




## Finding your blind spots: Recognising emerging risks and opportunities


Risk Advisory


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## Risk Advisory

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The continual evolution of global operating environments presents an array of potential opportunities, threats or disruptions to business. To successfully navigate this landscape of uncertainty, organisations need to develop the capacity and techniques to systematically identify, prioritise and respond to **emerging risks and opportunities**.

This is a subject area that business leaders are looking to their Enterprise Risk Management functions to lead on given the importance of shaping and challenging strategic and operational plans and decisions through the lens of emerging risks and opportunity. It is also recognised that:

- risks are dynamic and so there is a clear need to ensure stakeholders are kept informed on identified opportunities and threats; and
- early alert to risk events and scenarios gives businesses the ability to plan ahead, prepare and respond against adverse impact and shock events.

### What are emerging risks?



Debate continues across various (risk) institutions, agencies / regulators and academics on a formally agreed and accepted definition of emerging risk. The definition which for us resonates is that of the International Risk Governance Council (IRGC) who define an emerging risk as ‘a new risk, or a familiar risk in a new or unfamiliar context (re-emerging)’.

No doubt this debate on a final definition will continue for some time, we shouldn’t allow this to distract businesses from further understanding this subject area, developing pragmatic and sustainable approaches and continuing to explore how findings and insights can be applied to the challenges set above.

Our experience from working with organisations across multiple industries suggest emerging risks emanate in two forms.

#### Previously unforeseen risks ‘new risks’



Shifts in the internal or external operating environment will expose the organisation to a *wholly new set* of circumstances and risks that have previously never been identified.

#### Re-emerging risks



The way the business has considered the definition, impact or has managed previously identified risks *changes to reflect a new or different understanding* to reflect the continuously evolving operating landscape.

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Emerging risks will invariably be poorly understood, and the impact, likelihood or onset of the risk will be uncertain at best and/or even unknown. Waiting until information is complete or a consensus is built is not a prudent course of action, the passage of time may well limit mitigation options or effectiveness, or even the potential to realise the emerging risk as an opportunity. If unmanaged emerging risks can disproportionately threaten an organisation's strategic objectives and close opportunities to create competitive advantage. Today's 'landscape of uncertainty' with rapid technological change, political instability and evolving stakeholder expectations reinforces the need for effective management of emerging risks.

However, we recognise that for many organisations, even those with sophisticated risk management functions it can be challenging to translate this need into action. Our practical guidance is informed by three key principles:



Emerging risk identification, prioritisation and response, must be **systematic**. Roles, responsibilities, information sources and thematic consideration should be defined in the approach. The aim of the process is not to identify every plausible emerging risk, but to ensure it is a defined and repeatable process. Creating the framework that provides the approach for how emerging risk activities should be performed will be critical to success, this should be sufficiently agile to ensure that time investment is not disproportionate to the emerging risks itself.



A robust approach to emerging risks will be an **inclusive** approach, ensuring that a multitude of stakeholders and sources are consulted. Acknowledgment that different perspectives from individuals with alternative viewpoints will enrich the process, establishing a cross functional team to drive the achievement of the vision for emerging risk.



**Fit for purpose**, an organisations approach to emerging risks needs to match the entities needs, aspirations and available resources. The practical guidance we propose is scalable and it is recognised that for many organisations developing an approach to emerging risks will be an iterative process over time.

These principles are reflected across the steps in our practical guidance shown overleaf.

