

GRAFT Update on World Economic Forum's 2022 Most Severe Risks

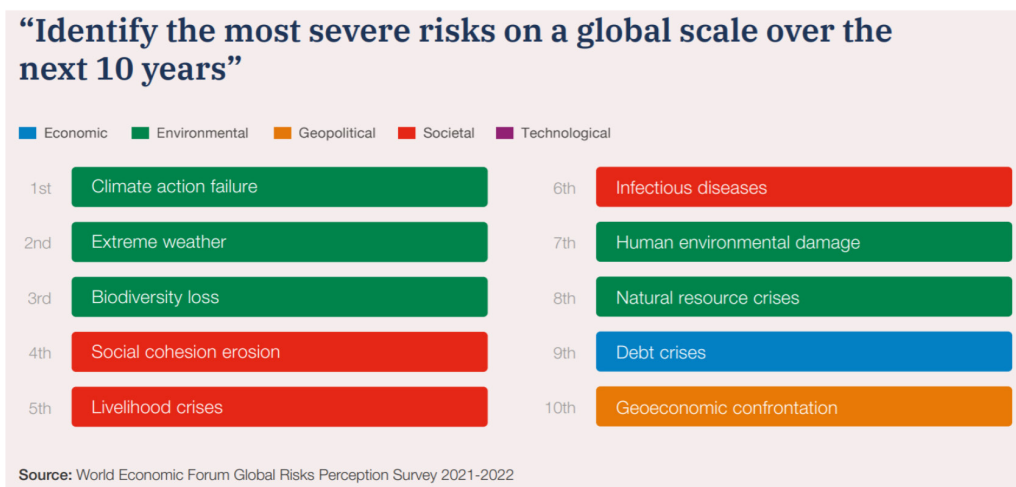
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WEF'S MOST SEVERE RISKS

The World Economic Forum (WEF)'s 2022 Global Risk Report surveys business and political leaders worldwide and prioritizes current risk trends.¹ Non-financial risks again top the list, from climate action failure and extreme weather events to erosion of social cohesion, infectious diseases, debt crises, and geoeconomic confrontation.



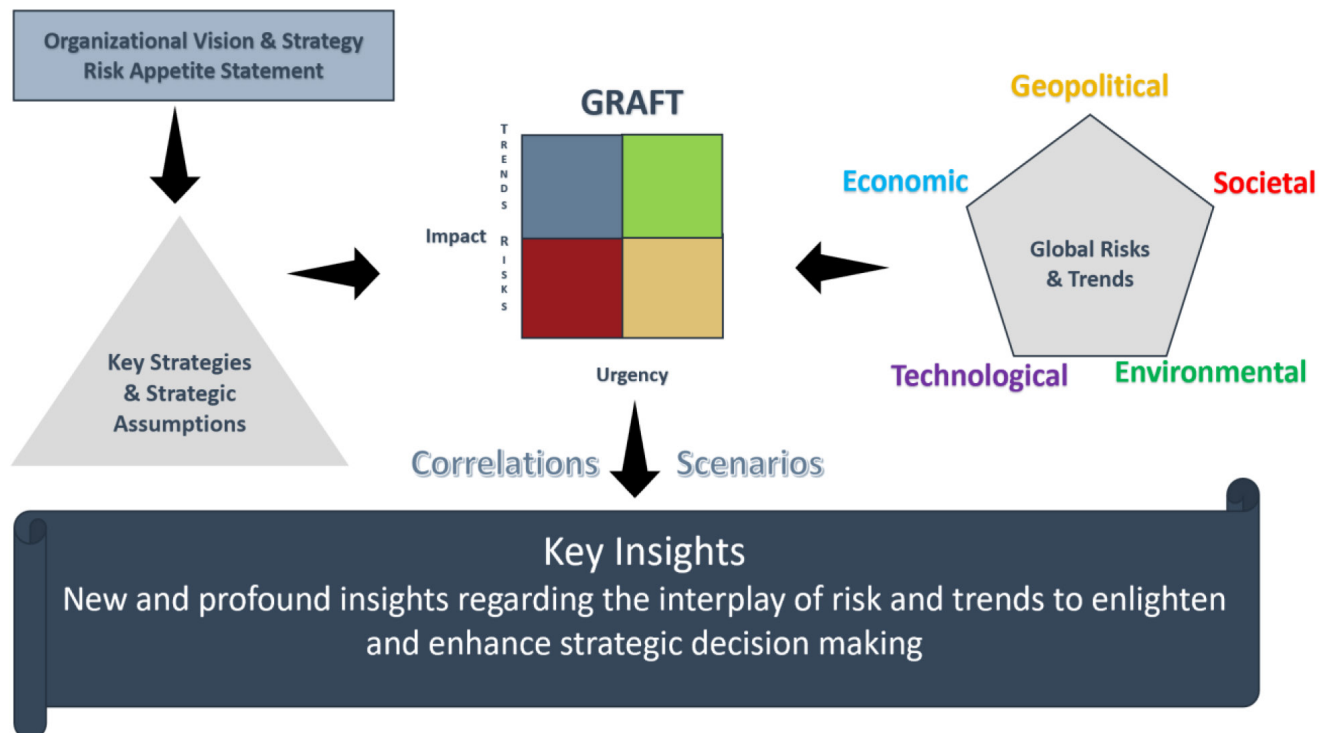
This year's WEF list sees environmental hazards taking the top three spots and being half of the top 10. Societal concerns (social cohesion, livelihood, and infectious diseases) are also top of mind. Climate action failure continues to rank high on the list despite the 2021 Glasgow Climate Pact, where most nations agreed to net-zero by 2050 emissions targets, with significant interim cuts expected by 2030 – as did hundreds of financial institutions globally. Concern that these commitments will be challenging to accomplish keeps climate inaction on the top of the list.

