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Looking At and Beyond Post-Pandemic Market Environment

ASIAN BANKERS ASSOCIATION

ABA BANKING & FINANCE JOURNAL

AIMS & SCOPE OF THE JOURNAL

The Journal attempts to link conceptualists and practitioners in banking and finance and related aspects of the industry. It is aimed at providing articles that may serve as guidelines in banking and finance operations.

The ABA Secretariat welcomes opinions and comments and will be glad to consider for possible publication articles relevant to the aims and purposes of the Asian Bankers Association (ABA) and of this Journal.

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IN THIS ISSUE (Vol. XXXII, No. 1, 2021)

This issue features articles that appeared in ADB publications, Japan Times, World Bank Group and BRINK, the news service of Marsh & McLennan Insights, a research institute dedicated to analyzing increasingly complex risks that are reshaping industries, governments, and societies. The editors and staff of the ABA Journal of Banking and Finance would like to take this opportunity to thank the authors – for sharing their materials with the ABA and its members.

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Challenges of Meeting Today's New and Bigger Risks

Ms. Ingrid van Wees, Vice-President for Finance and Risk Management of ADB

Keynote speech by Ingrid van Wees, ADB Vice-President for Finance and Risk Management, at the Annual International Association of Financial Executives Institutes World Congress on 11 December 2020.

Introduction

Mr. Francisco, Professor Valente, Dr. Manatabe, fellow financial executives: I am delighted to address this distinguished group of financial executives and professionals. Let me first offer my sincere congratulations to the International Association of Financial Executive Institutes on its Golden Jubilee.

For an impressive 50 years, the Association has advocated and advanced a global understanding of ethical financial management. Thank you for these contributions.

I would also like to commend you for formulating and launching the CFO Declaration reflecting the Pivotal Role of the CFO. It is a truly important and thought-provoking manifesto. And I could not agree more with your conclusion that as CFOs, we hold the role of Chief Financial Officers.

New and bigger risks

Businesses today are challenged to look beyond the traditional threats, as external risks are increasing and global mindsets evolving with immersing trends.

For centuries, we have been building and expanding our economies fueled by free services provided by the planet's ecosystems. However, we have now reached a point where the roles need to reverse. In order to maintain the essential ecosystem services, such as stable climate regulation, clean aquifers and fertile land for agriculture, the businesses and our societies need to start actively supporting the planet's ecosystems.

Earth's ecosystems are currently in a state of flux triggered by years of air and water pollution, land degradation, and reduction of biodiversity. We are seeing more frequent and severe storms, unusual droughts followed by record-breaking rains and floods, and an increased transfer of zoonotic viruses to humans. All are affecting our families, economies, and businesses you lead.

With the planet's debt collectors on our doorstep, time has come that our economies start integrating a reduction of indebtedness to our planet's natural resources in our regulations, policies, and businesses.

Global leaders have taken note of this change: January 2020 was the first time that the top 5 risks of the Global Risk Report by the World Economic Forum, were exclusively environmental – including climate action failure, biodiversity loss, extreme

weather, and water crises. Cyber and data-related risks, economic risks, involuntary migration, and terrorist attacks have faded into the background because the potential scale and impact of the ecosystem risks are dwarfing the other, more familiar external risks.

COVID-19 showed us that a humble virus can wreak havoc to our global economies on an unprecedented scale, not yet seen from global financial crises, cyber, or terrorist risk attacks.

If we are to strengthen the resilience of our organizations, our environment, and our people, we must make a significant shift in how we view and prepare for these external risks.

As Chief Future Officers, your leadership is critical in strengthening your organization's future resilience and relevance which can be achieved:

- by reducing and repaying our indebtedness to mother nature,
- by innovating your products and services, with use of science and technology to provide solutions for a new normal with a potential additional benefit of an early mover advantage, and
- strengthening your contribution to the maintenance of society's cohesion and inclusiveness.

