A structured insight into the complexity of global risks

The Zurich Risk Room
Cutting through the fog of country risk

The spread of our businesses is global, and so are the risks affecting them. And global means more than just geography. It covers a broad spectrum of areas, all capable of influencing the success and profitability of our organizations. It extends from the economic and financial sphere all the way to geopolitical and environmental arenas. Add to this the fact that many risks are interconnected, and we begin to see the true complexity of predicting and managing global risks.
As a result, global businesses are increasingly focused on the challenge of mapping their risk profiles. Each location requires careful review with respect to supply chains and sourcing, market security and resource issues. Companies today want and need to know:

- Where are our sales and profitability at risk?
- Where should we make our next investment, and what problems do we have to reckon with?
- What risks are out there that we may not be thinking about?
- In short: How can organizations evaluate their strategic direction in an ever-changing global risk landscape?

To answer these questions, businesses must look at risk beyond single dimensions. They must understand the complex interactions between many different risks. And they must do so quickly and objectively to keep up with their competition.

By using a tool like the Zurich Risk Room, risks and their interactions can be visualized in an intuitive way. The Zurich Risk Room is helping boards and strategic advisors of multinational corporations cut through the fog of country risk. It is a fact-based management tool, facilitating strategic decision making and risk mitigation in the face of difficult and constantly changing business conditions. It helps customers ensure that their strategic decisions and priorities are placed within a more consistent, holistic and risk-aware framework.
The Zurich Risk Room was designed to illustrate the impact of macroeconomic, environmental, health, geopolitical, technological, and business risk factors on individual countries. The beauty of the tool resides in its ability to display the results of complex risk modeling in a way easily understood, plotting countries in a risk grid that allows us to see where geographies fall with respect to selected risk factors. In its current version, the tool is comprised of over 70 risk factors and spanning 161 countries.

Although the Zurich Risk Room can be used to visualize the interplay of all 66 risk factors and their joint impact on 158 countries, companies can optimize the analytical output by selecting risks and geographies that match their own risk profile. By highlighting the most relevant locations and risk factors, organizations can use the Zurich Risk Room to create a three-dimensional (3-D) risk simulation that is designed to reflect their specific strategic concerns. In a virtual risk world, strategists can see how their chosen risks interplay differently in different regions of the world.

Not only does the Zurich Risk Room provide a global overview of risk at a given point in time, it also allows for simulations that can assist companies with scenario planning. The simulations extrapolate changes in risk metrics and show how risks can cascade through complex systems and affect a variety of concrete locations and business situations. By asking a multitude of ‘what if?’ questions, the tool can help businesses anticipate unfolding risks and develop appropriate mitigation plans.
The Zurich Risk Room helps systematically explore major global risks, investigating how they are expressed on a country by country basis. It shows how risks and geographies combine (sometimes unexpectedly) to be relevant to business concerns. It shows which countries reflect similar profiles, and which begin to stand out. By working across different risks, patterns are identified which illustrate if relevant risk connections exist and where they are strongest.
The Zurich Risk Room risk factors

**Economic risks**
- Rising food prices
- Rising oil prices
- Dollar fall
- Hard landing
- Fiscal risks
- Asset bubbles
- Current account deficit
- Global retrenchment
- Government surplus-deficit
- National saving rate
- Inflation
- Interest rate spread
- Government debt

**Business risks**
- Starting a business
- Dealing with construction permits
- Employing workers
- Registering property
- Getting credit
- Paying taxes
- Trading across borders
- Enforcing contracts
- Closing a business
- Exchange rate fluctuations
- Wastefulness of government spending
- Burden of government regulation
- Strength of auditing and reporting standards
- Efficacy of corporate boards
- Protection of minority shareholders’ interests
- Business impact of rules on foreign direct investment
- Burden of customs procedure
- Financial market sophistication
- Financing through local equity market
- Ease of access to loans
- Venture capital availability
- Restriction on capital flows
- Strength of investor protection
- Soundness of banks
- Regulation of securities exchanges
- Legal rights index
- Enabling trade

### Political risks
- Terrorism
- Interstate wars
- State failure
- Transnational crime
- Migration
- Expropriation
- Political violence
- Currency inconvertibility
- Non-honoring
- Business costs of terrorism
- Business costs of crime and violence
- Organized crimes
- Global governance gap

### Environmental risks
- Droughts
- Sea level rise
- Water shortages
- Seismic disasters
- Storms and floods

### Technical risks
- Information infrastructures
- New technologies
- Technical accidents
- Quality of overall infrastructure

### Social risks
- Pandemics
- Infectious diseases
- Chronic diseases
- Demographic shifts
Where should we invest next?

The Zurich Risk Room allows us to focus on specific countries targeted for strategic investment decisions. In this example we look at a selection of countries in Southeast Asia and Eastern Europe. Varying the choice of risk factors or countries generates different angles of view, stimulating different strategic considerations, while the consistent analytical framework ensures that each country is compared on a level basis. It is possible to pursue ‘what if? scenarios’ at any time, even for countries that originally were not targeted.

Figure 2
The global risk map or grid shows the relative position of each country with respect to the chosen risks. It enables a simple visual analysis not only of target countries, but also of countries with similar risk profiles.

