Emerging Risks Survey Summary of Findings

Results from the seventh Emerging Risks Survey indicate that new risks are gaining a foothold in the minds of risk managers around the world. Most notably, rapidly changing regulations and risk of cyber attacks may be slowly replacing the risk of oil price shock and other economic risks, which were of major concern just six years ago when the survey was first executed in 2008. The following summary highlights key findings from research conducted by Max Rudolph, FSA, CERA, MAAA, a Fellow of the Society of Actuaries and owner of Rudolph Financial Consulting, LLC.

2014 Outlook

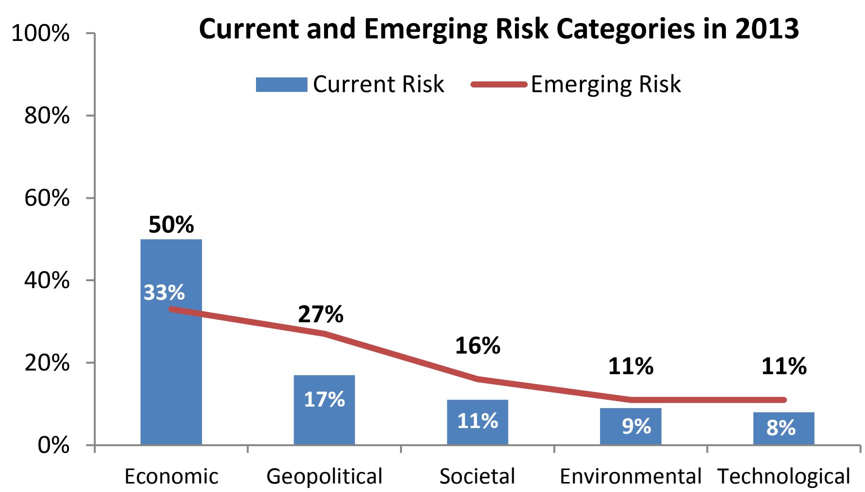
Compared to years past, risk managers have a more positive global economic outlook for 2014, with 71 percent (a new high) having a moderate outlook and 17 percent (also a new high) having a good outlook. Just 11 percent of risk managers (a new low) say they have poor global economic expectations for 2014.

Impact of Current and Emerging Risk Categories

Risk managers perceive economic risks such as oil price shock, devaluing of the U.S. dollar, and financial volatility to be the most impactful current and emerging risk categories.

An analysis of gaps in current and emerging risk categories uncovers interesting conclusions about managers' expectations for the future.

Although the category of economic risks is perceived to have the most significant impact on business *now* (with 50 percent of risk managers saying economic risks are currently most impactful), risk managers expect the economic risk category to be less impactful in the future (with just 33 percent of managers saying economic risks will have the greatest impact over the next few years.)

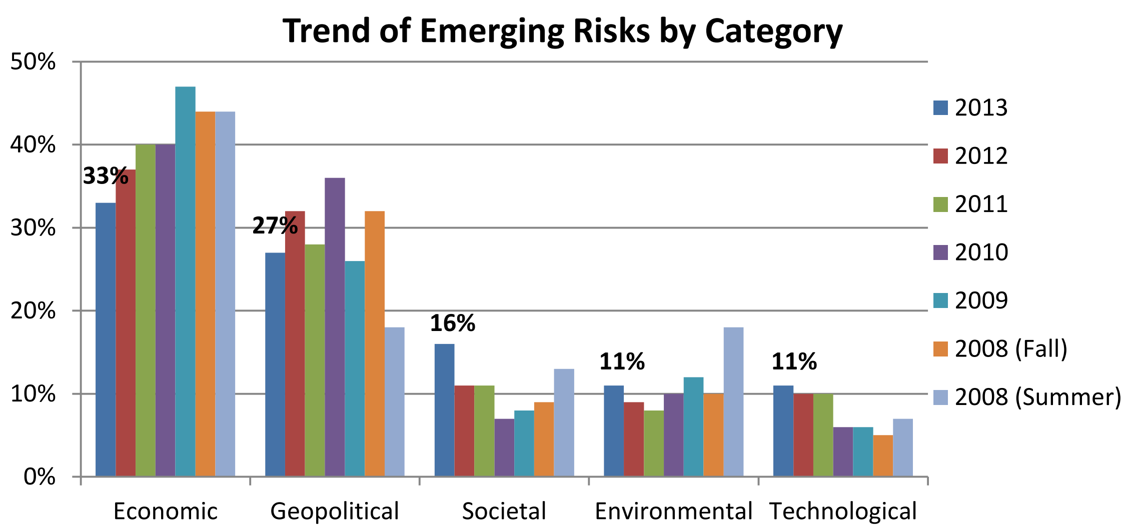


In addition, geopolitical risks are expected to have incremental impact over the next few years, as fewer than one in five managers (17 percent) say geopolitical risks currently have the greatest impact yet more than one in four managers (27 percent) expect geopolitical risks to have the greatest impact in the future.

Risk managers' perceptions of the impact of emerging risk categories are generally consistent with years past, however notable differences revealed in 2013, include:

- Compared to previous years, a **smaller proportion of managers perceive economic risks as the most impactful** emerging threats (33 percent in 2013, versus all-time high of 47 percent in 2009). In fact, the economic risk category is at an all-time low in 2013.

- Compared to previous years, a **greater proportion of managers perceive geopolitical risks** (27 percent in 2013, versus all-time low of 18 percent in 2008) and **societal risks** (16 percent in 2013, versus all-time low of seven percent in 2010) **as the most impactful** emerging threats. **Technological** risks continued their slow and steady climb to 11%, **led by cyber security issues**.



