

January 18, 2022

## **BRC RISK REPORT 2022**

### **LOOKING FORWARD, THINKING THE UNTHINKABLE**

By Catherine A. Allen and Gary S. Roboff

As boards consider what risk surprises lie ahead in 2022, it's inevitable that some items will drop off the table quickly because of a sense that a specific risk has a very low likelihood of occurrence. We'd like to pause for a moment and suggest five items that may have been on those throwaway lists previously that don't seem farfetched today: (1) Further mutation of the COVID 19 virus into a vaccine-resistant strain leading to markedly increased critical care populations and near panic behaviors in some populations; (2) nation-state military cyber-attacks aimed at disabling/destabilizing governments setting the stage for forced regime change; (3) deepening political divides, contested elections, and a marked uptick in political violence in the United States; (4) severe economic dislocations complicated by COVID and domestic political unrest; and (5) accelerating changes to the basic employer-employee work contract:

1. **A vaccine-proof COVID variant may be just a few mutations away according to CDC Director Rochelle Walensky** (see [WebMD](#)). Depending upon the specific nature of the mutation, the international community may find itself in a brand-new tunnel with no visible light at the end. Already stressed health care systems may not be able to cope with step function increases in caseloads, businesses may be forced to operate virtually over an extended time period if they can, and if 2019 style layoffs resume, governments will be again asked to broadly subsidize their economies with uncertain long term economic consequences.
2. **In 2022, geopolitical tensions may be less likely to play out solely in physical space and more likely to result in a level of cyberattack not yet seen on a broad scale.** In December of 2015 a Russian cyberattack on Ukraine's power grid resulted in a loss of electricity for about 230,000 customers; subsequent attacks have targeted various elements of Ukraine's financial services sector. And just last week tensions mounted when Belarusian intelligence personnel carried out a [cyberattack](#) that hit Ukrainian government websites using malware similar to that used by a group tied to Russian intelligence (see [Reuters](#)). An increasingly real risk is that an incursion into the Ukraine (or another target country) will become a wholesale cyberattack on that nation's infrastructure, completely crippling energy, communications, and financial sectors. A sustained all-out cyberattack against a target nation will make short term recovery difficult or impossible and may well produce societal chaos and forced regime change. Once an attack of this magnitude has succeeded, a significant precedent will have been set – and the world may never be the same.

3. **Fundamental changes to American democracy may be at hand with far reaching consequences.** During 2021 the United States witnessed not just a hardening of extreme political positions but one political party taking aggressive steps to gerrymander election districts and effectively disenfranchise millions of voters. Early in the runup to the midterm elections some Congressional leaders are discussing the impeachment of President Biden without justification, and that may emerge as a core campaign promise. Chaotic elections make governing more difficult, and large-scale voter suppression risks widespread social unrest, January 6th-like political disruptions, and a step function increase in urban violence. A politically dysfunctional United States will generate spillover consequences extending far beyond U.S. boundaries, hastening political instability elsewhere and hurting U.S. competitiveness and leadership in world markets at a time when China and other nations are ascendent.
4. **Risks that are already difficult to control a on standalone basis may become unmanageable when they interact or cascade.** For example, a vaccine-proof COVID variant or even sustained COVID outbreaks combined with heightened political unrest and continued supply chain disruptions may complicate Federal Reserve Board efforts to steer the economy. In a worst-case scenario, a severe economic downturn may further exacerbate political unrest.
5. **Changes to the fundamental nature of the employer/employee contract are accelerating,** fueled by the pandemic and the hybrid work-from-office/work-from-anywhere environment it created. Many companies have experienced the downsides of gig economy workforce models: greater staff turnover and less loyalty, a shortage of employees with firm-specific backgrounds suitable for executive positions, and difficulties developing or maintaining corporate cultures that have driven organizational success. A key question (and risk) is whether this trend ultimately leads to a measurably less productive work force and less corporate stability at a time when other countries, including China, can compel workplace behaviors. It also means rising labor costs that may fuel inflation.

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## PERSPECTIVES ON RISKS FOR 2022...A LOOK AT WHAT OTHERS ARE PROJECTING

Every year at this time a number of thoughtful white papers and research publications emerge with complementary perspectives about which risks will matter most during the next year; we've selected three we think are most prescient. The increased velocity of significant risks makes it even more important for boards to develop contingency plans for those severe, but plausible, risks that could have potentially significant business consequences. Boards should expect to approve scenarios that will be used to determine the extent of their firm's operational resilience and should review scenario outcomes with executive management. Boards should regularly review the continued relevance of scenarios as the risk landscape evolves.

