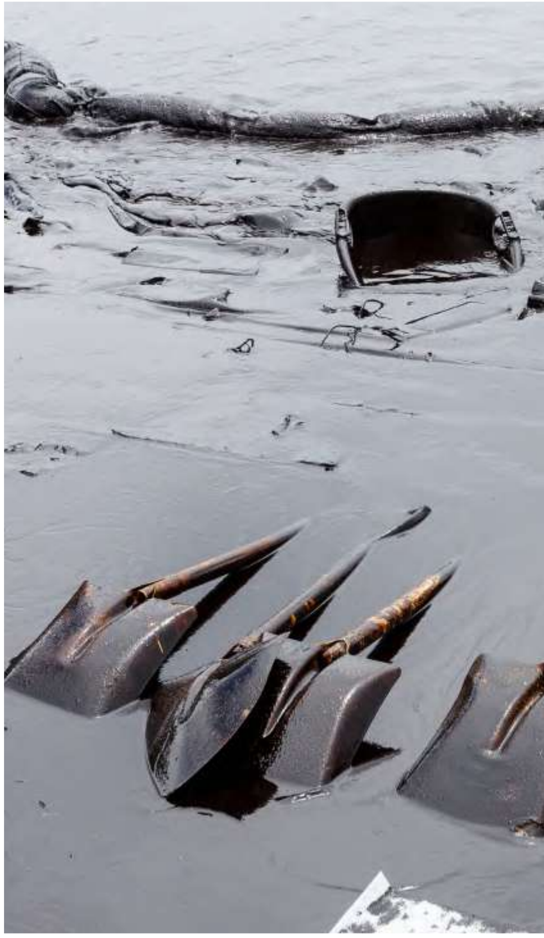
RISK

Risk management in a recovering market



Adapting to the increasingly complex risk environment is crucial for companies seeking to capitalise on the MENA region's projected post-COVID recovery. Chedid Capital's Mr Marwan Kharsa looks at some of the more prominent threats that risk managers need to be aware of and risk mitigation strategies and techniques that can be considered.

As economies around the world rally to recover from post-pandemic economic conditions, the World Bank estimates that 'MENA economies will grow by 5.2% in 2022, the fastest rate ever since 2016'.

One of the main elements driving this growth is the ability of leading organisations within the region to adapt to the current complex risk environment and be at the forefront of global players presenting resilient and agile strategies to tackle these disruptive forces.

While prominent institutions from various economic zones were experiencing stagnation and economic recession, business leaders within the MENA region saw an opportunity for growth and expansion into new emerging markets.

If the MENA insurance industry takes stock of the lessons learned over the past two years, crucial themes emerge, one of which is that risk is neither border-bound nor industry-specific and disruptive forces will continue to reshape the global and regional landscapes more than ever.

Among the risk management community there is concurrence towards the top emerging risks currently shaping the MENA region's business conditions and economic prospects. They can be broken-down as follows:

ESG impact on corporate performance and reputation

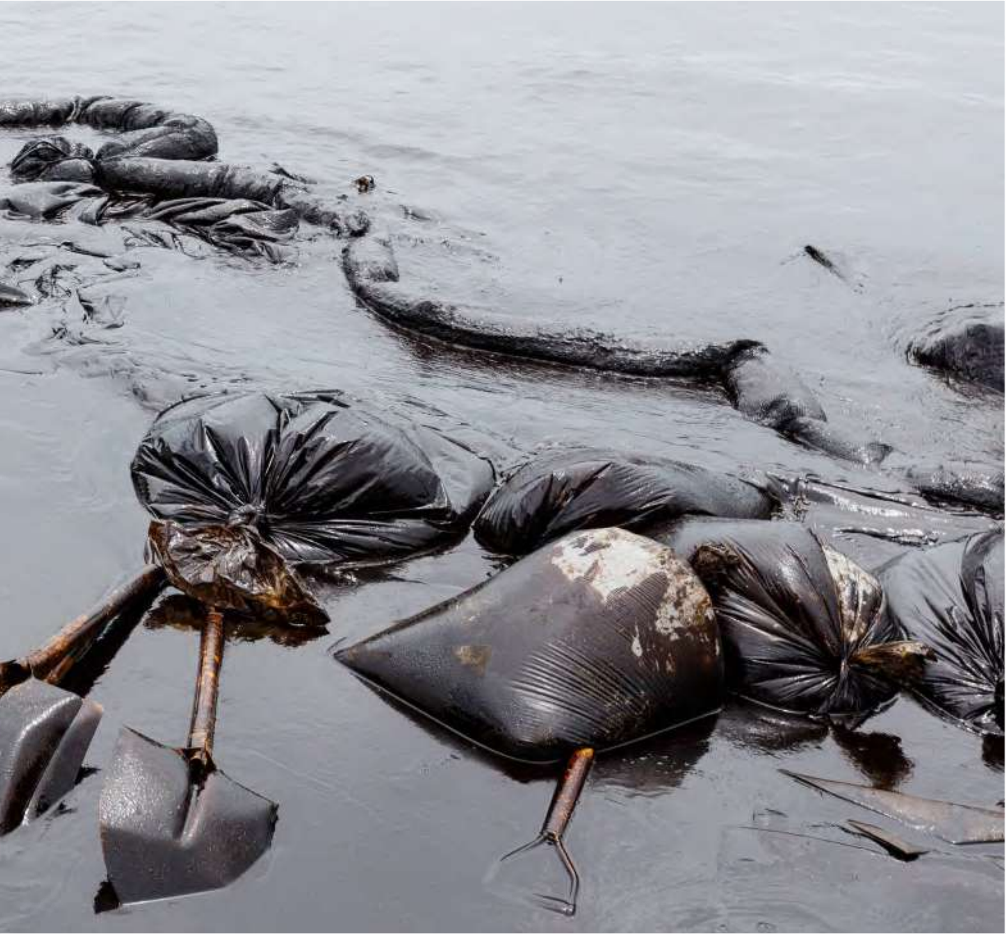
Environmental and climate-change-related risks are not new topics. Over the course of the decade, these risks have been elevated by the World Economic Forum's risk reports and have been the talking points of stakeholders within the MENA region. It is only natural since many countries within the region are global leaders in clean energy initiatives and are at the forefront of driving change for reducing dependency on fossil fuel-based industries.

