

More Urgency Requires Greater Resilience

Key Takeaways From the World Economic Forum's
Global Risks Report 2020

More Urgency Requires Greater Resilience

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Now in its 15th year, the *Global Risks Report* — produced by the World Economic Forum (WEF) with the support of Marsh & McLennan and other partners — offers valuable perspectives on major risks for businesses, governments, and other organizations globally. Derived from surveys and deeper explorations of a variety of threats — specific and broad, short- and long-term — its findings can help risk professionals and senior executives identify external threats and improve resilience to them.

The *Global Risks Report 2020* highlights the greater sense of urgency felt by businesses and governments about a variety of global threats. These include:

- Climate change, which has taken center stage globally and within many countries, and which could have profound socioeconomic effects.
- New technologies, which businesses and governments are struggling to effectively govern and are contributing to deteriorating social trust, economic instability, and national and international security challenges.
- A troubling geopolitical landscape, characterized by increasingly frequent domestic confrontations and conflicts among global and regional powers.
- The growing risk of a global recession fueled by continuing trade tensions, growing debt, and dwindling foreign direct investment.
- Biodiversity losses, which can have devastating consequences for people, the economy, and society.
- A global health system under severe pressure from socioeconomic, environmental, and technological trends.



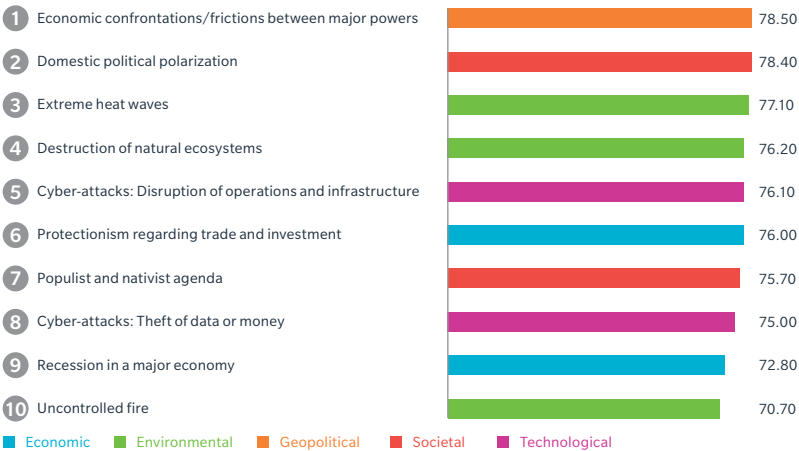
The Global Risks Report 2020 highlights the greater sense of urgency felt by businesses and governments about a variety of global threats.

FIGURE
1

Global and Regional Risks Expected to Increase, All Regions (2019–2020)

SOURCE: WORLD ECONOMIC FORUM GLOBAL RISKS PERCEPTION SURVEY 2019–2020

Risk (in order of % increase)



*Note: Survey respondents were asked to predict how risks would change in 2020.

INCORPORATING MORE DIVERSE VIEWS

The World Economic Forum's annual *Global Risks Perception Survey*, which harnesses the expertise of the WEF's extensive network of business, government, civil society and thought leaders, is the foundation of each year's *Global Risks Report*. The *Global Risks Perception Survey* of the WEF's multistakeholder communities reflects contributions from 800 risk experts.

In the *Global Risks Report 2020*, those contributions include perspectives from more than 200 members of the WEF's Global Shapers Community. The digital savvy of this younger generation of emerging global social entrepreneurs and leaders is felt in the way its members spotlight issues such as climate change that they consider to be existential — not only for their generation but for the global community at large.

The *Global Risks Report 2020* also reflects findings from the WEF's annual *Executive Opinion Survey* of approximately 13,000 business leaders in more than 100 countries.



