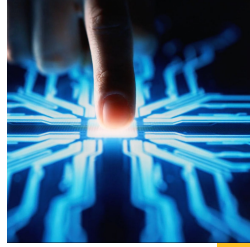


Australian version

Global Risk Survey 2023: Australian Highlights

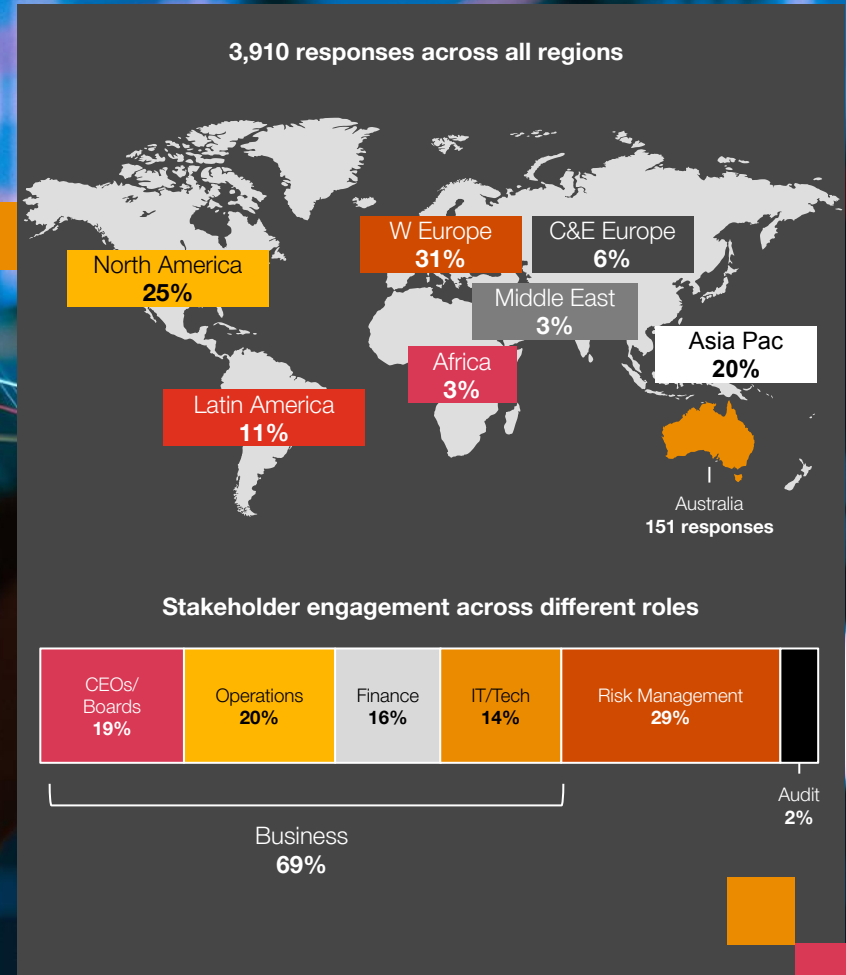
From threat to opportunity

How a tech tipping point is fueling
reinvention, resilience and growth



Overview

If we don't take risk, we don't progress. Taking risk intelligently is the only way organisations can reinvent and transform to survive, create value and prosper in this time of uncertainty, while building resilience to protect value in the face of complex, ever-changing risk. PwC's Global Risk Survey 2023 reveals how leading organisations are changing the way they see risk by embracing the transformative power of technology and data in pursuit of opportunity and value creation. The research—which surveyed 3,910 business and risk leaders globally and 151 responses from Australia, from the boardroom and C-suite, across tech, operations and finance, as well as risk and audit—also highlights how technology is playing an increasingly important role in helping organisations protect value by mitigating and managing downside risk more effectively.