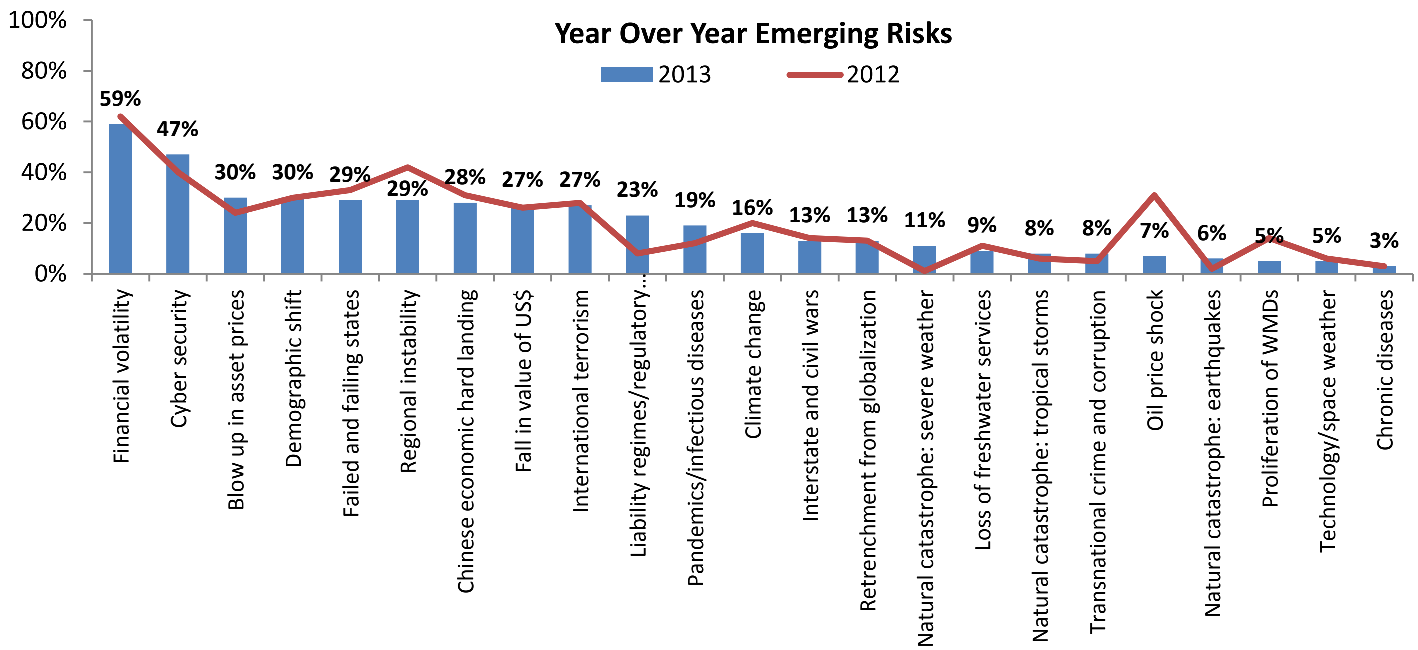
Impact of Specific Emerging Risks

Of the specific emerging risks (respondents can choose up to 5), risk managers are most likely to choose financial volatility (59 percent) as impactful. Cyber security (47 percent), blow up in asset prices (30 percent), demographic shifts (30 percent), failed/failing states (29 percent), and regional instability (29 percent) are also among the top emerging risks managers expect to have the greatest impact on business in coming years.

Year over year data illuminate notable changes in managers' perceptions of impactful emerging risks from 2012 to 2013:

- **Cyber security increases** seven points from 40 percent of risk managers selecting it as an impactful risk in 2012 to 47 percent in 2013. This perceived risk predates the recent cyber security events that have opened new corporate data security vulnerabilities and shows that risk managers have been an increasingly loud voice warning about this risk.
- **Regional instability declines** 13 points from 42 percent of managers selecting it as an impactful risk in 2012 to 29 percent in 2013. This risk in particular tends to ebb and flow with recent events, and fall 2013 was a relatively uneventful period. However, as instability increases in regions such as the Ukraine or the Middle East, these risks are perceived as more impactful due to an anchoring bias.

- **Liability regimes/regulatory framework increases** 15 points from eight percent of managers selecting it as an impactful risk in 2012 to 23 percent in 2013. As the regulatory framework is framed post crisis, risk managers are currently trying to implement voluminous and changing regulations on short time frames with: 1) Limited additions to staff; and, 2) Regulators who often have a limited understanding of risk tools.
- **Severe weather increases** 10 points from one percent of managers selecting it as an impactful risk in 2012 to 11 percent in 2013. From a U.S. perspective, this rise in perceived risk can be accredited to the effect of severe convection storms and drought felt across the country. Surprisingly, Hurricane Sandy a year earlier had little impact on the tropical storms risk.
- **Oil price shock decreases** 24 points from 31 percent of managers selecting it as an impactful risk in 2012 to seven percent in 2013. Declining concern about oil price shock may be a result of the reduced Middle East tensions and new sources coming on-line in North America.
- **Proliferation of weapons of mass destruction (WMDs) decreases** nine points from 14 percent of managers selecting it as among the most impactful risks in 2012 to five percent in 2013. It is probable that reduced international tensions when the survey was completed lessened the perception of this risk.



About the Survey

A total of 223 risk managers from across the globe participated in this online survey in October 2013. The research was funded by the Joint Risk Management Section of the Society of Actuaries, the Canadian Institute of Actuaries, and the Casualty Actuarial Society.