FIGURE 2

Top Ten Risks in Terms of Likelihood and Impact

SOURCE: WORLD ECONOMIC FORUM GLOBAL RISKS PERCEPTION SURVEY 2019-2020

Top 10 risks in terms of Likelihood		Top 10 risks in terms of Impact		Categories
1	Extreme weather	1	Climate action failure	Economic
2	Climate action failure	2	Weapons of mass destruction	Environmental
3	Natural disasters	3	Biodiversity loss	Geopolitical
4	Biodiversity loss	4	Extreme weather	Societal
5	Human-made environmental disasters	5	Water crises	Technological
6	Data fraud or theft	6	Information infrastructure breakdown	
7	Cyber-attacks	7	Natural disasters	
8	Water crises	8	Cyber-attacks	
9	Global governance failure	9	Human-made environmental disasters	
10	Asset bubbles	10	Infectious diseases	

*Note: Survey respondents were asked to assess the likelihood of the individual global risk on a scale of 1 to 5, 1 representing a risk that is very unlikely to happen and 5 a risk that is very likely to occur. They also assessed the impact of each global risk on a scale of 1 to 5, 1 representing a minimal impact and 5 a catastrophic impact.

FIGURE 3

Top Risks for Doing Business

SOURCE: WORLD ECONOMIC FORUM EXECUTIVE OPINION SURVEY

Rank	Advanced economies	Rank	Emerging markets
1	Large cyber-attacks	1	High unemployment
2	Data fraud or theft	2	Fiscal crisis
3	Asset bubble	3	Failure of national governance
4	Fiscal crises	4	Energy price shock
5	Natural catastrophes	5	Social instability
6	Inter-state conflict	6	Failure of critical infrastructure
7	Energy price shock	7	State collapse or crisis
8	Extreme weather events	8	Data fraud or theft
9	Terrorist attacks	9	Water crisis
10	Critical information infrastructure breakdown	10	Unmanageable inflation

Economic Environmental Geopolitical Societal Technological

Spotlight on Climate Change

For the first time in the WEF survey's 10-year outlook, the top five global risks in terms of likelihood are all environmental.

In 2020, societies will need to accelerate their transition to low-carbon economies while simultaneously improving preparedness and adapting to ongoing climate impacts. Both of these imperatives could create new challenges and questions.

The 2019 United Nations Climate Change Conference, also known as COP25, ended in frustration as the countries that produce the highest levels of CO₂ refused to pledge to combat climate change more aggressively starting this year. The breakdown in negotiations cast fresh doubt about global unity on the issue, which is especially troubling as climate change appears to be rapidly approaching emergency status: According to the United Nations Emergency Program, global temperatures are expected to rise as much as 3.2°C by the end of the century.

In order to meet the Paris Agreement's goal of limiting global temperature increases by 2030 to 1.5°C, countries will need to ramp up their climate change pledges fivefold. Specifically, businesses and countries must invest more in low-carbon energy sources, but face tensions between the desire for sustainability and traditional — often carbon-intensive — contributors to economic growth.

Some governments are pursuing more ambitious climate change agendas, often driven by growing popular activism. Faced with intensifying activism by shareholders, customers, employees, and other stakeholders, companies could experience negative consequences if they are slow to move on this issue.



EXTREME WEATHER AND CLIMATE-RELATED EVENTS IN 2019

- **18 storms** developed during the 2019 Atlantic hurricane season, well above the annual average of 12 storms.
- Fires tore through more than **2 million acres** of rainforest in Sumatra and Borneo.
- Cyclone Fani forced the evacuation of **3.4 million people** in Bangladesh and India.
- Wildfires in Australia burned through more than **18 million acres** and severely affected air quality in major cities.
- Flash floods in Iran displaced more than **350,000 people** and caused at least **\$2.2 billion** in damages.
- Storms in France, Greece, and Italy resulted in flash floods, landslides, and the collapse of an overpass. Venice experienced its **worst floods in 50 years**.
- Authorities in New Delhi declared a **public health emergency** as air pollution reached dangerous levels.