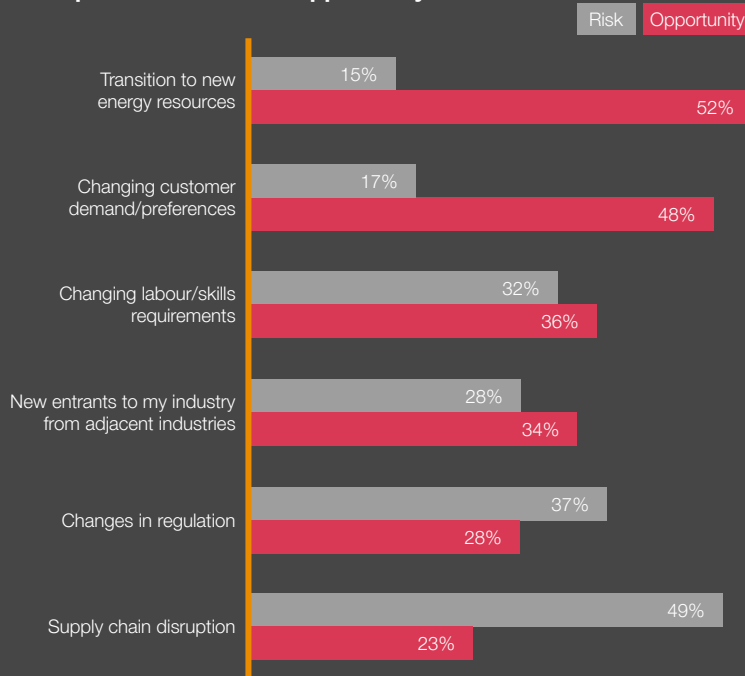


Risk management is shifting from value protection to value creation

The transition to new energy sources is seen as the biggest opportunity among external disruptors, cited by 52% of respondents, closely followed by changes in customer demand and preference 48% which is aligned to the opportunities identified by global business and risk leaders. As the world continues to change, Australian organisations have reconsidered their business models, the changes in the contemporary workplace and skill requirements to adapt to the evolving labour market and impacts of digitisation and low-carbon economy. More Australian respondents consider changing labour requirements as an opportunity as opposed to a risk (36% vs. 32% respectively).

By contrast, supply chain disruption is the main external factor seen as more of a risk than opportunity, cited by 49% of respondents followed by changes in regulation 37% globally and within the Australian market. Industry sector also has an impact on whether organisations sit at the value protection or value creation end of the risk appetite scale. Those in faster moving sectors, such as retail and tech, are more likely to embrace risk and seek opportunity, while those in regulatory driven sectors such as government and financial services are more likely to prioritise compliance and focus on risk avoidance. Different functions within the organisation also have different perspectives on risk, with information security roles (60%) followed by finance and operations (43%) more likely than others to say their organisation is focused on risk avoidance over a high risk appetite.

Perceptions of threat vs. opportunity



Technology is impacting the way Australian organisations see risk

Technology is playing an increasingly significant role in shaping Australian organisations' exposure to risk, their appetite for taking risk in pursuit of new opportunities, and the tools they are using to mitigate it and build resilience.

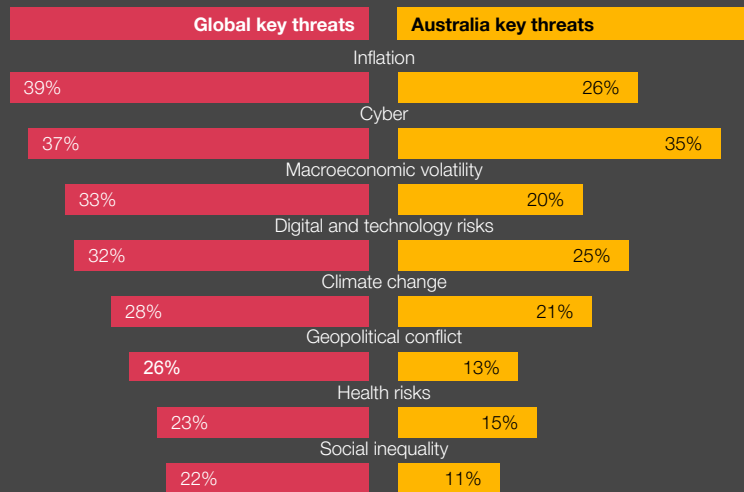
Cyber, remains the top tech-related threat ranks the highest in terms of the risks, Australian respondents feel most exposed to (35%), while other digital and tech risks are almost on a par with inflation risks (25% and 26% respectively). Australians have placed less emphasis on geopolitical changes and conflicts this year in comparison to last year. (13% vs. 19% respectively).

As digital and technology adoption accelerates, Australian businesses have placed a slightly larger emphasis on cyber risks this year (35%) than in 2022 (32%). A third of CEO respondents in our survey say they feel highly or extremely exposed to cyber risk, while Australian business leaders primarily responsible for managing risk, ranked cyber risk above inflation (49% in comparison to 22% respectively).

Perceptions of key threats and opportunities has evolved significantly in the twelve months since our previous survey. In such a dynamic and fast-moving risk landscape, organisations need to build enterprise resilience which allow them to respond to disruption in an agile and collaborative way.

