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Emerging Risk

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Agenda

- The emergence of emerging risk
- Typical approach
- A better approach
- Questions



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The emergence of emerging risk

A brief history

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What is emerging risk?

“developing or already known risks which are subject to uncertainty and ambiguity and are therefore difficult to quantify using traditional risk assessment techniques”

IAA (2008)

“newly developing or changing risks which are difficult to quantify and which may have a major impact on an organisation”

Swiss Re



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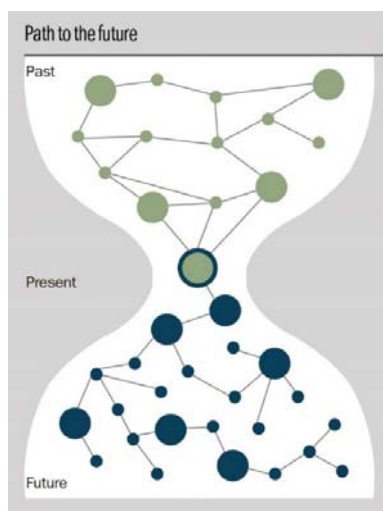
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What is emerging risk?

- In practice, emerging risks are issues that are perceived to be potentially significant but may not be fully understood or quantified.
- Typical features:
 - New or evolving risks
 - Significance may be uncertain, not well understood
 - Difficult to quantify due to lack of data and/or volatility
 - Consequences and implications can be ambiguous
 - Typically outside of an organisation's control

What is emerging risk?



“Emerging risks are difficult to identify because of the combination of their dynamic, highly interconnected and evolutionary nature. In other words they behave like the outputs from a complex adaptive system.”

Allan, Cattle, Godfrey, Yin (2013)

Why bother?

- Potential for high impact
- Get ahead of the curve – advantage?
- Influence development
- Allocate resources before they become scarce
- Some actions take time – proximity
- Risk Culture – the implausible can happen



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Risk culture – expert predictions

“Stocks have reached what looks like a permanently high plateau.”

Irving Fisher, Economics Professor
Yale University, 1929

“I think there is a world market for maybe five computers.”

Thomas Watson, chairman of IBM
1943

“It will be years – not in my time – before a woman will become Prime Minister.”

Margaret Thatcher, future Prime Minister,
October 1969

The implausible can happen.....



Black Swan scenarios - "There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know."



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Risk culture traps

WILFUL BLINDNESS

The risk of becoming blind to events

Why does it happen?

- We are naturally biased
- Limited brain capacity
- Zero sum attention
- Consistent over-/stressed working
- Complex organisations
- Clustered mindsets
- Power of belief
- Desire to belong/be accepted
- Power of the group
- Destructive obedience

Compromised decision-making
Greater errors

GROUP THINK

Thinking collectively with 1 mind for the sake of unity and consensus

What are the signals?

- Excessive optimism/illusion of invulnerability
- Ignored warnings/selective information
- Belief in moral advantage
- A belief that outgroup are troublemakers
- Self-censorship
- Direct pressure on dissenters
- Illusion of unanimity
- Members who "protect" the leader from conflicting information or dissenters

Unchallenged, poor quality decisions

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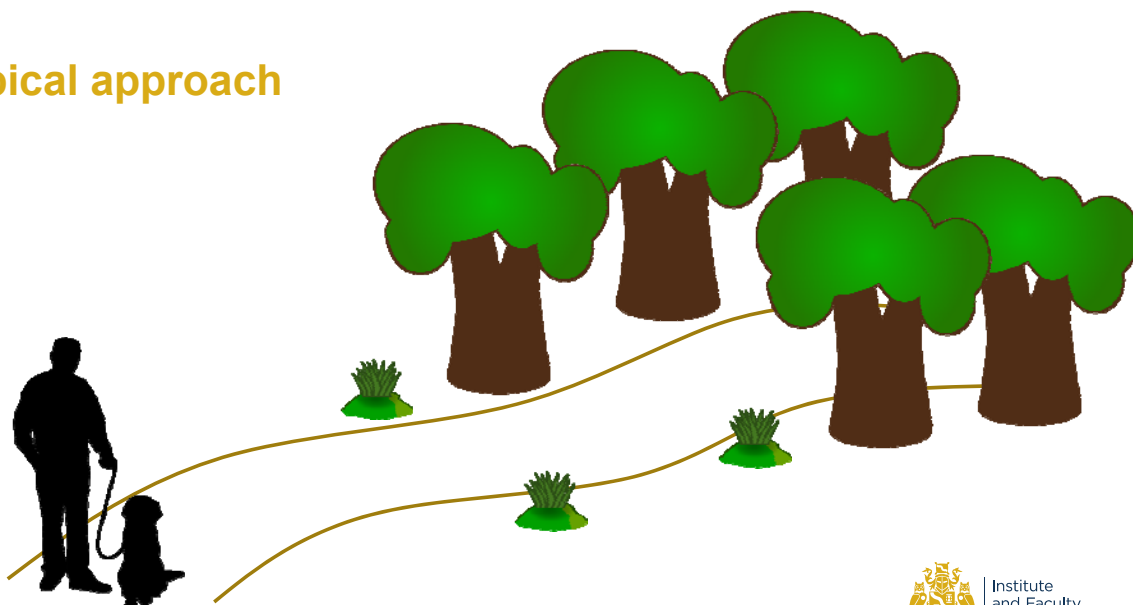
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Typical approach