CSR has also become front and centre as a response to shifts in socio-political dynamics. ESG requirements have emerged as an integral part of organisations' risk management practices. While drafting risk mitigation strategies, risk managers should always evaluate the organisation's impact on environmental and social concerns with the aim of mitigating or minimising such risks thus protecting brand equity.

Stringent regulatory environment

The surge in regulations, as economic groups and governments aim to strengthen the rule of law and protect national interests, has driven a fragmentation of critical regulation across the MENA region. The most notable is the data protection and governance regulation that has been rolled out recently within different jurisdictions throughout the region. Many businesses that maintain operations over multiple jurisdictions may face challenges adhering to the applicable regulation, leading to potential infractions. Risk managers should work closely with senior management to ensure that critical gaps within the processes of sharing, processing and transferring data are aligned with the applicable rules and regulations.

In line with the escalation of geo-political risks, the region has witnessed a rise of AML and financial crime regulation in specific compulsory requirements to screen against potential high-risk profiles and sanction entities/individuals. The risk-mitigation techniques involve the introduction of intelligent and reliable screening tools aligned with regulatory directives and adopting customised risk-based approach for profiling organisations' exposures towards clients and business partner.



breaches can lead to disruptions of operations and destroy even the most resilient of businesses. As a first step, organisations should revisit their business continuity plan to ensure alignment of the current control environment with their risk appetite.

In response to cybersecurity threats, having an incident response plan in place would be optimal as it facilitates data mapping exercise instructions and protocols, reporting lines to notify about security breaches and cyber attacks, security plans testing and the nomination of a cross functional emergency response team. In addition, cyber insurance can be considered to contain the impact of potential security breaches, data restoration costs, business interruption losses and security and privacy liability coverage.

Finally depending on the size of the organisation, endpoint detection and reporting tools may be introduced to monitor end-user devices such as desktops, laptops and mobile devices from being exploited by malicious actors and campaigns.

Building a strong risk management culture

World economies will always face emerging risks and disruptive threats, some of which can be proactively mitigated. It is paramount that risk management leaders curb these risk exposures by sponsoring an intelligent and resilient risk management culture within their own organisation.

Growth indicators align in favour of economies that turn risks into opportunities. In turn, organisations that know how to treat these risks can capitalise on favourable economic opportunities. It is not an easy undertaking – it requires investment in intelligent risk mitigation tools and adoption of a proactive risk management approach as well as building strong strategic partnerships with all key stakeholders involved. All the above elements are needed to foster an agile and resilient risk management culture strong enough to tackle these disruptive forces the MENA insurance industry is currently facing.

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Market volatility and unfavourable trade conditions

Geo-economic tensions and geopolitical disturbances hold great risk for trade-dependent economies within the MENA region and thus will have severe impacts on the region's economic outlook. As these tensions are heading for potential escalation, more and more countries within the impacted economic zones will face trade restrictions, instability within their food safety programmes and increased prices of raw material. Moreover, due to the volatility of foreign exchange rates over the past year, we have seen central banks floating their national currency, which were historically pegged against the US dollar, to curb the impact of inflation and balance foreign currency reserves.

Risk managers should consider running assessment studies to simulate the potential scenarios which may affect the organisation when/if these risks ever materialise. The results should provide the management with quantitative and qualitative indicators to assess the impact on organisation's solvency position and risk threshold.
Risk managers can enhance the organisation's resilience towards adverse geopolitical events by coordinating potential response plans with stakeholders ahead of time. Such plans may include emergency protocol procedures, financial hedging instruments and back-to-back risk transfer schemes.

Rising concerns related to cyber attacks and disruptions of operations

When COVID-19 was declared a pandemic, many MENA countries implemented strict lockdown procedures which forced organisations to initiate remote working conditions. These actions drove the dependency for web-based services, online solutions and digitalisation initiatives which in turn opened the door for a whole new array of threats and vulnerabilities. Cybersecurity