While global and Australian respondents have emphasised the significant impact technology is having on today's risk landscape, it is also important that Australian organisations don't lose sight of the people and talent related risks which were top of mind in 2022. In order to build a human-led, technology-enabled risk capability, it is more critical than ever that organisations attract and retain smart people who understand the business and operating environment.

2023 Top Threats to Growth



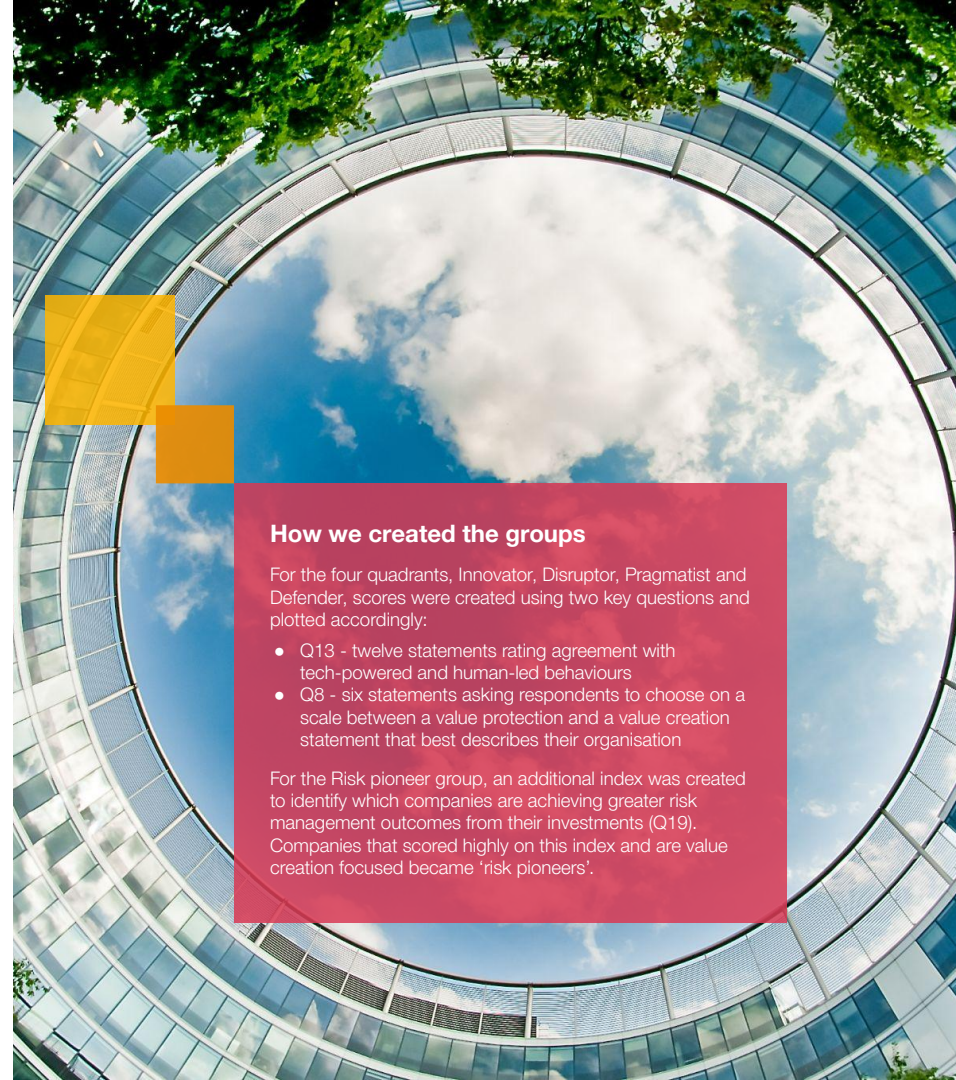
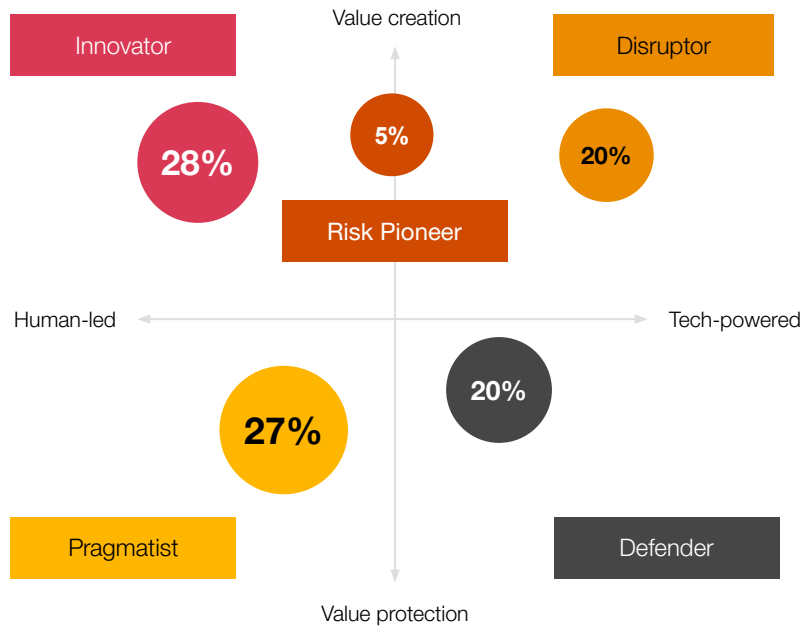
Source: PwC's Global Risk Survey 2023