What might be the consequences for this change in risk perception and focus on our business?

Governments and civil society organizations will nudge businesses into acceleration of this transition. Many of the initiatives will have financial repercussions. We see the use of various instruments such as:

- Preferential treatment for sustainable businesses and desired investments in the form of tax rebates, access to cheaper capital or licenses, and income support such as subsidies;
- But also disincentives in the form of pollution, environmental and emission charges and limited access to certain resources such as capital. To this end, the European Union is considering "brown taxonomy" criteria that would label certain activities as environmentally harmful with a view to deter investments and financing of these activities. You might be aware that it has already become increasingly difficult to finance e.g. coal fired power plants with assistance from large international commercial banks.

There might be new costs on the horizon with schemes like expanded producer responsibility coming into play. Potential liabilities might be retroactive. Fossil fuel energy companies in the USA are aware of potential future liabilities and trying to negotiate a future carbon tax in exchange for a moratorium on liabilities.

Access to talent is expected to be increasingly determined by your organization's public standing and ESG rating.

There are many incentives to transit from conventional to future thinking in the C-suite such as avoidance of major challenges to achieve your financial goals in the face

of increasingly volatile operating environments.

Future-proofing organizations

With these challenges on our radar screen how can we contribute to the future-proof our organizations?

I have three areas for consideration:

First, redefine your stakeholders.

As responsible organizations, we need to revisit and redefine our stakeholders to ensure inclusion of all critical service providers, the society in which we live, and future generations.

Important stakeholders such as the ecosystems providing essential services have for too long lacked a seat at the table due to the simple absence of a representative. Including them will not only enhance our governance and insights about current and imminent risks, it would also allow for timely adjustments of staffing needs, business models, and investments. You might obtain a widely supported and secure license to operate and expand.

Second, rethink the definition of your organization's success and targets.

Profitability or shareholder value has since long been replaced with "stakeholder value." Millennials and Generation Z are putting a premium on your organization's contribution to the environment, quality of work, ethics, and social well-being of communities.

Financial investors are increasingly interested in sustainability and steering clear of future liabilities and stranded assets. Organizational targets reflecting these interests can become a key element of future proofing.

Third, let us recognize that prevention is often cheaper and more effective than a cure.

COVID-19 is a good example. Scientists estimate that the cost of preventing the next pandemic from a zoonotic disease by 2030 would be only 2% of the global costs of the COVID-19 pandemic.1 Some of the funds saved can be invested in protecting and monitoring pristine forests and preventing wildlife trade where diseases emerge.

Business examples are the installation of flood mitigation systems which augment up-front costs but reduce future risk of much higher financial, human, and business costs should a disaster strike.

Recognizing this reality, it is important for your organization to analyze how external risks affect your business now and in the future. Since your business may need to change to survive, it is important that you keep asking what you, as senior management, can do now to future-proof your organization and put it on a firm sustainable footing.

Many have already done so. For example, Microsoft moved from operating systems to cloud services after missing out on smartphones. Singapore has been investing to become Asia's technology hub. Royal Dutch Shell and BP are leaving oil

and gas behind to become renewable energy powerhouses. Some investors might be wary about such decisions today, but history may proof you are right.

As Chief Future Officers, each of you can help your organization transform into a sought-after, inspirational enterprise, setting a new level of aspiration to truly become a leading organization of the future. In doing so, you will attract the best talent, access the most beneficial terms for finance, and become the business partner of choice to other global business leaders.

Dr. Sylvia Earle, the famous marine biologist and former Administrator of the National Oceanographic and Atmospheric Agency put it very clearly:

What we do, or fail to do over the next 10 years, may well set the course for the next 10,000 years on planet Earth.

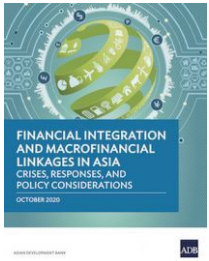
Conclusion

Fellow CFOs, I am convinced that we are up to the challenge when we get organized. With the help of the ingenuity, creativity, and energy of all, both men and women, in and outside your organizations, we as Chief Future Officers can build a resilient, inclusive, and sustainable future in which both human and nature not just survive, but thrive.