Interestingly despite the unprecedented fiscal stimulus of the past two years to assist society through COVID-19 shutdowns of the economy, the debt crisis ranks well below the environmental and societal concerns. The Canadian view on the debt levels is markedly different. Each country has a slightly different prioritization of risks, with Canada's

top 5 as 1) Debt crises in large economies, 2) Climate action failure, 3) Extreme weather events, 4) Employment and livelihood crises, and 5) Infectious diseases.

GLOBAL RISKS AND TRENDS FRAMEWORK (GRAFT)

Nine Canadian Financial Institutions have adopted the principles of the Global Risks and Trends Framework (GRAFT)² to help them identify and integrate these nonfinancial risks into their enterprise risk management (ERM) framework. GRAFT is designed to help organizations identify, assess, and respond to global risks and trends in order to avoid pitfalls that could threaten an organization's long-term survival or, conversely, to leverage for the benefit of the organization.³ This paper updates GRAFT with input from the new risk priorities.

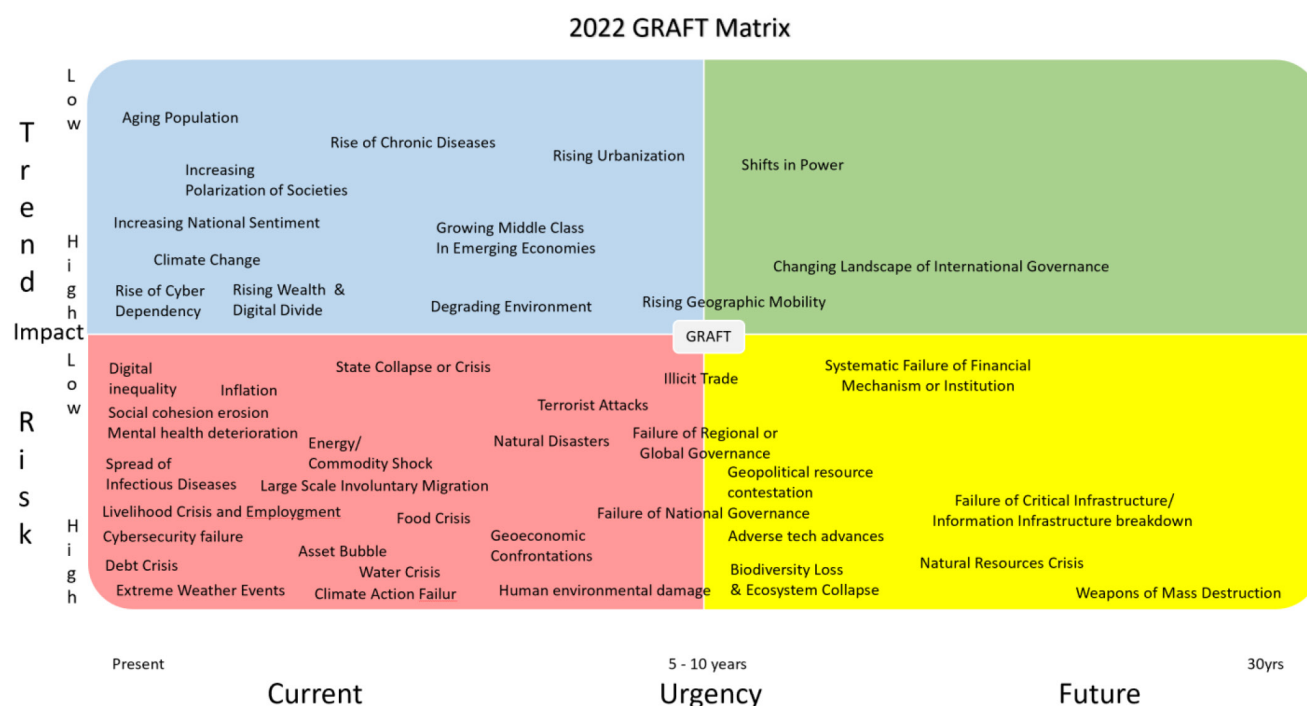


GRAFT INTEGRATES NON-FINANCIAL RISKS INTO ERM FRAMEWORK

As organizations start 2022, it is essential for them to reassess the strategic assumptions that underlie their strategies. The significant immediate Societal Risk for 2022 is still the spread of infectious disease. Given the spread of the COVID-19 Omicron variant and the trend of cyber dependency, the underlying assumption has changed financial institutions' plans to transition back to the office and remain primarily in work from home (WFH) environment until spring or potentially summer. Despite short-term emissions reductions during the early part of the pandemic by a large part of the economy, there are no signs that emissions reductions are permanent. This, coupled with the torrent of extreme weather events (EWE), brought climate change close to home in British Columbia and the Maritimes as well as globally. These events have captivated media, and broken local and global supply chains must be reviewed in light of underlying strategic assumption of accessibility and production to build plans A, B, and C into the organization's resiliency strategic and operational plans.

The GRAFT Matrix (next page) illustrates the prioritization of risks and trends for 2022, combining previous and newly prioritized risks and trends. Most notably is the knock-on effect of the spread of infectious disease (COVID-19) in livelihood crisis and the erosion of social cohesion. After an organization is familiarized with the global risks and trends, the task of prioritization to create one's own GRAFT Matrix based upon impact, over an urgent to future time horizon (now to 30 years).