One of the consistently interesting, and "on target" studies, is the [Protiviti - North Carolina State Executive Perspectives on Top Risks, Fall 2021](#), which focuses on C-Suite and Board research. The research seeks to identify the most important risks projected for 2022 as well as 2031. Key themes suggest that a more volatile and disruptive decade lies ahead and that organizations must pay more attention to people and culture issues. The study suggests that global top risks are more expansive, talent management issues will be universal, economic uncertainty will remain significant, and that there is no end in sight to increasing cybersecurity and data privacy concerns.

Here are some of the Protiviti study's top 2022 risk projections:

- Pandemic-related government policies and regulation will hurt business performance
- Succession challenges will increase, as will the inability of firms to attract and retain talent
- Pandemic-related market conditions will reduce consumer demand
- Adoption of digital technologies will require new skills or significant effort to upskill/reskill existing employees
- Economic conditions, including inflationary pressures, will constrain growth opportunities
- Increasing labor costs will impact profitability targets
- Firms will face resistance to change operations and their business models
- An inability to use data analytics and “big data” to achieve market intelligence will impact productivity and efficiency
- Cyber threats will increase with additional business impact
- Shifts in expectations about social issues and diversity, equity and inclusion (DEI) will outpace organizational ability to respond

We believe that boards must have greater focus on talent management, retention and development. Boards should consider adding members with human resources management experience to deal with talent management issues that will continue to grow in a post-pandemic world. A second important take-away is the focus on digital and emerging technologies and how they will disrupt existing business models.

Another research study, [SIFMA Research: 2021 End-Year US Economic Survey](#), focuses more on macroeconomic risks and is helpful in understanding US economic policies. Here are a few of the highlights:

- COVID policies implemented to stem the spread of the virus and variants all remain considerable sources of uncertainty...not just US policies, but overseas as well. These policies, and of course the virus itself, have led to supply chain disruptions, higher production costs and higher prices.
- Labor costs will continue to increase because firms are having to offer higher wages to attract and retain talent, including bonuses and other incentives. (see [Bloomberg](#))
- Bringing people back into the workforce may take longer because of health impacts as well as child and elder care issues.

A key take-away here is that accelerating labor costs are unlikely to change, putting sustained pressure on costs in general.

A third report always near the top of our reading list is the annual [Global Risks Report published by the World Economic Forum](#). Some of this year's key findings include:

- Global risks perceptions highlight societal and environmental concerns
- A divergent economic recovery threatens collaboration on global challenges
- A disorderly climate transition will exacerbate inequalities
- Growing digital dependency will intensify cyberthreats
- Barriers to mobility risk compounding global insecurity
- Opportunities in space could be constrained by frictions
- Year two of the pandemic yields insights on resilience

The Board Risk Committee will be writing about many of these risks in future Board Risk Reports as well as including them in upcoming webinars and educational programs. Corporate and organizational boards are facing new risks at a velocity that is astounding. We hope to help board members identify, and understand, those risks so that they can be better prepared to address them in their organizations.

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## WHAT BOARDS SHOULD CONSIDER DOING

- Use scenario planning and analysis and tabletop exercises to identify and address some of the unplanned and unexpected risks facing the organization
  - Look at risks in a holistic manner and be aware of the impact of cascading risks
  - Be sure new additions to the board have more diverse perspectives and bring new sets of expertise to the board, especially in technology, risk, and talent management
  - Focus on contingency planning for both known and unknown risks and be ready to pivot quickly
  - If you do not have one, consider creating a risk committee of the board
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## THE BOARD RISK COMMITTEE: A YEAR IN REVIEW

The Board Risk Committee (BRC) was launched as a nonprofit in the fall of 2020 with the mission to provide education and a peer group exchange for board members of risk committees and audit committees that handle risk. This past year saw the publication of our 15th Board Risk Report and the continuation of virtual programs for peer groups in the risk area with Women Corporate Directors, the Corporate Board Forum and BlackRock. The BRC has over 550 risk committee members receiving our publications and over 700 corporate directors have attended our events. Please join us in growing this unique peer group!

For 2022, the BRC is planning monthly Board Risk Reports on issues relevant to corporate board members from authors like Lin Lu, Executive, New Business Build and Integration, Personal Banking, National Australia Bank, writing for the February Board Risk Report on incorporating risk management across the organization. In addition, we plan to continue with quarterly events for risk committee members and Chief Risk Officers on some of the risks we have outlined in this Report. If you are not getting the Board Risk Report or information on our events, please [register here](#) to be invited to these events.