Looking Back—What Risks were Top of Mind for Australian Business Leaders (2022)?

- 1 Cyber (32%)
- 2 Business operating model (22%)
- 3 Geopolitical (19%)
- 4 Talent - recruitment and retention (19%)
- 5 People - workforce management (17%)

Source: PwC's Global Risk Survey 2022

Our analysis revealed that while the majority of respondents belong to one of four archetypes, there is a distinct separate group focussed on human-led, tech-powered value creation



How we created the groups

For the four quadrants, Innovator, Disruptor, Pragmatist and Defender, scores were created using two key questions and plotted accordingly:

- Q13 - twelve statements rating agreement with tech-powered and human-led behaviours
- Q8 - six statements asking respondents to choose on a scale between a value protection and a value creation statement that best describes their organisation

For the Risk pioneer group, an additional index was created to identify which companies are achieving greater risk management outcomes from their investments (Q19). Companies that scored highly on this index and are value creation focused became 'risk pioneers'.

The key characteristics of Risk Pioneers

Our survey shows a fairly even spread of Risk Pioneers across most industries. From a global perspective, risk pioneers are particularly prevalent in financial services, retail and consumer, technology, media and telecoms, and from organisations with revenue of USD\$5bn or more. Respondents are more likely than the survey average to be CEOs and the board (34%) and their organisation is more likely to have seen revenue increase in the past six to nine months and be expecting it to increase again in the next 12 months. Almost three quarters (73%) of Risk Pioneers also have an enterprise wide technology strategy and roadmap, which includes investment in technology specifically to drive resilience and/or manage risk—compared to 53% of overall survey respondents.

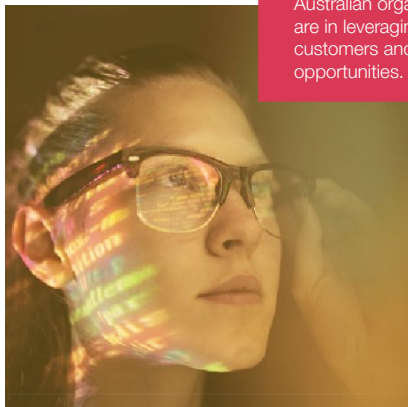
These leading Risk Pioneer behaviours and outcomes reveal a clear gap that organisations need to address if they want to make more effective use of tech and create opportunity and value out of risk. Australian organisations need to invest more in cutting edge technology and data to navigate risk, rely less on legacy technologies that hinder their ability to manage and respond to risk, build robust risk and compliance mechanisms to effectively mitigate risks and comply with regulations and demonstrate strategic behaviours such as challenging senior management on strategy and risk appetite, guiding their businesses through complex changes and bringing better risk insights to the board.