The Perils of Evolving Technology

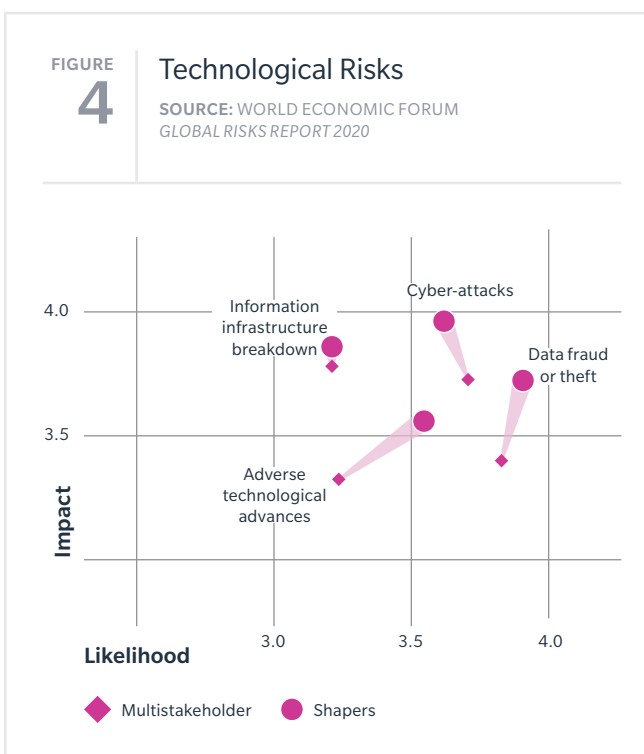
Systemic risks arising from new technologies require effective technology governance at all levels. These risks include the erosion of social discourse, threats to economic stability, the exacerbation of geostrategic competition, and pressures on national and international security.

New technologies have made it more difficult to contain harmful effects of the internet, including fake news and extremist content, that are eroding social discourse. The proliferation of fake news and deepfakes, for example, has damaged the integrity of information and media, impacting a number of elections.

Tech giants, meanwhile, are disrupting industries, attracting sizable investments, growing their bottom lines, and becoming more powerful. This has led to concerns about economic fairness and the concentrated financial risk they represent.

Emerging technologies have also become the new arena for geopolitical competition, with major powers attempting to set new standards, protect and develop national critical infrastructure, and balance long-term security against short-term economic gains. Additionally, new digital technologies open fresh opportunities for interstate conflicts, evident in efforts to meddle in electoral processes, state-affiliated cyber-attacks on critical infrastructure, and the reluctance of major powers to agree on international norms in cyberspace.

Even as these risks evolve and grow in scope, businesses are not consistently evaluating their cybersecurity readiness or broader technology governance. Cyber-attacks remain the top risk concern among business leaders in advanced economies, with attack surfaces seemingly expanding every day. Data fraud and theft also remain high-ranking risks for businesses.



The background is a dark blue gradient. It features a complex pattern of thin, light blue lines that curve and flow across the frame, resembling data streams or a digital landscape. Numerous small, bright blue dots are scattered throughout, some appearing as endpoints of the lines, others as standalone points of light. The overall effect is one of high-tech connectivity and digital activity.

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Persistent Geopolitical Challenges

2019 was a year of intense confrontations, marked by strong domestic pushbacks and sprawling geostrategic competition. More of the same is expected in 2020 and beyond, which will likely challenge both domestic agendas and international cooperation on a variety of topics.

Large-scale protests in many countries are seeking to drive fundamental change. These stem from unresolved socioeconomic challenges, such as unemployment, inequality, and lackluster economic performance, and deep sociopolitical resentments over corruption, reform failure, and governmental repression.

For example, protests are ongoing in Hong Kong, where youth-driven demonstrations have prompted US passage of the Hong Kong Human Rights and Democracy Act. The new law, signed by the president in late November 2019, imposes sanctions against Chinese and Hong Kong officials responsible for human rights abuses and requires the US government to reassess whether political developments in Hong Kong justify changing its unique treatment under US law. Similar social instability was seen in many countries in 2019, stifling economic growth and the ability of governments to deliver key programs.