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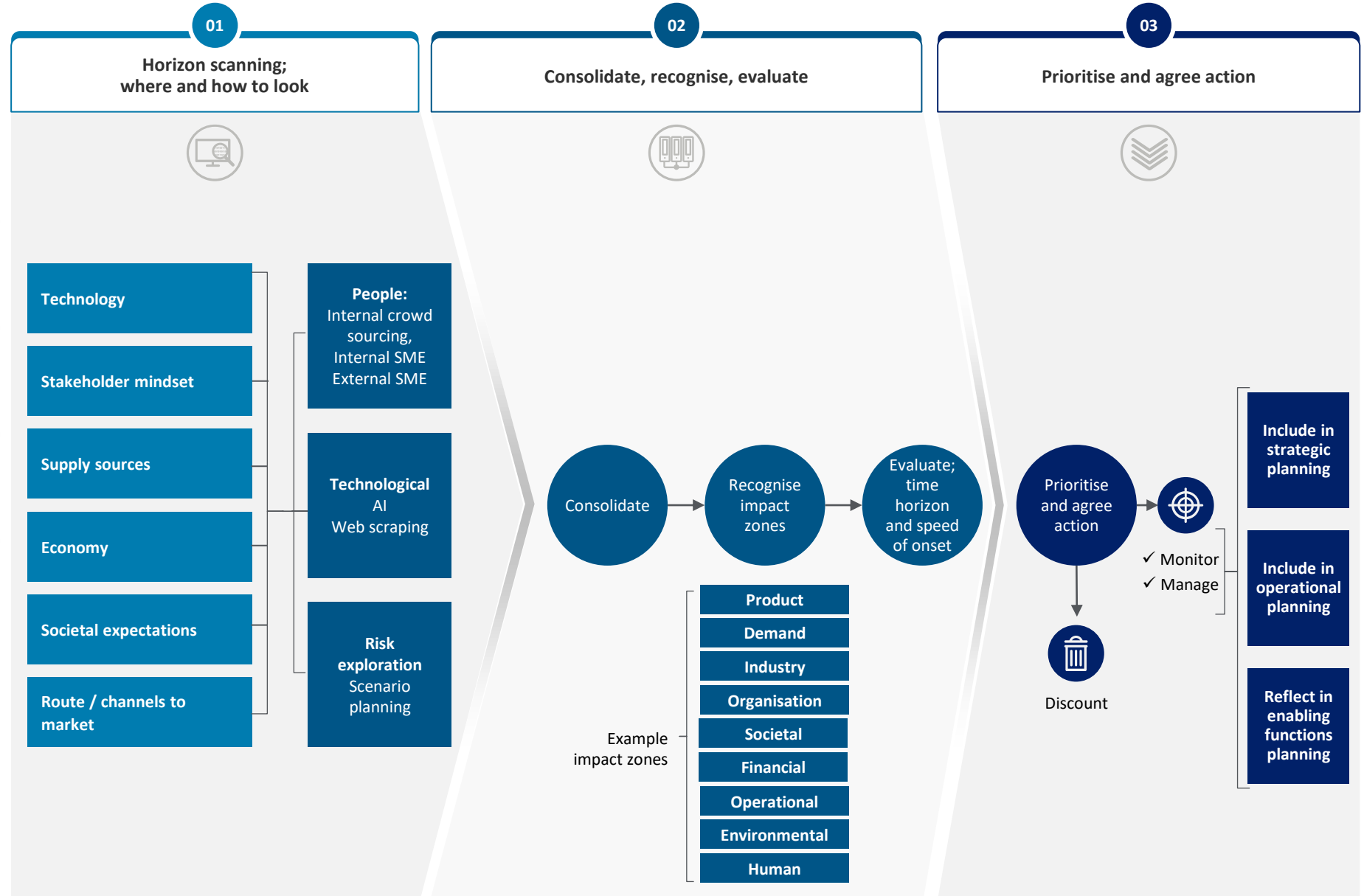
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Our practical guidance to recognise and address emerging risks has three stages and is depicted below.




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Our three-step approach to identifying, prioritising and responding to emerging risks is as follows:

## 01 Horizon scanning

*“Horizon scanning looks for weak signals of change which start off as background noise, or are new and surprising, but may become part of a significant pattern if connected with other information or viewed through a different lens.”* Government Office for Science

### Where to look

The most comprehensive assessments of emerging risks utilise a diverse range of sources to gather intelligence on wider technical, social, political, economic, environmental, regulatory and demographic changes together with insights into both internal transformations as well as industry developments. To support this assessment, we suggest consideration of the following six thematic areas; technology, stakeholder mindset, supply sources, economy, societal expectations and route / channels to market.

