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# Global Risks in 2018: What Lies Ahead?

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What are the biggest risks that individuals, businesses and governments face in the year ahead, and beyond? According to the 2018 Global Risks Report, published by the World Economic Forum, the environment, cyber security and geopolitics are the areas drawing the most concern.

The World Economic Forum — which holds its annual meeting next week in Davos, Switzerland — develops the Global Risks Report in collaboration with Wharton’s Risk Management and Decision Processes Center.

“The big message that came out of this report is the tremendous importance of the environment” as an area to watch, said Howard Kunreuther, Wharton professor of operations, information and decisions, and co-director of the Risk Management and Decision Processes Center. “It’s not that that wasn’t [a concern] earlier, but it certainly didn’t have as high a profile.”

The other big takeaway from this year's report is how various types of risks are interdependent, which has implications for preparation and mitigation, Kunreuther said. "You begin to see clear arrows that go from climate change to food security, to natural disasters, to droughts, and to a set of things that can happen."

**"[Risk interdependency] is a critical aspect that risk managers need to think about on a global scale. One thing can lead to other things and have a cascading effect."**

– Jeffrey Czajkowski

To be sure, cyber security, data fraud and theft don't necessarily link immediately to something like natural disasters. But if one of those events leads to some larger, overall instability, the outcomes could be worse than expected. "[Risk interdependency] is a critical aspect that risk managers need to think about on a global scale. One thing can lead to other things and have a cascading effect," said Jeffrey Czajkowski, managing director of the Risk Management and Decision Processes Center. "It's critical for people to get their heads around it and start to think about how to better manage these risks."

Kunreuther and Czajkowski discussed the key takeaways from the 2018 Global Risks Report on the Knowledge@Wharton show on Wharton Business Radio on SiriusXM channel 111. (Listen to the podcast at the top of this page.)

The report looks at 30 different risks among five major categories – economic, environmental, geopolitical, social and technological. It draws upon surveys of risk experts across the globe.

The contents of the report will be discussed at next week's World Economic Forum meeting in a series of sessions on issues such as climate change, health or food security. "It becomes a building block for many organizations that start to think about what they're going to do in the way of [a risk management] strategy for the next year, and hopefully for the longer term," said Kunreuther.

**'Pushing Our Planet to the Brink'**

Heading the list of the risks in 2018 are environmental, cyber security and geopolitical risks. “We have been pushing our planet to the brink and the damage is becoming increasingly clear,” the report states. “Biodiversity is being lost at mass-extinction rates, agricultural systems are under strain and pollution of the air and sea has become an increasingly pressing threat to human health.”

On cyber security, the report notes, “Attacks against businesses have almost doubled in five years, and incidents that would once have been considered extraordinary are becoming more and more commonplace.” On the geopolitical front, “rules-based approaches have been fraying,” the report says. “Re-establishing the state as the primary locus of power and legitimacy has become an increasingly attractive strategy for many countries, but one that leaves many smaller states squeezed as the geopolitical sands shift.”

This year’s report introduces three new sections — Future Shocks, Hindsight and Risk Reassessment — in an attempt to provide “a new lens through which to view the increasingly complex world of global risks.” The Hindsight section, for example, revisits past reports “to gauge risk-mitigation efforts and highlight lingering risks that might warrant increased attention.” The 2017 Global Risks Report listed “economic inequality, societal polarization and intensifying environmental dangers” as the top three trends that will shape global developments over the next decade.

Among the greatest risks that the report focuses on are geopolitical ones such as tensions between North Korea and South Korea, said Kunreuther. The World Economic Forum brings world leaders to the table where such issues could be discussed, he added. “We want to take down a lot of the blinders here and make sure the agendas are such that we can think out of the box.”

Cjaskowski pointed out that this year’s report also highlights the need to invest in resiliency. “There’s a big push to make communities, nations and individuals more resilient to a lot of these different risks. But the big question is: How do you pay for that? Where are you going to get the financing to [promote] resiliency?” The report is taking a first step in trying to understand those issues, he noted.

## **“The Global Risks Report is really trying to overcome the ‘NIMTOF’ acronym – ‘Not in my term of office.’”**

–Howard Kunreuther

### **‘It Won’t Happen to Me’**

Bias plays a big role in how potential risks are evaluated, and the report focuses on that aspect as well. “You need to take a long-term view of a lot of these risks and how you’re going to deal with them,” said Czajkowski. “Oftentimes, people, organizations or governments have problems thinking with a long-term view because of short-term incentives or the short-term decisions they’re dealing with.”

“It tends [to be the case] that only after an event happens do people pay attention,” Kunreuther noted, adding that the report identifies this problem as “availability bias.” “[The report] is suggesting that organizations and individuals pay better attention beforehand. We can’t think of a more important message to highlight.”

For example, he says, people may hear that there is a one in 100 chance that a major hurricane may strike their area in a given year. That may seem like a low probability to many. But, “if you’re living in the same house for 25 years, there’s a greater than one in five chance of having something like this happen.”

Kunreuther explained how such messaging could lead to some proactive planning. “Can you take steps when you don’t think [a disaster] is going to happen?” he asked. “The issue of black swans gets brought up all the time – ‘It’s such a low probability event that we’re not going to think about it.’”

Czajkowski offered an example of how such biases play out. The Risk Center typically classifies natural disasters as “low-probability, high-impact events” for an individual or a community. But on a global scale, such incidents become a high probability, he noted. “It is going to happen — but where that’s going to be is a different question. That is where this cognitive bias comes into play.”

Kunreuther highlighted the critical role of local officials in taking the longer-term view. “The Global Risks Report is really trying to overcome the ‘NIMTOF’ acronym – “Not in my term of office,” he said. “[We need] to get people to think there’s a longer term than just getting reelected, and that they have to think about putting money into [areas like] infrastructure.”

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