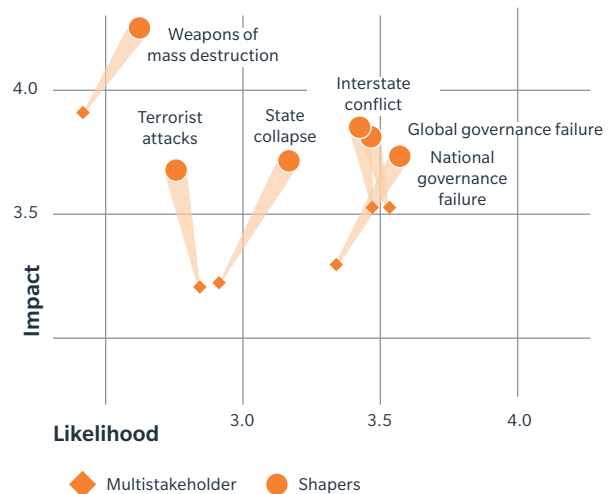
Internationally, rivalries between superpowers — notably, the US and China — are fragmenting existing partnerships. But new regional alliances are forming around trade, technology, infrastructure, and security efforts. Amid the ongoing dispute in the South China Sea, for example, Vietnam and Japan are joining forces on regional security.



FIGURE
5

Geopolitical Risks

SOURCE: WORLD ECONOMIC FORUM
GLOBAL RISKS REPORT 2020



Midsized countries are finding their maneuverability to be limited; it is increasingly difficult for them to avoid being pressured into the orbits of larger powers. At the same time, however, larger powers are unable to expand on all fronts, which has created opportunities for others to step in. Russia, for example, is expanding its influence in the Middle East and Africa, while India has tested the international response of its revocation of autonomy in Jammu and Kashmir, and Turkey has leveraged the US withdrawal from Syria to take action against the Kurds.

Intensifying Economic Confrontations and a Potential Slowdown

Confidence about the direction of the world economy worsened during 2019. The Organization for Economic Cooperation and Development forecasts that global GDP growth will fall to 2.9% in 2020, the lowest growth rate since the financial crisis, and is expected to remain at near 3% for the next two years. Meanwhile, global debt grew by \$7.5 trillion in the first six months of 2019, according to the International Institute of Finance, primarily driven by the US and China. As interest rates remain low, this leaves many governments with little to no fiscal and monetary firepower to counter a slowdown and possible recession.


Protectionist policies continue to undermine global trade and investment. The longstanding trade war between the US and China has damaged the economies of both countries and had global implications. While the world's two largest economies signed a trade deal in early 2020, tariffs remain in place and more progress appears unlikely as relations continue to be strained, which portends continued global economic uncertainty. In addition to its trade war with China, the US has threatened or is contemplating tariffs on imports from France, Brazil, and Argentina.

Many advanced economies, meanwhile, are reevaluating their foreign direct investment (FDI) rules, especially in the wake of a buying spree by Chinese entities. For example, in February 2019, the European Parliament approved a cooperation mechanism for screening FDI in EU members that focuses on foreign investment in "critical technologies." In October 2019, Japan introduced tighter reporting requirements for foreign investments in strategically sensitive industries. And in January 2020, the US Treasury



Department published final regulations to implement a 2018 law that expands the authority of a treasury-chaired committee to include non-controlling, non-passive investments in US businesses involved in strategic technology, critical infrastructure, and sensitive personal data.

Domestic politics and international tensions have also opened fresh wounds in trade relations elsewhere — for example, between Japan and Korea and among members of Mercosur, the South American trade bloc. Still, there is reason for cautious optimism about regional trade given progress around the Trans-Pacific Partnership, the Regional Comprehensive Economic Partnership, and other regional pacts.



Human activities such as food production, waste management, resource consumption, and population growth have caused a mass extinction of wild animals and plants.

Accumulating Biodiversity Losses

In the *Global Risks Report 2020*, the WEF's multistakeholder network rates biodiversity loss as the second most impactful and third most likely risk for the next decade.

