ORIC INTERNATIONAL

Powering risk intelligence

JANUARY 2022

# NEWSLETTER

## AT A GLANCE...

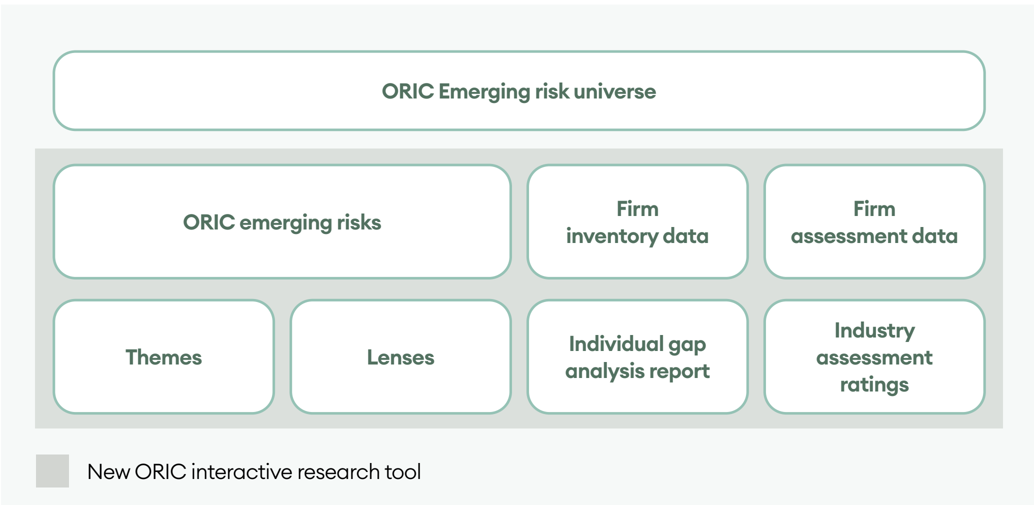


## ORIC INTERNATIONAL EMERGING RISK UNIVERSE

Firms operate in a rapidly changing and increasingly complex global risk landscape. The forces driving this change vary, ranging from environmental and technological to demographic and socioeconomic. This gives rise to 'emerging risk' – newly developing or changing risks that can be difficult to define, quantify, or operate on an uncertain time horizon. Emerging risks connect the firms' strategic plans, financial viability and operational resilience elements.

ORIC International strives to provide its members with thought leadership and practical support. Our unique position and access to information grant us the opportunity to equip members with resources to validate and strengthen their emerging risk activities and support those currently defining and developing their processes. Member firms can access reliable, industry-relevant emerging risk information that releases resources from horizon scanning and source data reviews to focus on embedding emerging risk into firms' activities by developing playbooks and analysis for areas including strategic planning, stress and scenario testing, operational resilience and capital assessment.

**Risk universe**
ORIC's unique collaboration model enabled us to create a secure emerging risk data exchange, processing and reconciling over 4,250 emerging risk data items. The result is a proprietary universe of emerging risks informed from cross-industry sources and ORIC members' own internal risk assessments. ORIC's interactive research tool is a unique approach to viewing emerging risks that allows members to view the emerging risk universe through multiple perspectives, themes, lenses and taxonomies.




**The ORIC emerging risk universe** is a suite of 48 emerging risks consolidated from internal and external sources, including the ORIC inventory. The emerging risk inventory is a repository of **160+ emerging risks** developed from the 2021 landscape exercise.

# EMERGING RISK THEMES FOR 2022

**Industry horizon scanning reports and radars identify an ever-increasing number of emerging risks. How do we synthesise the information and make it meaningful to different stakeholders?**

ORIC survey participants were asked to categorise their emerging risk inventories by PESTEL category. Through ORIC International's application of secondary and tertiary categorisation, some notable themes surfaced. Since a theme contains risks from across categories, they represent more than an extension of PESTEL; the themes articulate a holistic view of related risks.