Once again, congratulations on your 50 years of success, and may the next 50 years see us all working hand in hand – in our communities, regionally, and globally, and in good symbiosis with the planet's ecosystems.

ADB News

Financial Integration and Macrofinancial Linkages in Asia – Crisis, Responses, and Policy Considerations



Executive Summary

Global financial integration has deepened Asia's global market connections over the past 2 decades. The benefits of greater financial integration include increased and more sophisticated sources of funding, more efficient capital allocation, better governance, higher investment and growth, and risk-sharing. However, between 1990 and the present, the global economy experienced the 1997 Asian financial crisis, the 2008 global financial and economic crisis, the 2009–2011 eurozone sovereign debt and banking crisis (European debt crisis), and an unprecedented easing of monetary policy by advanced economies such as the United States (US), Japan, and the euro area.

A review of the causes, consequences, and policy responses to the Asian financial crisis, global financial crisis, and European debt crisis will help policy makers monitor and evaluate their respective economies for areas of vulnerability. Common elements in these crises would include high leverage in the financial system and asset bubbles of varied nature and force.

To understand the various crises holistically, it would be useful to study the theoretical framework that traces the transmission of financial shocks to the real sector. This falls under the rubric of macrofinancial linkages. The theory can explain how greater financial interconnectedness can amplify financial cycles, which increases the likelihood of financial crises.

At the center of the macrofinancial nexus lies the relationship between asset prices and macroeconomic outcomes. However, the apparent disconnect between asset prices, fundamentals, market volatility, and other phenomena, on the one hand, and the predictions of standard models, on the other, has led many to question the "efficient markets" framework and instead focus on financial market imperfections. These emanate from either the demand side or supply side of finance. In the demand side, changes in borrowers' balance sheets can amplify macroeconomic fluctuations while shocks that emanate from the supply side deal with factors that affect bank lending, bank capital, the leverage cycle, and liquidity conditions.

Ample empirical evidence shows how greater financial interconnectedness in Asia has led to greater vulnerability. Network analysis shows that over time, the network's density has changed substantially before and after crises. Overall, the empirical results show interconnectedness increases during periods of stress, followed by a decrease during recovery phases, with the average strength of linkages growing pre-crisis, before declining significantly.

Meanwhile, given the importance of the liability side as a channel of financial

contagion, an empirical investigation tests the contagion effect of an economy using bilateral data on bank claims between economies. The results show the effect of direct and indirect exposures of emerging economies to crisis-affected economies and confirm that these exposures account for the capital outflows from emerging economies.

A panel vector autoregression analysis of the macrofinancial implications of nonperforming loans (NPLs) in emerging Asia offers new insights and significant evidence for the feedback effects of NPLs on real economy and financial variables. The cross-border transmission of the impact of NPLs operates through various channels: (i) cross-border bank lending, (ii) changes in investor confidence, (iii) changes in bank asset (or liability) value due to financial market fluctuations, and (iv) a trade channel where lower growth in high NPL economies translates into lower import demand.

The exchange rate is the most important asset price in the open economy model. Recent theoretical models consider the role of financial variables and valuation effects in studying the linkages between exchange rates and real and financial aggregates. The relatively large share of external debt in US dollars in emerging Asia makes the impact of local currency depreciation ambiguous. This depends on whether the negative effects of the financial channel outweigh the positive effects of the trade channel or vice versa.

