2022 Global Risk Survey

Embracing risk in the face of disruption

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The world is different than it was two years ago and so is the risk environment in which organisations operate. Change is fast and disruptive.

As the world continues to change quickly, and not always for the better, Australian business leaders are grappling with new and emerging risks, and opportunities in navigating the volatile environment. They are still adjusting to 'COVID-normal', where business models have been challenged and – in some cases – reinvented. Meanwhile, further uncertainty is coming from interest rate hikes, inflationary pressures, supply chain disruptions and accelerating digital and technology adoption, heightened cyber security and data risks together with climate action expectations and policy directions of a new Federal Government.

Customers, investors and other stakeholders are now expecting more on ESG, including the physical and transition risks that a changing climate poses. Each of these risks can cause significant impacts, but because they are also highly interconnected, any one risk can have far-reaching implications across the enterprise and put brand and reputation at stake.

These factors – and more – dominated the responses of Australia's business leaders in our 2022 Global Risk Survey.

Despite the volatile business environment, there is optimism, with 76% of Australian and global organisations expecting revenues to grow over the next 12 months.

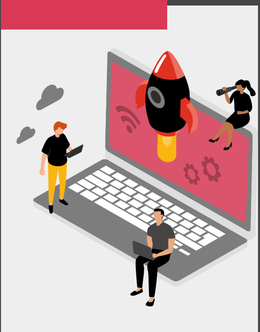
Top 5 global risks to revenue growth

22%	Market risks
21%	Business operating model
20%	Cyber
20%	External change
18%	Geopolitical risks

So how can organisations embrace risk to support revenue growth? What are the risks impacting Australian organisations?

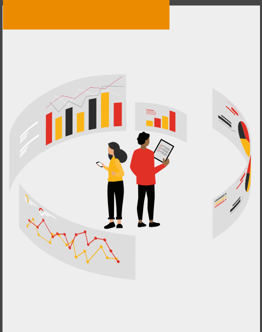
The top 5 Australian risks

32%



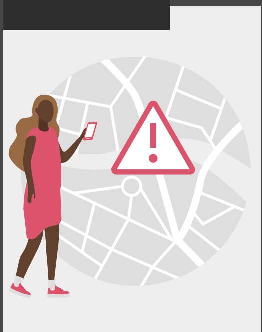
Cyber/ information management

22%



Business operating model

19%



Geopolitical risks

19%

Talent (recruitment and retention)

17%

People (managing your current workforce)

Australia’s top 5 risks to revenue growth

Cyber risk

A heightened focus in Australia

In 2022, Australia’s business leaders are significantly more concerned about cybersecurity risks than their global counterparts (32% and 20% respectively). In fact, local leaders rated cybersecurity risks more highly on their ‘risk radars’ than COVID-19 pandemic impacts, economic volatility, or climate change. As digital and technology adoption accelerates, leaders are understandably mindful of how organisational complexity and historical under-investment might expose them to cyber threats. The Government is also increasing its focus through the recent appointment of a federal cabinet minister to oversee Australia’s cybersecurity strategy. In addition, the Security Legislation Amendment (Critical Infrastructure Protection) Act 2022 places broader risk management obligations on Australian critical infrastructure providers (which is now more broadly defined), beyond existing requirements for cyber resilience.

Geopolitical risk and impact on operating models

Instability on our doorstep

Since our survey was conducted, geopolitical tensions have escalated in several ways – not least with the Russian invasion of Ukraine[1]. Meanwhile, China’s influence in the Pacific has also been subject to greater media debate and scrutiny. Leading Australian organisations are investing in scenario analysis and modelling to help them understand the potential implications of such strategic risks. They are leveraging the lessons learnt from the uncertainty caused by COVID to help them model plausible outcomes which they may need to respond to.

In an increasingly interconnected world, rising geo-uncertainty will further challenge existing business operating models and resilience strategies. Coupling these tools with the experience of managing crises during the pandemic should enable Australian business leaders to manage new and emerging risks more effectively than a few years ago.