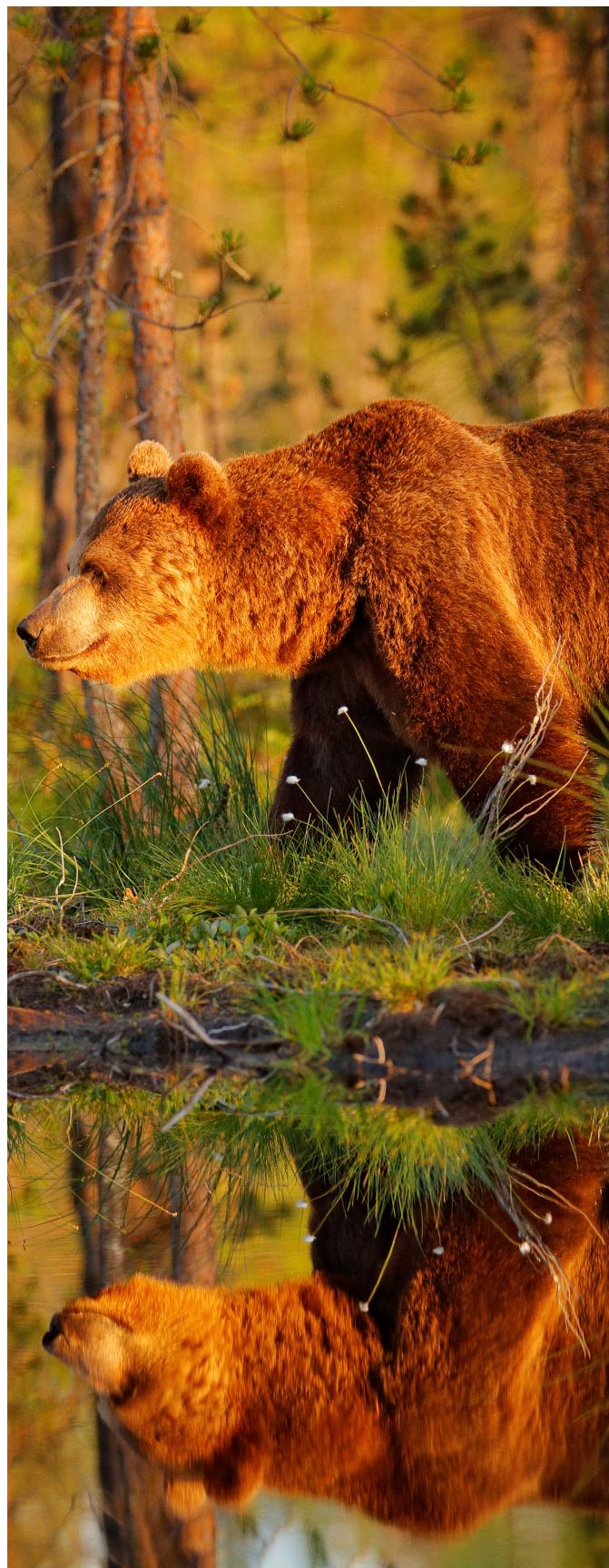
From the collapse of food and health systems to the disruption of entire supply chains, biodiversity loss has critical implications for humanity. The current rate of extinction is tens to hundreds of times higher than the average over the past 10 million years. And it's accelerating.