Figure 3
Individual business risks
While the global risk map in figure 3 displays a country’s overall risk characteristic, the risk wall in figure 4 depicts the individual factors – here economic risks – that contribute to a given country’s position on the global risk map. In this specific example it shows where economic risks differ for Malaysia, Slovakia, and the Czech Republic, pointing for example to the fact that risks arising from government regulation and wasteful government spending contribute to Slovakia’s greater economic risk.

Figure 4

Individual macroeconomic risks
In figure 5, the risk wall for macroeconomic risks shows that Malaysia is particularly strongly exposed to the risks of a declining dollar and a hard landing in China.

Combining the information from the risk walls depicted in figure 4 and figure 5 allows you to show which individual risks are instrumental in determining the overall positions of Slovakia, Malaysia, and the Czech Republic on the global risk map of figure 3.

Figure 5
How can we identify the best approach to risk mitigation?

By examining risk in detail, it is possible to compare overall country risk characteristics. This helps us see whether a country’s risk profile is unique or whether it shares similarities with other countries. For international businesses, it is vital to form a picture of where operations and investments are vulnerable and where these vulnerabilities may reside. What does risk look like for a particular location? Can we identify how risks are bundled, or where a threat in one area might cascade to another? The answers to such questions allow us to alert territorial managers of any risks that may impact across business or geographic boundaries. In an environment where risks arise and proliferate rapidly and globally, the aim is to provide a comprehensive risk overview that helps the C-Suite decide what actions are needed where in order to help them protect their businesses.

‘What if? scenarios’: mitigating the risk of a hard landing in China

It is illustrative to subject specific countries to ‘What if? scenarios’ by tracing the change in specific risks. In this particular scenario, Malaysia is capable of reducing its exposure to the risk of a hard landing in China. This reduces Malaysia’s overall economic risks to make the country comparable to Slovakia and the Czech Republic. Including the business risk dimension, Malaysia’s overall risk characteristic is now decidedly more favourable than the other two countries in our comparison.

Figure 6
The Zurich Risk Room – A tool to help you better understand our complex world

**Holistic analysis...**
The Zurich Risk Room’s purpose is to achieve a more holistic view of country risk. A threat in one geographical area can rapidly affect non-related areas. As the Zurich Risk Room supports a measured response to managing risk, it can assist key executives in making risk-aware decisions on global investments, operational issues, and potential market developments across international boundaries.

**that is fact-based...**
The Zurich Risk Room creates a fact-based assessment of global threats as they relate to business planning and implementation. Its output complements departmental, regional or consultant-based research and data, providing an additional objective lens to risk evaluation and mitigating the issues related to silo-based risk assessments. Using a consistent global framework, it can help identify threats that may cross boundaries, and assists key executives in making informed decisions, even if they are not experts in risk analysis.

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and operational...

Businesses want to mitigate risk, so the time span between risk identification and strategic response needs to be as short as possible. The Zurich Risk Room enables prospective business strategies and investment plans to be played through risk scenarios before final decisions are made. This allows for forward-looking planning, which can be applied to investment plans, operational developments, resource allocation, or market investigations.

The Zurich Risk Room’s outputs are also an effective method for supporting strategic rationales. The 3-D visual representations are an effective method of communicating complex details in a consistent and standardized way. Figures 1-6 on pages 5-11 show how the Zurich Risk Room illustrates risk ‘at a glance’, creating scenario views that enable quick and intuitive understanding. Furthermore, as the Zurich Risk Room output can be used in conjunction with Excel-based tools, results can be easily shared and compared across an organization.

proven solution...

Zurich has made the Zurich Risk Room’s insights available at a number of global forums and think tanks to stimulate policy debate about the changing nature of world risk. The results have been featured in a series of White Papers, including Zurich’s own Asia Risk Monitor, to wide acclaim. The Zurich Risk Room is now used by Zurich to secure a high-level overview of business threats, covering a wider cross-section of risk factors than could typically be generated in-house or purchased from other vendors.

In short: a strategic decision-making tool

The Zurich Risk Room helps businesses build risk understanding that can be cascaded throughout an organization, ensuring strategic rationales are shared within the C-Suite and beyond. It gives senior executives a concrete, scaled illustration of risks, facilitating simple comparisons to be made across regions and providing a visual interpretation of how risk chains may apply. It provides the potential to hedge risks in order to help customers protect their assets, earnings, operations, and personnel. The Zurich Risk Room enables a unique risk context to be established for major developments or plans, without taking up unreasonable mounts of senior management’s time and resources.
In 2012, businesses will want to find out what the ‘new normal’ will look like in the aftermath of the financial crisis.

The crisis has reminded us rather painfully that risks cannot be analyzed in silos. We must broaden our perspective and accept that the definition of global risk goes beyond its geographical context. This is true whether factoring in climate concerns, health issues, market stability or political change. In such an environment, Kipling’s famous line “If you can keep your head when all about you are losing their’s” rings as true as ever. Zurich’s solution is to continue working closely with its customers to help create the presence of forethought, enabling them to calmly mitigate business threats wherever possible. The aim is for companies not only to understand the likelihood and potential timeframes relating to threats, but also to visualize the possible impact to their particular business strategies or operations. In this way, executives can be more confident that informed business decisions are made based on an intelligent and informed view of risk, irrespective of its nature or origin.
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