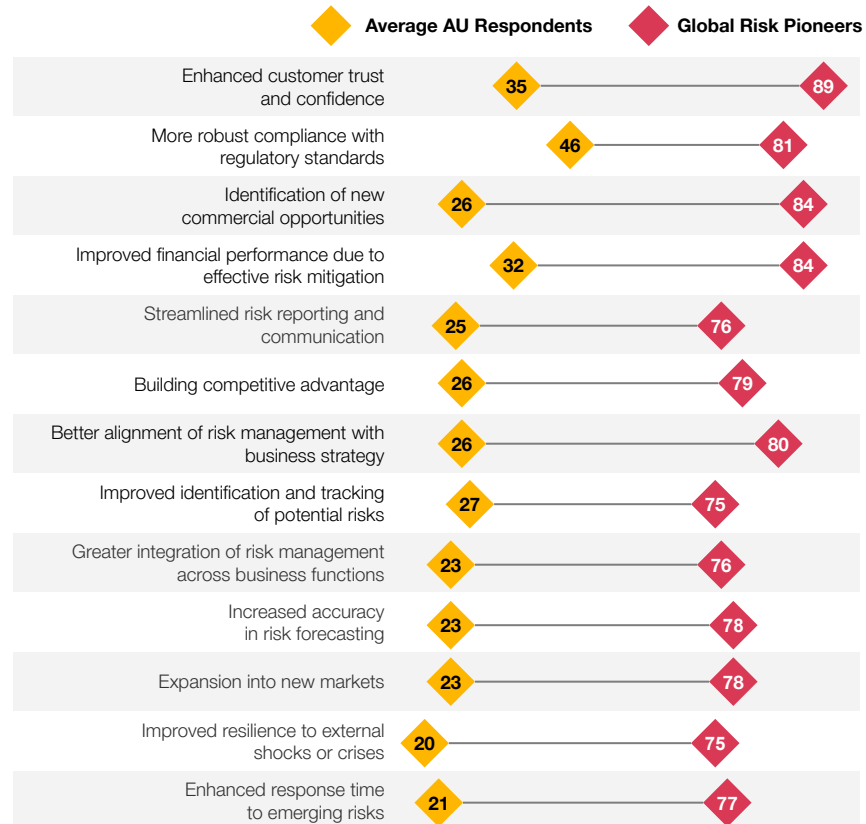
The key characteristics of Risk Pioneers

Underpinned by strategic enterprise wide resilience and guided by a human-led, tech-powered approach, risk pioneers are significantly more likely than other organisations to be upskilling internal teams and making greater use of advanced analytics, predictive modelling, cybersecurity tools and cloud to navigate risk. And they are more likely to see emerging technologies such as GenAI as an opportunity rather than a risk.

Compared to global peers, Australian firms have relied more heavily on technology to enhance compliance efforts. The largest opportunities for Australian organisations, compared to risk pioneers, are in leveraging risk technology to build trust with customers and identify new commercial opportunities.



The gap between Risk Pioneers and overall survey respondents for outcomes achieved to improve their approach to navigating risk



Q. Which, if any, of the following has your organisation achieved in the last 12 months to improve its approach to risk?
Base: All respondents=3910 Source: PwC's Global Risk Survey 2023



Closing the gap—
Five ways you can
be a Risk Pioneer

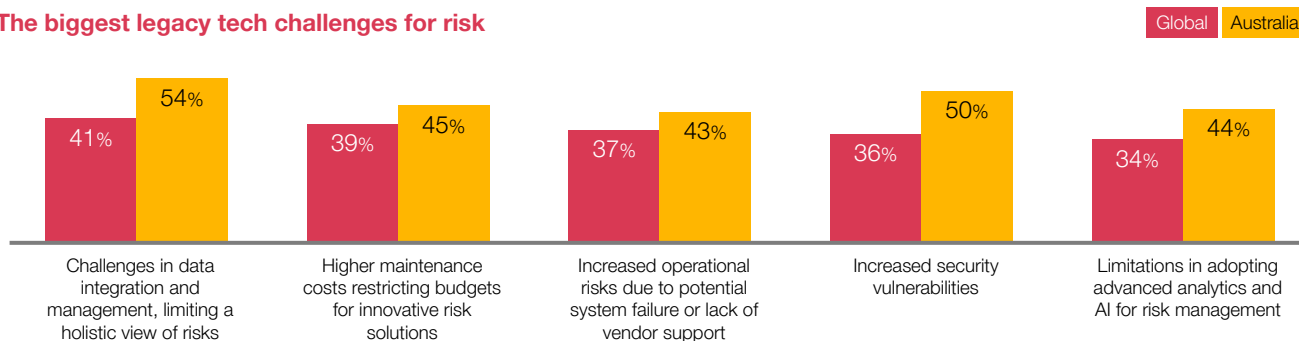


1 Match technology ambition with action

There is clear ambition among most organisations to take a more tech-powered approach to risk, seen by their intention to invest in AI, machine learning, automation, cybersecurity and cloud. But many are still at relatively early stages of maturity in their use of technology and data for managing risk.

For example, only 8% of Australian organisations report using advanced and predictive risk management capabilities. Compared with global peers, Australian organisations report a higher impact of legacy technologies on their ability to take a tech-powered approach to risk. Increased use of technology and data can not only provide organisations with greater accuracy and predictive capability for managing risk, but can also reduce cost, increase scale, and improve the sustainability of risk management efforts.