[1] The survey was in field from March-April 2022, so the conflict in Ukraine had already started

Talent and people risk

An outcome of Australia’s geographic and COVID enforced isolation

For the past two years, recruitment pathways for skilled overseas workers have been closed. When Australian organisations were asked about challenges to managing risks in their organisation, the highest concerns were:

87% **Constraints on risk management resources**

87% **Risk owners lack of required skill sets**

84% **Risk functions lack of required skill set**

79% **High employee turnover**

The war for talent is already having an impact on risk management functions across the country. In order to address talent challenges, Australian leaders are planning to use a combination of:

- Recruitment
- Technology uplift
- Flexible operating

From a recruitment perspective, 58% of organisations indicated that they will focus on increasing headcount in the risk function. 63% of respondents plan to increase their spend on risk technology which will enable the risk function to be more efficient and sustainable in the medium term and also enable the enterprise to generate quicker insights and better manage risks. Many Australian organisations are also intending to bridge the skills gap and add flexibility to their operating model through the use of managed services for risk, with 54% of respondents indicating they would increase their managed services spend in the coming year.

Seize the opportunity through strategic risk management capabilities

In this turbulent business environment, many executives find the need to revise and adapt their strategies and operating models at a rapid pace.

They know that capturing opportunity and avoiding disruption requires speed. While managing disruptions, organisations are simultaneously dealing with internal digital transformation challenges, and how to bring along internal stakeholders as they automate business processes and drive digital into everything they do.

A robust risk strategy can allow Australia's business leaders to navigate uncertainty with more confidence. Based on our extensive research and work with various organisations – here and overseas – we've identified five high-impact areas that can help drive value, elevate risk maturity, shift mindsets, increase confidence and enable an appetite aligned approach to risk and opportunity.

Organisations' risk management and broader resilience capabilities need to quickly adapt to support business agility and to contribute proactive, robust and timely risk insights for decision-making. In an environment where change is constant, strong risk and resilience capabilities can provide an edge. Business leaders can make confident decisions in pursuit of their strategy that are informed by a panoramic view of risk.

Our 2022 Global Risk Survey suggests five key actions that organisations should adopt to confidently navigate this uncertainty and capitalise on opportunities whilst mitigating against downside events:

1. Engage early and get risk insights at the point of decision
2. Take a panoramic view of risk
3. Set and employ risk appetite to take advantage of the upside of risk
4. Enable risk-based decision-making through systems and processes
5. Double down efforts on top risks.

1. Engage early and get risk insights at the point of decision

Risk management capabilities provide great value to board members and business leaders when they are embedded within the organisation's strategic planning and decision making processes.

Strategic decisions should be revisited frequently in a volatile and uncertain environment. The way in which risks are managed should adapt so that real-time risk insights and analysis can support risk-informed decision-making by stakeholders across the organisation. Risk management capabilities should be agile and operate in an iterative and coherent manner to reflect the organisation's changing risk profile.

PwC's survey shows organisations recognise the importance of this imperative: nearly **eight in ten** say keeping up with the speed of digital and other sources of transformation is a significant risk management challenge.

The organisations that have stood out from the pack in the past two years have not just managed risks. They've taken calculated risks, with confidence. These organisations have benefitted from greater agility. They have the right resources engaged in making risk-informed decisions at the right time. Robust analysis and modelling is a key component of proactive risk management, as is including risk management capabilities at the start of new projects and other strategic initiatives. Today, **less than 40%** of global business executives are reaping the benefits of engaging relevant subject matter expertise early in their programmes.

Key considerations for engaging early and getting risk insights at the point of decisions include:

- Embed risk management into the strategic planning, business decision-making processes, and large-scale transformation initiatives
- Bring diverse risk insights together by forming a risk community of solvers to keep abreast of key risks and related analysis
- Conduct plausible scenario planning and modelling to address key business risks

Observations from the Australian context

The COVID response showed many Australian organisations that things can get done in uncertain conditions and barriers can be removed across the enterprise. Use these lessons to drive end-to-end risk management and improve the ability to make mutually supportive decisions in the business ecosystem through information sharing & collaboration.

Organisations are beginning to unlock the power of data and analytics to drive forward-looking and predictive risk insights on how well risks are being managed.

2. Take a panoramic view of risk

Organisations commonly use key performance indicators (KPIs) to measure performance against strategic objectives and to support decision-making. The same approach should be used for measuring and monitoring risks.

When connected to key business risks, key risk indicators (KRIs) can provide insights on how the key risks are being managed in the organisation's environment. Movement in KRIs provides early-warning signals or triggers for leaders to reevaluate strategies, risk management capabilities and risk mitigation activities. Examples of KRIs for cybersecurity in monitoring ransomware threats, for example, may include phishing occurrences, number of open critical points, email security issues, or leaked credentials.