ORIC International has worked with its members to identify over 160 emerging risks and consolidate them into emerging risk themes, including the post-pandemic world, transformative technologies, ageing and health, and climate change. Gaining insight into emerging risks through industry-wide co-operation enables ORIC members to see the landscape beyond their horizon scanning, identify potential blind spots, validate their assumptions and assessments against industry benchmarks, and prepare strategies and actions to mitigate the risks identified.

In the following section, we look at one theme in detail.

### Transformative technologies

The exponential growth surrounding digital and transformative technologies are driving changes in all industries. These advancements allow organisations to update their business models and streamline their delivery of products and services. ORIC International's emerging risk 2022 study identified transformative technologies as a prominent theme.

Transformative change can disrupt business models and enhance or remove competitive advantage. Within this respective field, three distinct areas which organisations may seek to monitor are:

### Digital currencies (cryptocurrencies)

Bitcoin has been at the vanguard of cryptocurrencies since it gained mainstream attention in 2018. However, the extreme price volatility of cryptocurrencies and lack of regulation made investing a high-risk and speculative venture. For insurers, there may be opportunities to provide cryptocurrency-related insurance policies covering theft, hacks and other unauthorised access. But, since regulators and governments have not yet formed a coherent policy for the technology, there is a risk that their regulatory trading rules, outright legality, or even taxation status could change overnight. Consumer protection rules are very different; and, unlike traditional banking, cryptocurrency doesn't have any official safeguards.

### Transformative computing technologies such as AI, autonomous machines

Firms have long anticipated the benefits and potentially significant disruption of artificial intelligence (AI). With rapid progress in AI and cognitive computing, we may soon see machines begin to make decisions on behalf of humans. AI could mean cost reduction through efficiency, reduced workforce headcounts and greater human specialisation as AI takes on repetitive tasks, data ownership and privacy issues. Likewise, autonomous machines are beginning to enter everyday life and are likely to change the risk landscape for various lines of insurance business.

### Transformative health technologies such as genetic engineering nanotechnology

Researchers hope to use genetic engineering to overcome inherited disorders, such as cystic fibrosis and Huntington's disease. One medical application of nanotechnology being developed involves employing nanoparticles to deliver drugs, heat and light to specific cells. Concerns remain about possible environmental or health impacts, ethical issues and insufficient regulatory control of the new technologies. Being able to identify emerging risks within the newly developing technologies allows organisations to take a more balanced approach when integrating new processes into their framework, increasing the chances of mitigating these risks. Digital transformations themselves not only present exposure for new emerging risks but also ways to manage risk.

### Five key challenges of emerging risk practice

| Five key challenges of emerging risk practice | ORIC International's emerging risk benchmark and inventory reporting supports members through: |
|---|---|
| Emerging risks can feel disconnected from an organisation's day-to-day activities; macro-trends such as economic stability, cyber security and climate change can seem intangible at firm level. | Look beyond risks in silo lists and registers and explore the relationship between risks. Peer insights provide breadth of situational awareness, helping to mitigate potential blind spots. |
| Emerging risk can be seen as resource-heavy or time-consuming, and risk teams face issues of immediate proximity and timeliness. | A comprehensive suite of benchmark risks to validate the completeness of your firms own research. |
| Their interconnectedness compounds the complexity, the simple cause-and-effect relationship seemingly replaced with multicausal and multiconditional environmental factors. | Go beyond the PESTEL categories of most external horizon scans; explore perspectives, themes and business lenses and develop the emerging risk playbooks that matter to you. |
| There is a view that the uncertain nature, yet potentially rapid velocity, with which emerging risks can materialise makes it challenging to evaluate the risk. | Each benchmark risk was assessed for impact, velocity and proximity and validated against industry peers. |
| Management cannot control the macro-environment, so they should focus on the risks they can control. | Insights into emerging risk themes and the many risk taxonomy lenses, e.g. mortality risk lens, business disruption lens. We have a validated set of benchmark emerging risks to identify those that matter most to your firm. |

Contact **enquiries@oricinternational.com** for more information on ORIC International's emerging risk services.