The biggest legacy tech challenges for risk



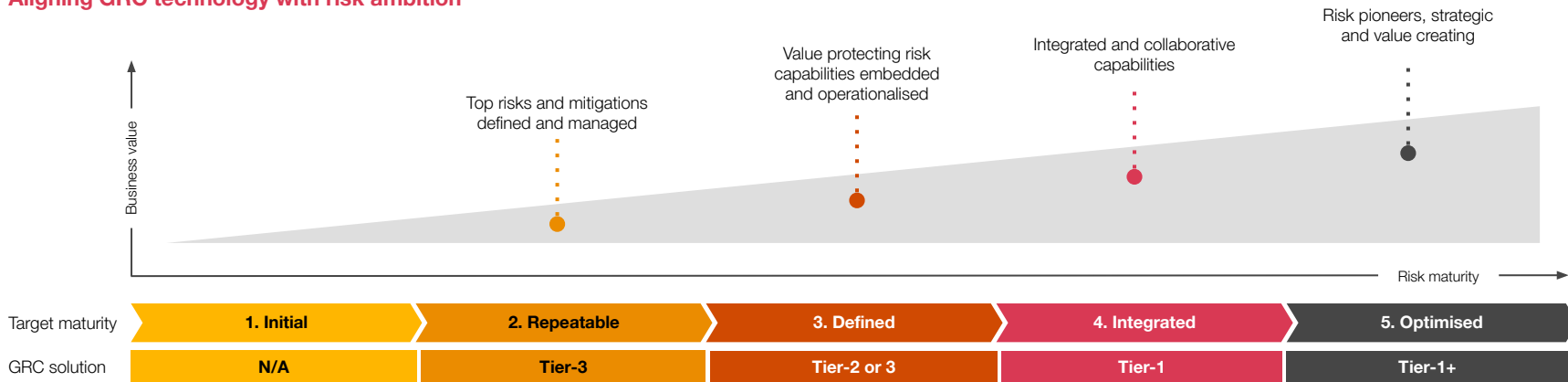
Despite these challenges, Risk Pioneers are demonstrating that the opportunity for early advantage is still available to those bold enough to move quickly, and embrace emerging technology at speed. The opportunity for Australian organisations looking to move quickly up the maturity curve is to ensure risk technology decisions are aligned to their longer term ambitions.

Q. In what ways, if any, have legacy technologies impacted your organisation's ability to manage and respond to risk?
Base: AU respondents=151, All respondents=3910

Source: PwC's Global Risk Survey 2023



Aligning GRC technology with risk ambition



In addition, there are five guiding principles that Australian risk pioneers are adopting to accelerate their journey towards data-driven, forward-looking risk insight

1

Have a clear vision and strategy involving people, process, technology and data



2

Remain in lockstep with broader business transformation and technology direction



3

Leverage what is available rather than create shadow technology



4

Seek the right balance between delivering value and implementing the target operating model



5

Consider digital enablement use cases across the risk lifecycle



2 Put purpose at the heart of your risk strategy

An approach to risk led by a clear and authentic purpose can help organisations be more resilient and guide which risks to embrace or avoid. It ensures the whole organisation understands the direction and ambition for the future, and helps build trust with stakeholders—from employees and customers to investors and regulators.

Purpose provides a vital strategic lens on whether a risk is more threat or opportunity, particularly around issues such as climate change, sustainability, ethical supply chains and the responsible use of emerging tech, such as GenAI. Yet only around a quarter (24%) of Australian respondents say they strongly agree that their organisation uses purpose and vision for the future to make decisions about risk (compared to 32% of global organisations). Positively, 72% of Australian organisations are using risk information to inform strategy and planning decisions, compared with just 64% of global respondents.



A purpose-driven approach to risk

A purpose-led risk strategy provides clarity on what is important, and how this needs to be embedded in the business.

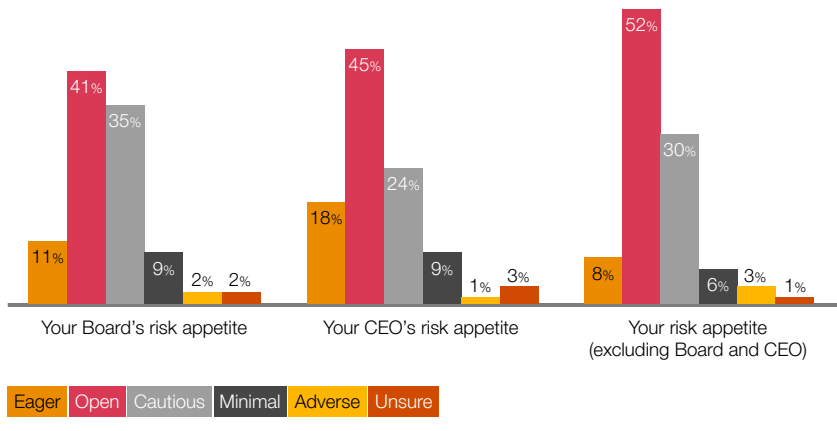


3 Fix the leadership disconnect

Most Australian organisations (93%) are confident they can balance growth ambitions with managing risk effectively, but there are differences when we analyse responses across different job roles and functions. For example, 40% of Australian CEO and board respondents are very confident of balancing growth and risk, compared to just 30% of finance & operations leaders and 25% of risk & audit leaders.