Changes in KRIs can identify opportunity as well as downside. Supply chain risk KRIs might include supplier quality ratings, financial health measures, and more. These could assist in strengthening the supply chain before it is too late, in an environment of greater risk. The ability to utilise and interrogate data is a key tool in being able to analyse changes in the risk landscape.

The survey shows that companies are investing in greater insights: **three-quarters** of executives are planning on increasing spending across data analytics, process automation and risk management technology to support the detection and monitoring of risks. Sharing investment and further integrating technology and risk data across the three lines could help to efficiently drive a panoramic view of risk across the enterprise.

Key considerations for taking a panoramic view of risk include:

- Mine KRIs from internal and external data for real-time risk intelligence
- Take advantage of the data and risk tools you have available to get a more panoramic view of the rapidly evolving risk landscape across all three lines
- Establish risk-monitoring capabilities and escalation procedures to allow a timely response to rapidly increasing risks

Observations from the Australian context

Understand the spectrum of risk exposures, inter-related risks and recognise differences in approach for managing strategic risks versus operational/financial risks – i.e. strategic risks involve choices which requires a scenario analysis and monitoring approach integrated with a decision, whereas operational risks are controllable and should be minimised through effective controls and monitoring.

Other emerging risks which Australian organisations are watching closely:

- Recession vs inflation – Investors are foreseeing attempts to raise real rates could produce a large financial shock somewhere, triggering an economic recession which, in turn, would kill any inflationary pressure
- Green Swan Events e.g. Extreme weather, climate action failure, natural disasters, biodiversity loss, human made environmental disasters. Increased urgency on sustainability
- Pressure on the supply chain – three critical challenges facing global supply chains: labour shortages, material/equipment availability, and the ripple effect of global bottlenecks and/or political uncertainty

As a growing number of risks prove hard to anticipate, operational resilience will become a core capability for management of critical vulnerabilities. This places greater emphasis on use of risk appetite, tolerances and triggers.

3. Set and employ risk appetite to take advantage of the upside of risk

Business leaders saw opportunities to thrive in the face of disruption during the pandemic.

Risk and return are inextricably linked, but not at any price. An organisation's risk management capabilities can create tremendous value if they help the organisation take advantage of the upside of risks that have higher return, within acceptable guardrails.

Risk appetite is a useful tool to help business leaders understand where they can and should not take more risk in pursuit of new opportunities and growth. It sets the guardrails within which the board asks executives to stay as they make decisions and execute on their strategies. If an opportunity requires more risk than the organisation's appetite allows, it may be helpful to revisit risk appetite and consider if the organisation is willing to take on more risk for greater reward. Among global respondents, **22%** report they are now realising benefits from either defining or resetting their organisation's risk appetite. They also recognise that it requires some time and effort to properly embed risk appetite in the key business processes and decision making.

Risk culture also plays a role in taking advantage of the upside of risk. For example, a too strong compliance culture can stifle innovation; whilst too weak of a compliance focus can impact brand and reputation. An effective risk culture enables business leaders and risk managers to have a clear understanding of the organisation's risk appetite and it gives the board and senior executives confidence that risks will be identified and managed as desired across the organisation. When strategy, risk appetite and risk culture are aligned, business leaders can take decisive action.

Key considerations for employing risk appetite to take advantage of upside risk include:

- Establish a clean risk appetite statement to clearly articulate how much risk the company is willing to take in pursuit of strategy
- Educate risk owners on how to leverage risk appetite as they make business decisions
- Define your desired risk culture; provide training and raise awareness to achieve desired culture

Observations from the Australian context

Many Australian organisations are challenged in establishing a dynamic link between their risk appetite with their day-to-day decisions and actions. We would recommend that you start with the biggest decisions and most mature processes for your material risks. This requires recognition that strategic risks are desirable (therefore higher appetite) and are required to generate returns.

Designing a more dynamic risk management capability where upside can be realised, while keeping risk to acceptable levels or managing them when they occur, is key. This should be reinforced by a culture which encourages a risk/reward mindset.

Embedding risk appetite enables organisations to make risk-informed decisions to take advantage of the upside of risk and effectively manage downside impacts

4. Enable risk-based decision-making through systems and processes

With the growing complexity and interdependencies of risks, more timely and relevant information is needed to be able to make risk-informed decisions.