The organisation should ensure that any current state of emerging risk activities and existing information and sources of intelligence are reflected in this step.


### How to Look


Engaging a wide range of internal and external sources is needed to collate the insights needed to identify emerging risks. When interacting with internal sources a paradigm shift will be required to empower all staff to play a greater role in risk management, as this will be a key lever to unlock the full potential of the organisation to identify and understand emerging risks. As part of this exercise obtaining diversity of thought and opinion across a wide range of demographics and age groups will be a key requirement.


Technological approaches such as AI and web scraping can also be applied to the searching process. Scenario planning is key in enabling and encouraging exploration of the interconnectivity between risks, scenarios will allow teams to appreciate the ways in which an emerging risk could become more likely or impactful.

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### 02 Consolidate, recognise, evaluate

Having a structured approach to filter through the sources of information is critical. The initial step in this process will be a consolidation of risks, to ensure that similar risks or themes are grouped together. A cross-functional team will then be best placed to explore where the risk could impact in the value chain with clear consideration as to the threats and opportunities to current product and service offering, customer demands, future of industry and business model or impacts can be considered in line with the five resilience capitals (financial, human, built, social and natural).

Evaluating both the time horizon which this risk or opportunity may materialise but also the speed of onset – reflecting how much notice we may have of this risk materialising.

### 03 Prioritise and agree action

These SMEs together with the risk team should then prioritise based on the impact and plausibility information they have available and agree each emerging risk or opportunity candidate to be:


- monitored; agreeing the characteristics which will be tracked and the point at which the emerging risk or opportunity will be re-considered
- managed; accepted as a risk or opportunity and managed within risk management framework, note that parameters are likely to remain uncertain, until further insights can be developed. Corresponding management activity will either be structured as a control – i.e., how do we reduce likelihood of the risk materialising or as a mitigation i.e., how do we reduce the impacts if it does materialise
- discounted; the emerging risk or opportunity not considered as relevant.


The logic and rationale for decision making should be recorded. Where an emerging risk is to be monitored a common reporting template should be developed that allows for capture and reporting of information in a structured and consistent manner.


The key stakeholders will need to agree how the emerging risk insights will be used. A key way to explore impact is through the use of planning scenarios to explore how an emerging risk's impact and/or likelihood may evolve. Planning scenarios will also build out and challenge the speed of onset of emerging risks whilst allowing for consideration of how alternative pathways may shape the impact and/or likelihood of the emerging risk. Such insights will stress test both strategic and operational plans and develop shared understanding of the dynamics of change, whilst also highlighting some of the key future decisions and trade off which may need to be made. Stakeholders will then need to agree how any identified vulnerabilities in those plans can be explored. Enabling functions will need to be bought into this conversation based on anticipated changes.

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Whilst the concept of emerging risk may initially appear daunting and indeed for risk management professionals unfamiliar in not having a robust understanding of likelihood, impact or onset. The good news is that on some level this risk will be 'known' to stakeholders in your organisation, the key is then ensuring this insight is captured and systematically evaluated.

The systematic approach laid out in this paper provides the basis for building a comprehensive framework to identify, prioritise and take action on emerging risks and opportunities. The next steps for operationalising this approach are to:

-  **engage** internal stakeholders to establish the mandate, purpose and use of emerging risk and opportunities insights
-  **establish expertise** to bring together a multi-functional working group including representation from strategy, core operations, risk as well as functional areas of the business
-  **pilot** an area and see what insights a horizon scanning approach gleans
-  **reflect and review** as insights are generated how these connect across the business
-  **assess and refine** framework to ensure good 'fit' for business
-  **develop** reporting and monitoring capabilities
-  **enhance** scope from pilot activities
-  **confirm** governance and reporting capabilities and how these are incorporated into an ERM framework.



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