Australian organisations are also experiencing divergence between Board, CEO and the broader organisation, with only around a fifth of risk executives saying that their own risk appetite matches that of their CEO and board. This divergence can be compounded when there is a lack of clarity in the risk management roles across the organisation / Board, or ambiguity around end-to-end ownership for critical risks.

Diverging views on risk appetite



Q. How would you best describe the risk appetite of the following? Base: AU respondents=151

Source: PwC's Global Risk Survey 2023

We see far greater alignment between the CEO/board and risk among the top performing Risk Pioneers. Almost a third (32%) of Risk Pioneers stated that their own risk appetite matched exactly that of their CEO and board, compared to just 22% of overall respondents. In order to enhance clarity and alignment, Australian risk pioneers are effectively embedding and operationalising risk appetite across their organisations in a variety of different ways.

Embedding risk appetite across the value chain

Strategy development and resource allocation

- Strategy planning and assessment processes
- Capex and investment business cases, M&A/Due Diligence
- Capital and financial modelling
- Tolerances and thresholds applied to strategic choice, linked to capital allocations
- Risk appetite thresholds and tolerances communicated through business plans

Operations execution

- RAS in assessment of business plans and initiatives
- Risk characteristics of businesses and operations assessed on their adherence with the RAS
- New products/new market development, Technology assessments, Third party management, ESG, Cyber, Regulatory compliance, Business Continuity & resilience, Projects
- Integrated into policies, DoAs and procedures

Oversight and monitoring

- Risk limits and exposures managed against targets and tolerances
- Regular risk-adjusted performance reporting
- Strategic decisions approved outside the RAS are carefully monitored

Performance measurement

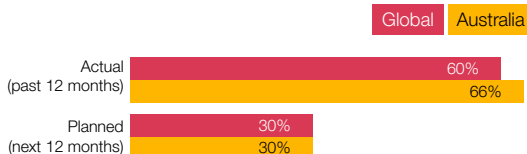
- OKRs incorporate key risks
- KRIs embedded in Executive Management incentives
- Executive Management rewards includes performance against risk appetite

4 Build a foundation of strategic resilience

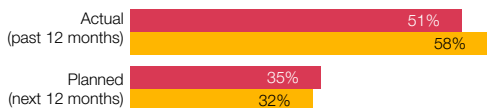
There is a close link between resilience investments and achieving risk management outcomes, with better performing organisations more likely to have invested across more resilience initiatives in the last 12 months. In the Australian context, there are multiple regulatory tailwinds (including CPS 230, SOCI) driving this investment forward, and leading organisations are taking this opportunity to not only deliver compliance, but also enhance their resilience maturity.

Investments in resilience

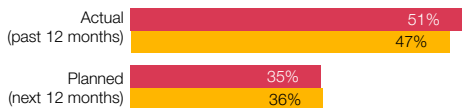
Upgrading our critical systems so that we are more resilient against cyber attacks



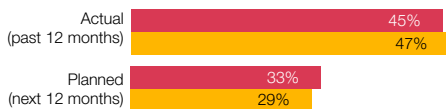
Establishing a cross-functional resilience team with members from functions like business continuity, cyber, and enterprise risk



Expanding our network of key suppliers as part of business continuity plans



Sharing information with industry peers, through formal processes, to prevent systemic risks