Many organisations don't have a common risk language which enables an organisation to productively view and make decisions about risk. Driving consistency in risk management capabilities across the organisation can be difficult. Oftentimes, disparate risk processes and systems are deployed contributing to challenges in achieving a common and a consolidated view of risk. Investment in risk processes, frameworks and enabling systems is needed to help an organisation deploy a standardised and consistent approach to risk management.

While **75%** of global organisations report that having technology systems that don't work together is a significant risk management challenge, just **35%** of those are addressing that challenge in a formal, enterprise-wide manner.

Key considerations for enabling risk-based decision making through systems and processes include:

- Employ a Government, Risk and Compliance (GRC) technology platform to enable a consistent approach to risk management across the three lines and to be the single source of truth
- Leverage a singular risk assessment approach to drive consistency in the identification and prioritisation of key business risks
- Establish strong relationships across the three lines and clearly define roles and responsibilities related to risk activities
- Put in place reporting and data requirements defined by both business and risk leaders

Observations from the Australian context

End-to-end risk processes should be mapped to identify pain points to drive streamlining of process flows and automation:

- Uplift capabilities in modelling, decision making, automating risk and control assessments, early warning systems, real-time reporting and visualisation
- Enhance risk reporting to provide greater insight on whether risks are improving or worsening – e.g. through the use of dashboards
- Determine the more accessible and higher value data sets and build KRIs to show the value, conduct continuous monitoring, sensing and create forward focused insights

5. Double down efforts on top risks

Talent management. Supply chain disruption. Regulatory compliance. Cyber & Data threats. ESG. Regardless of industry sector, these risks are likely impacting organisations' strategies and operations. Some of these risks can be managed. A robust response and recovery plan is required for those that can not.

These high-priority risks are tightly interconnected, which means one can amplify others and the impacts can be far reaching. For example, what may start as a technology risk can quickly pose big operational, financial and reputational risk consequences.

Risk management capabilities should go beyond the traditional risk analysis, and perform deep dives on these fast-moving, high-priority risks. It should identify the risk triggers and signals and help risk owners understand the interdependencies between the risks which matter the most in the organisation. And an evaluation of risk management plans should identify actions and coherent decisions which the organisation should take to mitigate impacts and drive greater resilience.

Not all risk exposures can or should be completely mitigated or avoided. A critical capability to strengthen resilience is to recognise that some risks can not be prevented. Robust business continuity and crisis response plans can enable the organisation to respond to risks in a swift and agile manner which enhances trust, confidence and the brand/reputation.

Key considerations for doubling down efforts on top risks include:

- Perform an interconnectivity assessment over key business risks
- Facilitate deep dives into mitigating activities over key risks
- Develop and exercise robust business continuity and crisis response plans

Observations from the Australian context

Australian organisations are recognising they need greater skills and expertise for complex risks, such as third party risks, privacy, data, financial crime, strategic/modelling, cyber and ESG – the challenge is that line two headcount is still low, placing greater reliance on alternate sourcing models and greater automation to free up existing skilled resources.

Strategic risk management: The payoff

In a business environment defined by volatility and laden with interconnected risks, risk management must be a team sport.

Ownership of different risks is understandably spread more and more across distributed parts of the organisation, yet all parts must work together, with well-informed risk insights and a common understanding and usage of risk appetite.

Our survey found that when organisations embrace risk management capabilities as a strategic organisational capability, board and executive confidence in achieving sustainable outcomes is high.

Organisations are **five times** more likely to be very confident in delivering stakeholder confidence, a growth-minded risk culture, increased resilience, and business outcomes. And, they're almost **twice as likely** to project revenue growth of 11% or more over the next twelve months. Strong risk management capabilities help protect the organisation from downside risks and enable the organisation to look forward and take risks in pursuit of growth. It's a win-win.

The top 10% of global respondents – the ones that are realising the benefits from strategic risk management practices – expect faster revenue growth and better outcomes.

Business outcomes

- Increased share prices
- Improve returns on strategic investments

Stakeholder confidence

- Increased board confidence
- Gain customer trust
- Increase confidence among external investors

Growth-minded risk culture

- Improve organisational resilience
- More risk aware culture
- Make decisions faster

For a deeper discussion on how to address risk at your organisation, please reach out to one of our Risk experts below.

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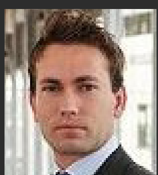

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