## CAPITAL BENCHMARK – UPDATE ON LAUNCH EVENT/DELIVERABLES

**For the ORIC team, February marks the start of the review and validation process of the completed annual capital benchmark questionnaires for 2022.**

With many firms investing resources and time in operational resilience, in identifying their important business services and impact tolerances, our study provides insights for firms to ensure that there is reconciliation between this work and the wider capital framework, including scenario analysis. Using the themes identified in the study, firms can leverage this information to aid their ability to remain within their impact tolerances for severe but plausible scenarios. As the requirement to complete scenario testing can continue to evolve beyond the 31 March 2022 deadline, the findings in the study can help guide future assumptions, as well as helping develop and implement effective remediation plans.

A challenging year is ahead for investment managers with the introduction of the new UK prudential regime for MiFID investment firms, which may present a number of challenges. The replacement of the ICAAP with a new Internal Capital and Risk Assessment (ICARA) process will significantly change how investment firms think about risk and capital management. This year we introduced a stand-alone study specifically designed for investment firms. Its findings will provide a useful gauge as to the progress firms have made in this area and the expected challenges which lie ahead.

Participants will receive a full report which sets out all of the key findings and provides analyses on over 120 process and practice benchmarks. If your firm did not participate, you can request a copy of the summary report by contacting enquiries@oricinternational.com.

ORIC's annual capital benchmarks are used by our member firms to enhance their approach to operational risk capital modelling.

**The launch event, where the report will be made available, is scheduled for the last week of March 2022.**

## OPERATIONAL RESILIENCE MATURITY ASSESSMENT LAUNCHED

**With the 31 March 2022 deadline rapidly approaching, ORIC International in partnership with Sicsic Advisory have launched an operational resilience maturity assessment tool to help firms determine their current level of maturity across nine key areas:**

1. Important business service
2. Impact tolerance
3. Mapping
4. Resilience assessment
5. Communication plans
6. Scenario testing
7. Remediation plans
8. Self-assessment
9. Governance, strategy and culture

As well as providing a helpful assessment of your firm's readiness, it will also act as a useful prompt and check to ensure you are meeting the key regulatory requirements. Firms that complete the assessment will receive a personalised peer comparison.

As a minimum, by the **31 March 2022**, firms will need to have identified their important business services, set impact tolerance, mapped their important business services to a level that is sufficient to identify vulnerabilities and support their scenario selection, as well as completing scenario testing (although the level of sophistication for mapping and scenario testing can continue to evolve beyond the 31 March 2022 deadline). Firms will also need to have remediation plans in place – although they have until 31 March 2025 to execute these – and have their self-assessment document prepared, as the regulator could ask to inspect this any time after 31 March 2022.

To support firms, we have issued a maturity assessment for completion by **31 January 2022**. ORIC will be holding a round table on **9 February 2022** to share the key findings from the maturity assessment with all participants.

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## LAUNCHING NEW 'REGULATORY HORIZON SCAN' REPORT

**Over the past few years, there has been a lot of regulatory change that has had an impact on non-financial risk within ORIC member firms. This report is the first in a new quarterly series that provides an overview of key regulatory changes which impact non-financial risks.**

These new regulatory obligations have either been proposed or have been finalised over the past three months. The goal is to flag new or altered regulatory obligations to our member firms, to help them manage and minimise potential regulatory risk, compliance risk, reputational risk, third-party risk, cyber risk, operational risk, and other types of non-financial risk.

Regulatory changes are categorised by type of firm – insurers, investment firms and insurance brokers. The report provides a brief summary of the relevant proposed regulatory changes, broken down by jurisdiction. While we cannot cover every regulatory change – the report would simply be too long – we hope that this selection will spark discussion among members and also help individual members manage their own non-financial risk and regulatory change programmes.