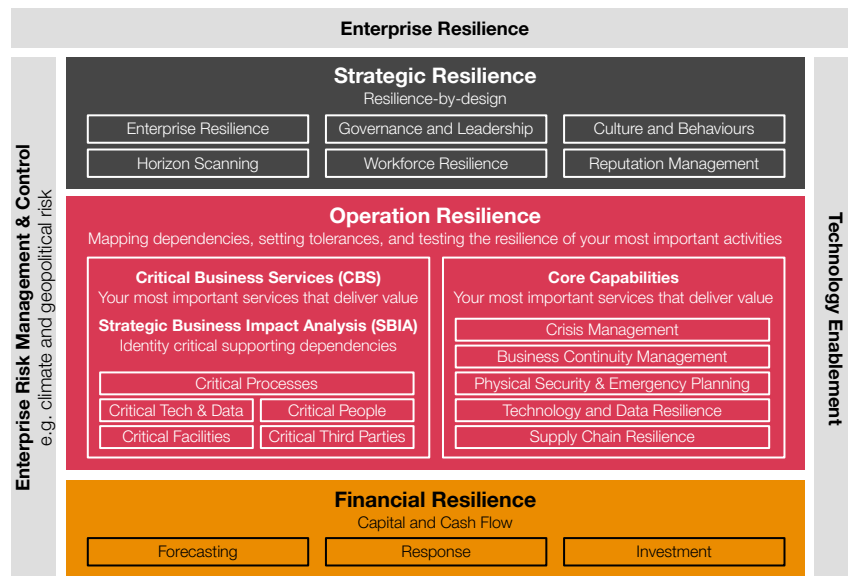
Q. Which, if any, of the following resilience investments have your organisation made in the in the last 12 months or are planning to in the next 12 months?

Base: AU respondents=151, All respondents=3910

Source: PwC's Global Risk Survey 2023

Despite increasing investment, only 20% of Australian organisations (compared with 28% globally) report achieving improved resilience against disruptions over the past 12 months. This is in part due to many organisations taking a siloed approach to preparing for and responding to disruptions, rather than adopting an enterprise resilience capability which demonstrates strategic, operational and financial resilience, informed by enterprise risk management and aligned with enterprise controls. Australian organisations remain behind their global peers. Ongoing focus and targeted investment is needed to close the gap.

PwC Global Enterprise Resilience Framework



5 Create a culture where diverse and bold thinkers can thrive

Ambitions of making risk a strategic capability that helps organisations to take on risk with confidence and unlock new opportunities must be matched with the development of culture, skills and capabilities.

Another key growth mindset behaviour evident in top performing organisations is detoxifying failure through a 'safe to fail' culture, where employees feel they can experiment and adapt to different circumstances. However:

- Only 26% of Australian organisations say they strongly agree that upskilling teams to be better prepared for potential risks or that providing employees with the right skills to better enable them to solve complex problems are a priority, compared to 60% and 58% of Risk Pioneers respectively
- Just over a quarter of Australian organisations (26%) strongly agree their organisation has a safe to fail culture, compared to half of Risk Pioneers.

Prioritising risk capabilities and culture

Global Australia



An organisation's risk maturity is no longer solely dependent on having the right risk infrastructure (systems, policies, procedures etc.), but more importantly having alignment of culture, behaviour and capability to the risk infrastructure, appetite and strategy. Surprisingly, this alignment is often overlooked in successfully transforming the way organisations manage risk.



An effective risk culture enables a clear understanding of risk appetite and confidence that risks will be identified and managed as desired. Supporting this culture with strong risk management capability across all three lines of accountability and a safe to fail mentality, can result in the following people-related risk outcomes which are fundamental to transforming the way organisation's manage risk:

Line 2 are a strategic partner, with Line 1 owning risk management

Line 2 is seen as an **integrated function** within the business, where the value of their role and the consideration of risk is understood by the business. They work in conjunction with Line 1, who are **engaged and take ownership of risk management**.

People are empowered to make informed risk decisions

Risk decisions are made with the **right information** by the **right people**, at the **right time**. People feel their input is valued in decision making and can provide constructive challenge.

Risks are identified and escalated in a timely manner

Risks are identified and escalated in an open and timely manner. A **feedback loop is provided** where risks have been escalated.

Issues are prevented from recurring

There is **continuous learning** which **prevents** the same issues **from recurring**, and the way risk is managed is **constantly enhanced**.

Effective use of resources with the right skills

People have the right **risk management skills and training** and there is **effective use of resource** to manage risk well.

There are a number of ways organisations are understanding and assessing these people-related risk outcomes by:

- Conducting maturity assessments of the current and desired maturity of risk culture and accountability, and risk capability and capacity
- Reviewing the skills and capabilities to support risk management across the three lines of accountability
- Identifying and assessing a RACI matrix to support effective ownership and accountability of risk management
- Diagnostic of current and desired risk culture and behaviours
- Designing and implementing behavioural interventions to mature and embed the desired risk culture and capability





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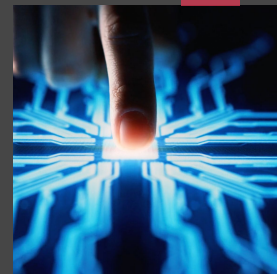
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