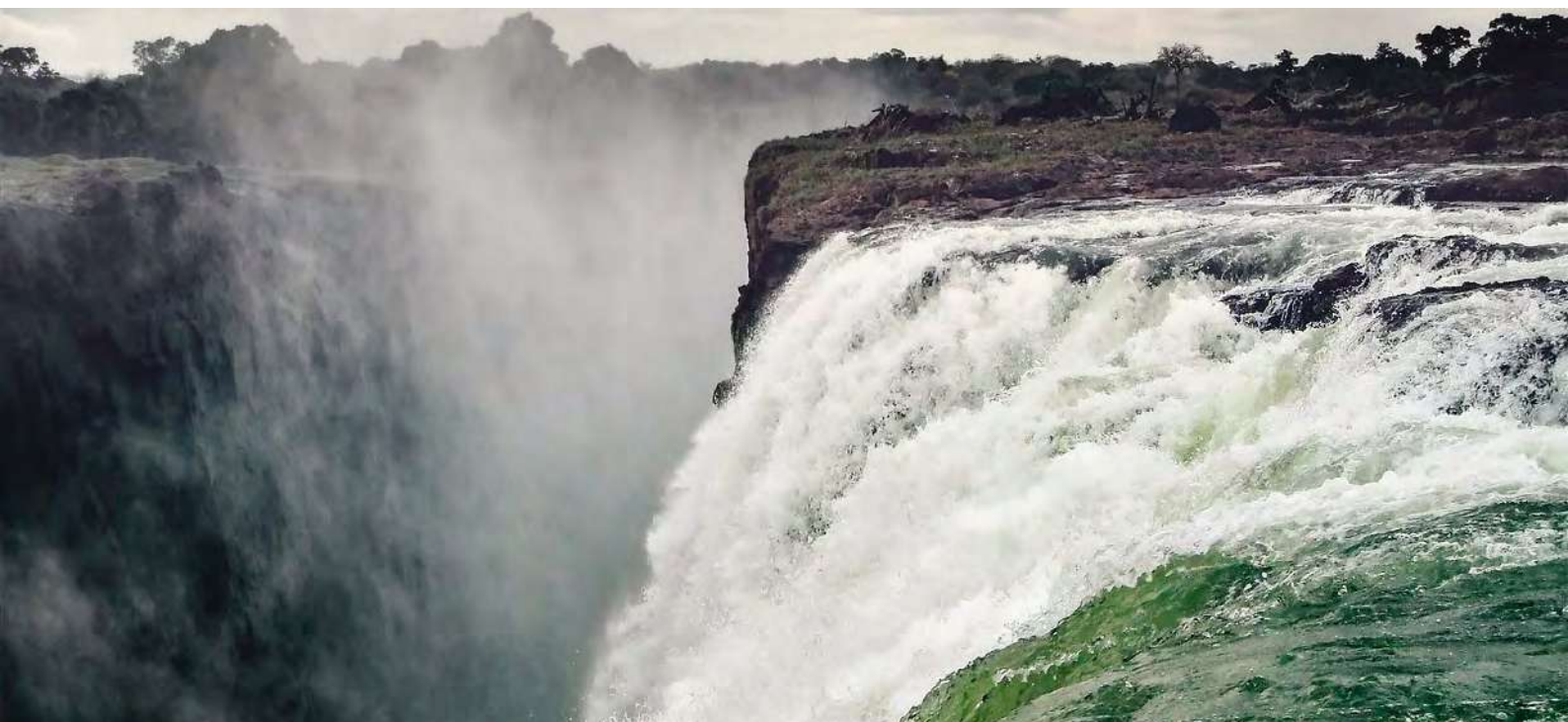
Governance and ethical risk	<p>Zimbabwe has seen a rise in corruption and abuse of office cases in the past few years. Poor corporate governance has devastating consequences to the country's economic performance and development. The country has witnessed increased cases of corporate governance breaches as reflected by the increased corporate scandals, abuse of office and corruption particularly in the public sector.</p> <p>The Zimbabwe Government has instituted important corporate governance reforms and milestones notably the Public Entities Corporate Governance Act in 2018 and the Companies Act in 2020. The governance frameworks are very comprehensive and in line with international best practices on corporate governance.</p> <p>However, most organisations still need to embrace and comply with the reforms. Attitude, resistance to change, compliance costs, cultural dynamics, oversight challenges by regulatory authorities are some of the factors that are affecting the embracing of the reforms.</p>
Infrastructural risk	<p>The quality of the country's transport, power, communication and water supply infrastructure among others has over the years been deteriorating due to inadequate maintenance and inability to upgrade capacity in order to cope with the increased demand. This may adversely impact on the smooth operation of businesses within the country.</p>
Power supply	<p>Ageing power generation and transmission infrastructure within the country continues to impact on power supply security as this infrastructure is exposed to frequent breakdowns. This continues to cause instability on the national grid. The ability of the national power utility to undertake maintenance on the national grid has also been impacted by foreign currency shortages within the country.</p> <p>The good rains that have been received so far during the 2020/21 rainy season and are expected to continue up to the end of the rainy season are expected to boost power generation at Kariba power Station which is the country's major source of electricity. The stability of the local currency and the charging of power tariffs in foreign currency are expected to boost the country's power utility's ability to maintain power generation and transmission infrastructure as well as import power to augment local supplies.</p>
Taxation levels	<p>The Covid-19 pandemic and the lockdown measures that have been instituted may impact on government's revenues. This coupled with increased government expenditure due to Covid-19 mitigation measures and the expected procurement of vaccines which was not budgeted for in the 2021 national budget is expected to put pressure on government's financial position. This may result in increased taxation by the government as it seeks to meet its expenditure.</p> <p>However, the firming up of mineral prices is expected to provide a boost to government revenues. Platinum Group Metal (PGM) prices are expected by global supply disruptions and increased demand for vehicle emissions control and in hydrogen fuel cells. Gold is expected to be buoyed by its safe haven status due to uncertainty in the global economy.</p>



## Emerging trends

The trends below are expected to impact on the country's risk landscape in 2021.

Risks	Drivers
Increased mobility of some skills	The Covid-19 pandemic has resulted in a surge in the adoption of remote working and this has shown that in some occupations such as Customer Support and ICT services, people can work from anywhere. As a result, we are likely to see increased mobility of such skills as geographical location will cease to be a matter. The country may lose such skills to other competitive foreign labour market players.
Travel restrictions for unvaccinated populations	As countries the world over roll out vaccines, they may restrict entry into their countries only to those who would have been vaccinated as they seek to contain the pandemic. This can impact on the availability and movement of specialist services to and from the country.
Localisation of supply chains	The massive global supply chain disruptions that emanated from the Covid-19 pandemic have showed the vulnerability of global supply chains. In order to enhance supply chain resiliency, companies are more likely to focus on bringing supply chains closer home so as to insulate their operations from global disruptions.
Cyber-risk	A lot of data has been forced onto the various online channels often unplanned or with poor planning, exposing organisations to serious cyber attacks
Rising unemployment	Following the knock-down effects of Covid-19, most organisations especially small enterprises have faced operational problems while due to remote working, some jobs will become redundant forcing previously employment out of employment



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A hand in a dark blue sleeve is shown balancing a line of wooden blocks on a light-colored wooden table. The blocks are arranged in a slightly curved line, and the hand is positioned at the bottom right, supporting the line. The lighting is warm, creating soft shadows on the table surface.

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