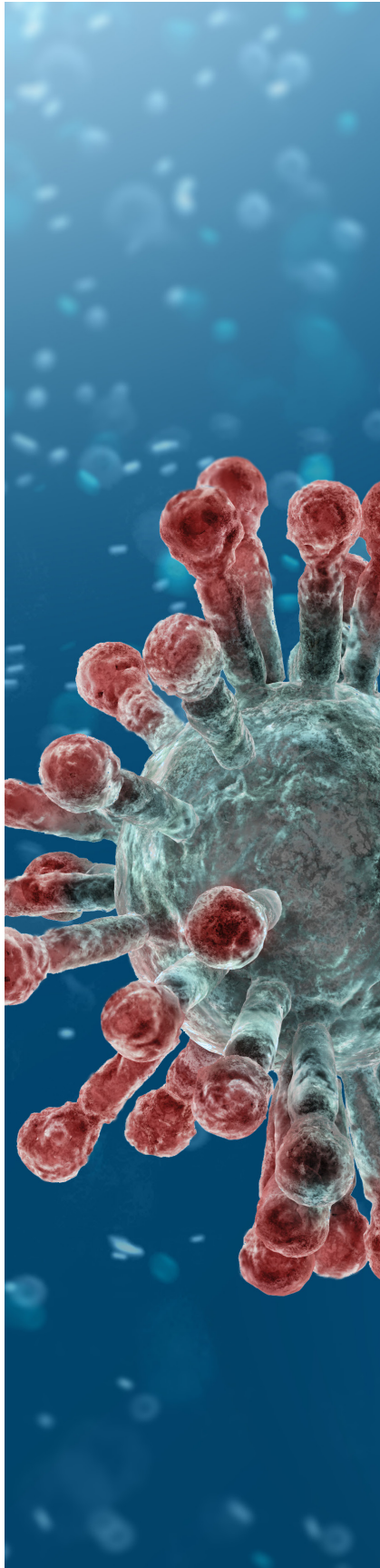
Human activities such as food production, waste management, resource consumption, and population growth have caused a mass extinction of wild animals and plants. Wildfires, which have also increased in scope and intensity in recent years, can also exacerbate biodiversity loss. For example, recent wildfires in Australia resulted in the death of more than 800 million animals in New South Wales as of early January 2020, according to the University of Sydney. These activities and events can bring potentially severe consequences, including:

- Diminished agriculture resources and food insecurity.
- Threats to clean air and water, sources of medicine, and public health.
- Potentially greater carbon sequestration, which can hasten climate change.
- Risks for indigenous communities' way of life.

At greatest risk are companies in industries that rely heavily on natural resources, including retail, wholesale, food, and beverage; life sciences; hospitality; entertainment; and those involved in commodity production.

Potential actions to stem biodiversity loss include changing consumption patterns, investing in ecosystem restoration, and factoring natural resources and other ecosystem components into measurements of economic performance. But major trade-offs between protecting biodiversity and socioeconomic imperatives must be considered. A new nature economy that promotes public and private financial investment in biodiversity could reduce habitat loss.





Health Systems Under Pressure

Changing societal, environmental, demographic, and technological patterns are straining health systems globally. And while transformative technologies and other developments can yield improvements in care, they also bring new risks and trade-offs for health systems and societies.

Noncommunicable diseases (NCDs) and mental disorders, meanwhile, are now the leading threats to global health. These are proving to be difficult to prevent, costly to treat, and gradually crippling to the wellbeing of individuals and societies.

At the same time, infectious diseases continue to pose a threat globally, particularly in developing countries. The Democratic Republic of the Congo, for example, is grappling with the second largest Ebola epidemic on record, with more than 2,200 lives lost and 3,200 confirmed cases since the outbreak was declared in August 2018. Measles cases in the first seven months of 2019 were also three times higher than during the same period in 2018, resulting in 140,000 deaths globally. And as of this writing, the coronavirus outbreak originating in China continues to rapidly spread.

Climate change, too, is adding stress to global health systems. Vector and pathogen spread in a warming world, along with antimicrobial resistance, may roll back decades of gains against infectious diseases. Extreme weather events can also disrupt medical supplies, workers, and facilities.

Against this backdrop, health systems may not be able to keep up with accelerating health and social care demands, including financial and human capital. Moreover, the application of new technology and solutions to health care — while beneficial — has created new threats. Artificial intelligence, for example, could facilitate the delivery of superior care to more people and in more places, but it also presents broad patient safety and security risks. New medicines can offer radically better treatment for previously devastating diseases, but could also entrench and deepen health inequalities.



How Can Boards Better Manage Global Risks?

As they confront vast geopolitical and economic challenges, questions surrounding emerging technologies, and more urgent calls to take action on climate change, stakeholders from across multinational organizations have crucial roles to play in identifying and managing strategic, operational, and financial risks.