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Typical approach



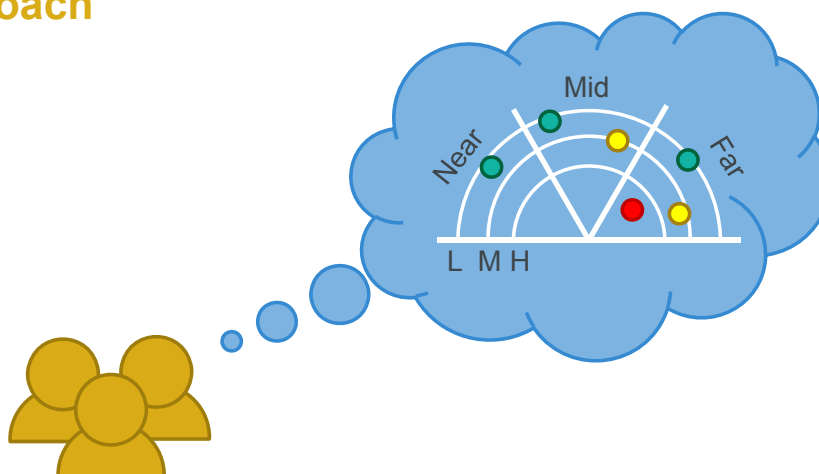
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Typical approach

Political
Economic
Social
Technology
Legal
Environment



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Typical approach

- Challenges
 - Lack of relevance
 - Hard to determine impact(s)
 - Single topics
 - Doesn't help learn about Black Swans



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A better approach

Insight, Foresight and Artificial Intelligence



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Complex systems approach

- Focus on outcome types that people care about
- Reveal interesting dynamics by telling stories
- Use rich narratives which include multiple factors which interact to produce the outcomes
- Accept that given a single set of starting conditions, more than one type of outcome could result
- Dynamic learning process (avoids fatigue for “far” risks)
- Look for tipping points (especially in slow-moving scales)



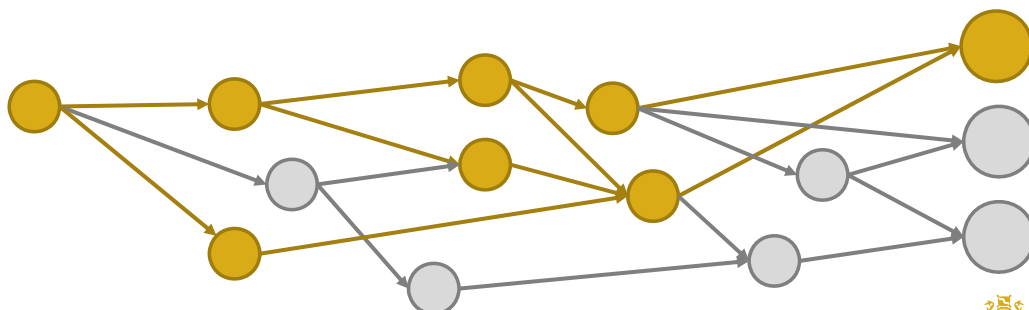
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How to do it better

Complexity – outcomes emerge from interactions
Pick an outcome and describe the journey to get there