We trust that you will find this new resource helpful and look forward to your feedback.

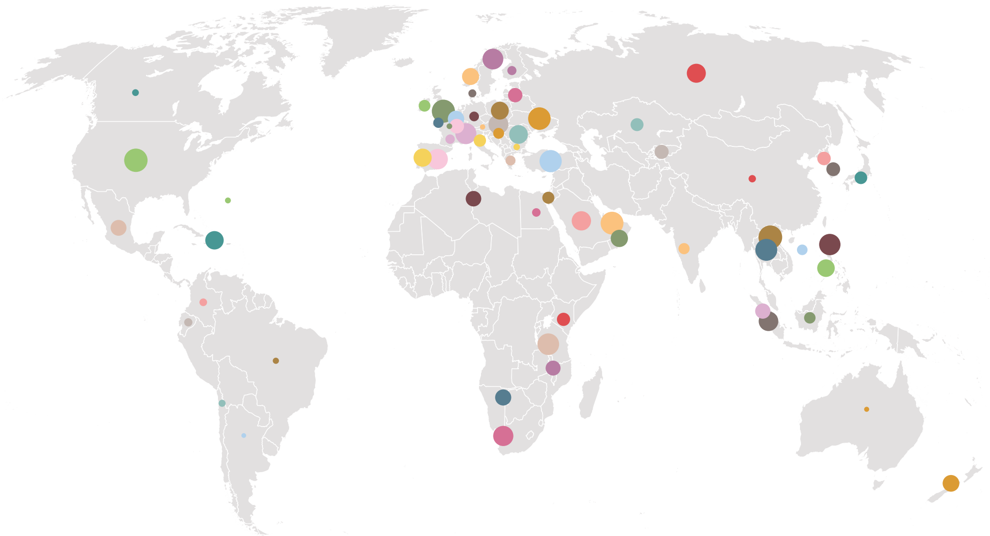
# TOP FIVE PUBLIC NEWSFLASHES

DEC 2021

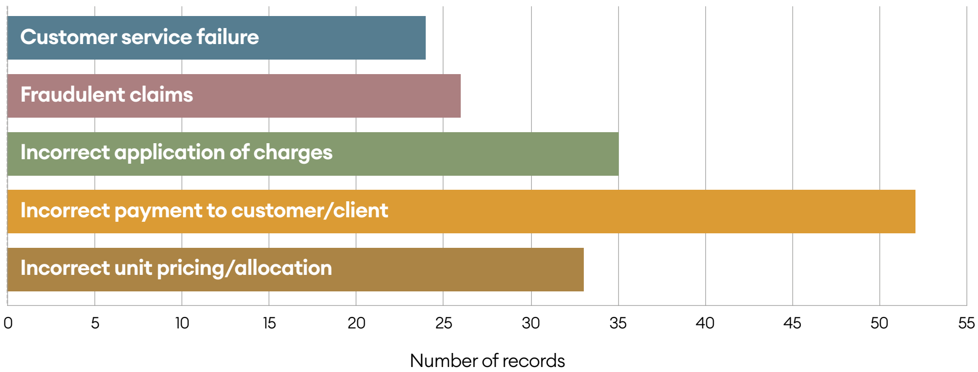
ORIC's newsflash service captures information on risk events in the public domain. In December, 104 (re)insurance and investment firm risk events were added to the newsflash service, with a combined value of £16.3bn.