Policy responses to reduce financial vulnerability have to consider macrofinancial linkages. They can be categorized into policies carried out domestically, those that require regional cooperation, and those established internationally under the label of the New Financial Regulatory Framework. Domestically, macroprudential policies can be useful in dampening the procyclicality of the financial system. Countercyclical provisions, capital and liquidity buffers, and balance sheet instruments such as leverage ratios and limits on debt-to-income and loan-to-value ratios are good examples. An example of regional cooperation is the Asian Bond Markets Initiative, which helped deepen and strengthen local currency bond markets; its main goal is to channel Asian savings into investment projects located in Asia. Meanwhile, the Financial Stability Board and the Basel III guidelines are the key features of the New Financial Regulatory Framework.

These policies have to be tailored to the needs of individual economies, as the experiences of Cambodia and Mongolia show. Mongolia was subject to an Extended Fund Facility under the auspices of the International Monetary Fund, directed primarily at the adverse effects of quasi-fiscal activities of the Bank of Mongolia. In contrast, Cambodia successfully strengthened its banks by raising minimum capital requirements.

Over the past decade, innovations in financial technology (fintech) have posed additional challenges to global economic stability. In general, technological developments have not yet resulted in any major upheaval in the structure of financial regulation. However, the activities of fintech and "Big Tech" firms can lead traditional financial institutions to take more risks to maintain profitability. Policy makers should be forward looking in this regard and consider innovation offices and regulatory sandboxes.

ADB News

COVID is Testing the Limits of Europe's Banking System

Alexander Privitera
Head of European Affairs at Commerzbank AG and BRINK Columnist

Concerns about European banks' ability to withstand the impact of the second wave of COVID-19 are increasing. In its latest lending survey, the European Central Bank observes that banks are tightening credit standards, primarily because the macroeconomic environment has deteriorated, and credit worthiness of borrowers is suffering as a consequence.

The financial stability review stresses that "profitability forecasts will be revised downward. … Ongoing weak profitability might hamper banks' capacity to support lending to the real economy, not least as interest rates are expected to remain low."

The Threat of Bad Loans

Widespread concerns that loan books of banks will look much worse in 2021 and 2022 is spurring EU authorities in Brussels into action. The EU commission is expected to present new proposals on dealing with nonperforming loans in mid-December. The European Parliament is currently examining a set of proposals from the EU commission and European governments on making it easier to bundle and securitize soured loans in order to disperse some of the risk among a wider group of investors.

Still, despite the darkening horizon, there is no sign of the febrile panic that gripped public authorities and banks in the wake of the great financial crisis, more than 10 years ago. There is also little sign of the virulent antagonism between politicians and the financial sector that made banks toxic in the political debate in the wake of the crisis at the time.

On the contrary, this time, the public sector and banks have worked together.

Both sides are conscious of the fact that they need each other in order to help the wider economy. A package of voluntary, supervisory and legislative measures introduced in the spring, including payment holidays and generous state guarantees for new loans, allowed banks to continue lending. And, thanks to the global post crisis framework, banks entered this emergency much better capitalized and, therefore, more robust than in the recent past.

Europe's Banks Haven't Fully Recovered from the Last Crisis

The sector is still largely fragmented along national lines. Europe is still "overbanked." The wave of necessary consolidation never occurred, at least not across borders. The banking union is still far from complete.

Banks entered the emergency with weak profitability and are seeing their profitability further eroded by the crisis. According to the ECB, return on equity, a

key measure to determine how successful a bank is, has declined to 1.7%, on average, and will not fully recover for some time. In 2021 and 2022, the central bank estimates that ROE will merely increase to 3.1% and 5%, respectively, a far cry from what many CEOs had promised investors only a year ago. If some of them hoped that interest rates would eventually increase and allow their institutions to reap the benefits, they don't expect that to happen anytime soon, anymore.

Looking for Other Sources of Revenue

In other words, with interest rate margins compressed for the foreseeable future, banks need to rely on different sources of income. Can it be a different fee structure? That, too, could be difficult, as digitization is allowing big tech to increasingly engage in traditional banking activities, especially in payments. Costs should be expected to come down further in the near future.