Risks and trends do not happen in isolation; this is why the next step is to identify the most impactful correlation of risks and trends for an organization. For 2021 the most significant risk correlation is the spread of infectious disease and erosion of social cohesion and mental health, geoeconomic confrontations, and extreme weather events evidenced in supply chain delays and shortages. Correlations in 2022, in addition to the correlations of 2021, include the debt crises spurred on by inflation, potentially another bursting of the asset bubble, and cybersecurity failures.



The quantification of the impact of these risks and trends is identified through stress testing and scenario analysis based upon the correlations identified.⁴ Insight from this analysis is then fed back into the planning process to adjust or reinforce the corporate goals, Key Risk Indicators (KRI), and Key Performance Indicators (KPI).⁵

CONCLUSION

As we go forward into 2022, organizations will be challenged to address the WEF's new and existing top risks. Before implementing GRAFT, many organizations had an "as required process" to identify and evaluate the impact of external risks. Financial institutions' enterprise risk management frameworks often focus mainly on Credit, Market, and Operational Risk, without explicitly focusing on non-financial risks. By following the GRAFT process, leaders complete a systematic and thorough

review of risks and opportunities. They confirm their intuitive concerns surrounding global climate action failure and extreme weather events. More importantly, the use of GRAFT stimulated awareness and discussion of a broader range of risks, leading to the development of a more targeted growth strategy as well as a plan to develop enhanced, segmented portfolio monitoring, downside risk analysis to quantify the magnitude of losses under a variety of stress assumptions and implementation of early warning indicators to prompt early action in the face of actual market deterioration. By implementing GRAFT, senior leaders and the board can enhance their approach to strategic growth while methodically improving risk management.

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ENDNOTES

1. https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf
2. <https://globalriskinstitute.org/publications/global-risks-trends-framework-graft-overview/>
3. Ibid.
4. <https://www.sciencepublishinggroup.com/journal/paperinfo?journalid=173&doi=10.11648/j.ijefm.20210904.12>
5. <https://globalriskinstitute.org/publications/distribution-analysis-for-information-risk-a-cyber-quantification-framework/>