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## ABOUT THE AUTHORS

### **Catherine A. Allen**

#### ***BRC Founder and Chairman of the Board***

Catherine sits on a number of corporate, university and nonprofit boards, including, in the past, Synovus Financial, El Paso Electric Company, Stewart Information Services, RiskSense and NBS Technologies where she set up, chaired, and sat on a number of Risk Committees. She currently sits on the boards of CRI Advantage, the Belief Agency and PocketPatient MD. She also serves on the New Mexico State Investment Council and the New York Institute of Technology Board of Trustees. She is on the Advisory Boards of Women Corporate Directors and the Executive Women's Forum. She was named one of the NACD 100 Most Influential Directors in 2018. She speaks to Board Directors and writes often on the topics of emerging technologies, cybersecurity, third party risk management, and the need for Risk Committees.



## Gary S. Roboff

### **Board Member of BRC; Shared Assessments Senior Advisor**

Gary has more than four decades of experience in financial services sector planning and management, including 25 years at JPMorgan Chase where he retired as Senior Vice President of Electronic Commerce. Gary has served on the Board of Directors at multiple companies and organizations including ISTPA, the NYCE network, and the Electronic Funds Transfer Association. Gary served on the Board of Trustees at Clark University for 12 years, nine of them as Board Vice Chair and Chair of the Board's Strategic and Financial Oversight Committee.



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## FEATURED EVENTS

*The following events are produced by friends of the BRC:*

### **15th Annual Shared Assessments Third Party Risk Summit**

May 4-5, 2022

Ritz-Carlton Tysons Corner, McLean, VA

*The Shared Assessments Third Party Risk Summit is the premier global, multi-industry event to shed light on processes, technologies and efficiencies in third party risk management. Join leading experts in risk management to identify trends, leverage new technologies, and share best practices.*

### **Spies, Lies & Nukes Conference**

May 1-3, 2022

Hacienda del Sol resort in Tucson, AZ

*Join Valerie Plame and several of her legendary, highly decorated CIA colleagues as they dive into the secretive world of espionage. Hear intriguing, provocative, and sometimes shocking conversations on cyber-attacks, covert actions, nuclear scams, recruiting real spies from those that lived in the "wilderness of mirrors" for years.*

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## BOARD RISK REPORT LIBRARY

[December 2021](#) – New Risks - New Challenges for Board Risk Oversight

[November 2021](#) – Enabling More Constructive Cybersecurity Discussions Between Boards and CISOs

[October 2021](#) – Balancing Data Privacy with Data Transfers

[September 2021](#) – Model Risk Management Comes of Age - Boards Take Notice

[August 2021](#) – Accelerating Challenges in Complex Supply Chain Risk Management

[July 2021](#) – The Critical Difference Between Continuity and Resilience

[May 2021](#) – How CROs Use Risk Appetite to Ensure Competitive Advantage

[April 2021](#) – What Boards Should Know About Third Party Risk

[March 2021](#) – Board Risk Committee Effectiveness From a Current Audit Committee Chair

[February 2021](#) – Artificial Intelligence – The Risks and Opportunities

[January 2021](#) – ESG Ascends in an Evolving Risk Landscape

[December 2020](#) – Securing the Business in the Age of Digital Transformation

[November 2020](#) – Geopolitical, Environmental and Other Location Based Risks

[October 2020](#) – What Boards of Directors Need to Know About Privacy

[September 2020](#) – The New Normal

## WHO WE ARE

[The Board Risk Committee](#) (BRC) is a non-profit, non-competitive thought leadership peer forum dedicated to Board Risk Committee members and Chief Risk Officers (CROs). The BRC is a trusted place for the exchange of ideas, best practices, and topics of interest. BRC is affiliated with [The Santa Fe Group](#) (SFG) and [Shared Assessments](#) (SA). SFG is a strategic advisory company providing expertise to leading corporations and other critical infrastructure organizations in the area of risk management. SA is the thought leader and provider of tools, education and certifications in the third party risk management space. *The Board Risk Report is the monthly publication of the BRC.*

### **Contact:**

Catherine A. Allen, Founder, Chairman, Board Risk Committee, [cathy@santa-fe-group.com](mailto:cathy@santa-fe-group.com)

Ellen Dube, Executive Director, Board Risk Committee, [ellen@boardriskcommittee.org](mailto:ellen@boardriskcommittee.org)