| No. | Firms impacted | Risk event summary | Amount (GBP) | Business line | L1 risk category |
|---|---|---|---|---|---|
| 1<br>2 | UkrLandFarming PLC; Gramercy Funds Management | **$1 billion suit against Bakhmatyuk is latest entry in Ukraine's long chronicle of alleged bank fraud.**<br>The former billionaire Oleh Bakhmatyuk is being sued by U.S. investment fund Gramercy, which alleges that Bakhmatyuk, the majority shareholder and board chairman of agricultural giant UkrLandFarming, siphoned $1 billion out of the company in order to avoid paying its debts.<br>UkrLandFarming claimed it was forced to fire 13,000 people, shut down 29 cattle farms and 8 egg production sites because of the ongoing NABU investigation against the controversial tycoon.<br>Bakhmatyuk denies any wrongdoing. | 757m | Asset management | External fraud |
| 3 | JPMorgan Chase & Co; U.S. Securities and Exchange Commission (SEC); U.S. Commodity Futures Trading Commission (CFTC) | **JPMorgan bosses hooked on WhatsApp fuel $200 million penalty.**<br>JPMorgan Chase & Co. executives were supposed to make sure employee communications were archived for regulatory scrutiny. But for years, even the bosses were using their mobile phones to tap out work-related messages – a practice so pervasive that U.S. authorities dropped the hammer on Friday, imposing $200 million in fines. | 151m | Corporate services | Clients, products and business practices |
| 4 | National Park Service; U.S. Department of the Interior; American Reliable Insurance; United National Insurance; American Security Insurance Company | **14 insurers pressing lawsuit vs. Park Service after Gatlinburg wildfires.**<br>Fourteen insurance companies are pressing ahead with a lawsuit against the federal government, alleging that the National Park Service did little to stop 2016 wildfires that destroyed dozens of homes and businesses in and around Gatlinburg, Tennessee.<br>The suit, led by American Reliable Insurance Co., United National, American Security and others, asks for at least $200 million. It joins a similar lawsuit filed by 88 residents and business owners who lost property and loved ones in the fires. They are seeking more than $37 million in damages, according to local news reports. | 150m | General insurance | Damage to physical assets |
| | Sony Life Insurance; Ministry of Justice (Japan); U.S. Department of Justice (DoJ) | **An employee steals $154 million, buys bitcoin and creates a fortune.**<br>The United States Department of Justice has filed a lawsuit in federal court in California for the return of more than $154 million to a Japanese subsidiary of Sony Corporation that was stolen by a worker and converted to bitcoins.<br>According to the lawsuit, last May an employee of Sony Life Insurance Company Ltd., identified as Rei Ishii, diverted said sum to his personal bank account, taking advantage of a movement of funds between different financial accounts of the company. | 115m | Corporate services | Internal fraud |
| 5 | Canadian Imperial Bank of Commerce (CIBC) | **CIBC to pay $125 million to settle investor lawsuit over disclosure of U.S. subprime mortgage exposure.**<br>Canadian Imperial Bank of Commerce has agreed to pay $125 million to settle a class-action lawsuit that claimed the bank misled shareholders about its multibillion-dollar exposure to the U.S. subprime mortgage sector, which collapsed in 2008 and took the bank's stock price down with it.<br>The lawsuit claimed that, over a period of nine months starting at the end of May of 2007, CIBC failed to fully disclose that it had US$11.5-billion in total exposure through securities and derivatives tied to subprime real estate. The value of those securities would later implode in the financial crisis of 2008. | 74m | Corporate services | Clients, products and business practices |

# GEOGRAPHICAL RISK EVENT FOOTPRINT



### L3 RISK CATEGORY




# EVENTS CALENDAR

**23 FEBRUARY**
Q1 Investment firm forum

**15 MARCH**
Scenario working group

**09 MARCH**
Operational resilience impact tolerance and remediation planning

**10 MARCH**
Q1 Member forum

**16 MARCH**
Q1 Investment firm forum

**23 MARCH**
Q1 Operational resilience industry call

**Wishing Shahine the best of luck in all her future endeavours!**

We would like to thank Shahine Sivakumar for her significant contribution to ORIC International over the last four years and wish her every success in the future.

**Thank you Jay!**

We would also like to thank Jay Mistry for his substantial role in supporting ORIC International over the last few years and wish him the very best for the future.

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