In particular, the threats outlined in the *Global Risks Report 2020* highlight the important oversight role for boards, which can shape corporate agendas and strategies in ways few others can. Among other steps, boards should meet the challenges of today and tomorrow by:

- **Ensuring they are receiving strategic advice on political risk.** The politicization of commercial activity and the threat of high-profile protester actions can put businesses in political crosshairs in many of the countries where they do business.
- **Ensuring proper oversight of emerging technologies.** Boards must consider whether their organizations are using technologies safely and ethically and whether technology used by others — including suppliers and vendors — could put them at risk.
- **Recognizing various stakeholders' expectations that businesses take measures to help limit the effects of climate change.** As the threat of climate change becomes more urgent, governments, customers, investors, and others want to see more commitments from organizations to take action, including potentially material changes to business practices.

For more board-level takeaways from the *Global Risks Report 2020*, [read Marsh & McLennan's post on NACD Board Talk](#), the official blog of the National Association of Corporate Directors.



Managing Complex Global Risks

As businesses consider and seek to stem the potential impacts of these risk trends — both to societies and economies broadly and to their individual organizations — risk professionals, senior executives, board members, and other stakeholders should focus their efforts on the following:

- **Identifying and assessing potential sources of disruption.**

Actively monitoring emerging risks can better position organizations to manage them. Keep an eye on regulatory and legislative developments on climate change, technology, and more. And prepare for pressure to increase from key stakeholders both inside and outside your organization.

- **Quantifying risk and scenario planning.** It isn't enough to simply catalog your risks — it's vital that you understand their potential scope. Enhanced modeling capabilities — powered by rapidly improving data and computing power — along with planning exercises can help you play out various scenarios and determine specific implications for your organization.

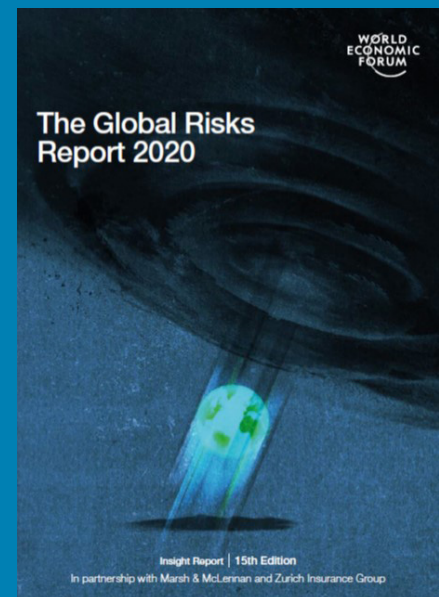
- **Risk prevention and response planning.** Is your business prepared and able to respond effectively to fast-moving events that could threaten your operations and reputations? Answering this critical question means looking for and implementing early-warning indicators and enabling quick decision-making in the event of a crisis.

- **Growth opportunities.** While many of the threats outlined in the *Global Risks Report 2020* could have dire consequences for businesses, those that can get ahead of them could realize significant competitive advantages. Look for ways to align your business with the direction of change — for example, rethink your supply chains and relationships with individual suppliers or consider new and expanded product and market opportunities. At the same time, however, consider unintended consequences and hidden risks.

The *Global Risks Report*, published by the World Economic Forum with support from Marsh & McLennan, provides a rich perspective on the major threats that may impact global prosperity in 2020 and over the next decade. The 15th edition of the report — published at a time when a variety of critical risks are manifesting — draws on feedback from nearly 800 global experts and decision-makers who were asked to rank their concerns in terms of likelihood and impact.

For more insight into critical global risks for your organization and how you can take action to manage them, [visit marsh.com](https://www.marsh.com) to read the *Global Risks Report 2020*, contact your Marsh representative, or contact:

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A large iceberg is shown floating in the ocean. The tip of the iceberg, which is the visible part, is relatively small and jagged. The much larger, submerged part of the iceberg is visible below the water line, illustrating the concept of hidden risks or a much larger problem than what is immediately apparent. The background is a deep blue sky with some light clouds.

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