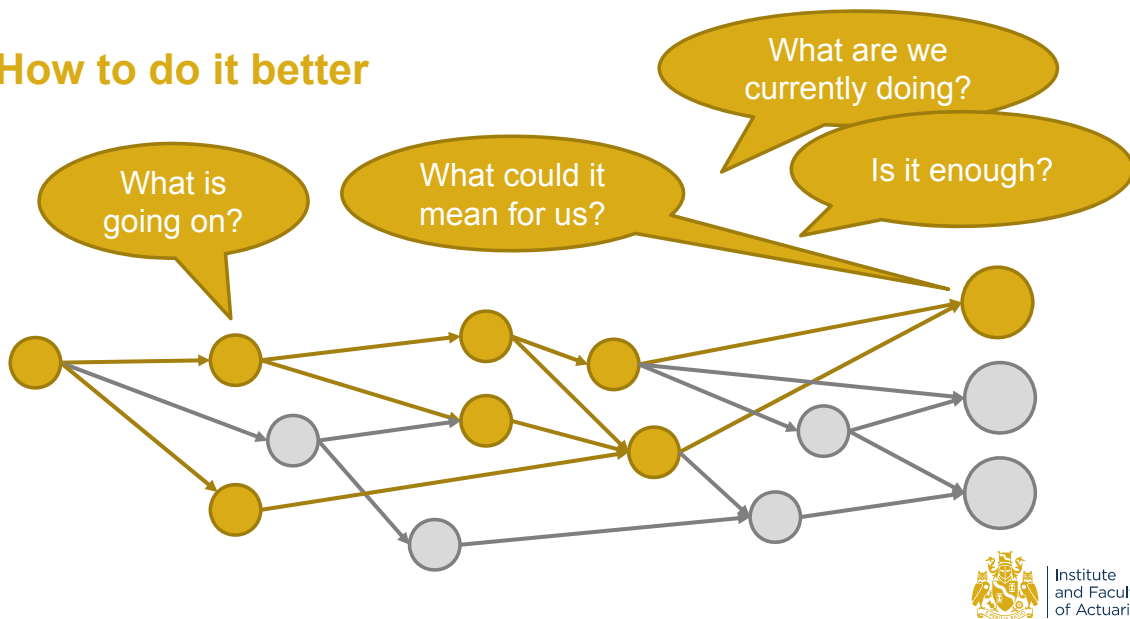


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How to do it better



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In practice

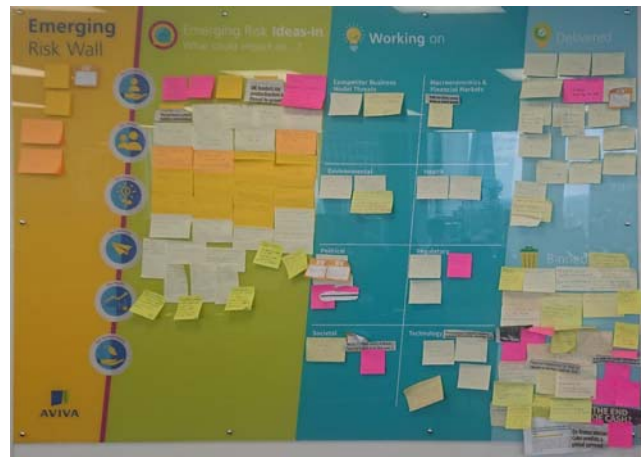
- Inputs
 - SME thoughts – formal mechanism to capture
 - AI – challenge your biases
- Scenarios
 - 2-page: What is the situation? What could happen? What could it mean for us? What are we doing already...is it enough?
 - CRO notes to lead discussion
- So what
 - What new actions to take? Watch and see (what to watch?); no-regrets actions now; contingency plans if it happens?

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The “Emerging Risk Wall”

Agile development from this...



...to this.



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Using AI

- Supplement SME imagination
 - Investigate topics of interest
 - Machines read “chatter” on those topics
 - Challenge natural biases of internal SMEs
 - Identify emerging themes
 - How do themes interact?
 - Which themes are likely to persist? (Seeing the wood for the trees)
 - Influencers, sentiment, etc.
 - Which themes are bubbling below the surface?



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Summary

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Summary

- Tell stories
- Specify outcomes
- Build a wall 😊
- The Board's "favourite thing"
- A dynamic ongoing learning process
- A pivot from **oversight** to **insight** and then to **foresight**



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Questions

Comments

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