However, these are underlying challenges that predate the health emergency. They are merely exacerbated by the impact of the pandemic. Of more immediate concern to authorities is what will happen to banks and lending once current support measures expire. Small- and medium-sized companies made generous use of state guaranteed loans that are set to expire by the year's end, especially in countries such as Spain, France and Italy.

By June 2020, in France alone, banks reported 78 billion euros ($94 billion) of loans subject to state guarantees. In Spain, the figure was 73 billion euros. According to EBA, those loans have an average maturity between six months and five years. More than one-third expire in summer 2021. After that, loans will have to be repaid or refinanced.

But since they will not be backed by governments anymore, banks may become more reluctant to lend. What the ECB would like to avoid is that COVID-19 creates the conditions for a corporate/sovereign nexus in which stretched sovereigns and a weak corporate sector mutually reinforce their respective vulnerabilities, especially given that sovereigns are increasingly exposed to the corporate sector through contingent liabilities.

No Sign of the Doom Loop Reappearing

For the ECB, this is a warning signal, as the sovereign/bank nexus was a major "amplifier in the euro area sovereign debt crisis." In 2020 to date, euro area banks' exposures to domestic sovereign debt securities have risen by almost 19% in nominal amounts, the largest increase since 2012" according to the ECB's Financial Stability Review last month.

However, the ECB doesn't seem to be worried about a reactivation of the so-called doom loop between banks and sovereigns soon, as "so far the vulnerability of banks to higher holdings of sovereign debt securities has been contained, because valuation changes have been modest." This is thanks to extraordinary monetary policy measures and the proposal of a recovery fund.

Such a scenario would look worse in countries where banks are overly dependent on domestic markets. European political leaders might want to reconsider their traditional red lines on completing the banking union. Had they succeeded in creating the conditions for a truly, fully integrated European banking sector, banks would have been in an even stronger position going into today's crisis.

Robust banks are central shock absorbers in time of stress. As the second wave of COVID-19 forces parts of the continental economy into a deep freeze, it is clear that the stress is far from over.

Brink News

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Investing in a Time of Transition

Jillian Reid
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Solar panel installations and a wind turbine at the Phu Lac wind farm in southern Vietnam. Climate change is driving a transition toward zero-emissions economies that reduce the impact of natural catastrophes. Photo: Manan Vatsyayana/AFP via Getty Images

The "net zero emissions by 2050" announcements by governments and companies mean the "Race to Zero" is finally underway. The pace of that race is now likely to accelerate as institutional investors map their own transition course in growing numbers, with changes in capital allocation decisions to be felt by companies throughout the value chain. But can investors make transition-focused portfolio changes and still have confidence in meeting investment objectives?

Institutional investors — those responsible for pension, insurance, endowment or wealth management funds — collectively manage trillions of dollars globally. They invest in companies across the global economy to deliver financial returns to members, beneficiaries and stakeholders over multiple years or decades — and they are all exposed to climate change.

Climate change is driving the transition to a zero-emissions economy to reduce the impacts of natural catastrophes and physical damages, caused by rising emissions and the associated temperature increases. The more successful our transition, the lower the physical damages.

A Gradual Versus Sudden Transition

There is no single forecast for the transition or how successful we might be. It could be gradual and orderly, but "The Inevitable Policy Response" scenario, backed by the PRI (Principles for Responsible Investment), argues a sudden transition shift this decade is most likely. Mercer also includes stress tests on sudden scenario shifts in its scenario modeling guidance for a reason.

A transition, of some description, is now generally accepted as the most likely direction of travel, given growing natural catastrophe threats, improving economics of transition solutions and visible changes in policy and consumer behavior. In the near term, the primary investor focus is to assess the companies that are either facing potential downside risks in the transition disruption, or that may benefit by providing transition solutions. However, given that a "well below 2 degrees Celsius scenario" is in long-term investor best interests, it also makes sense for investors to strategically support the low-carbon transition, where possible, by aligning their portfolios with that outcome.

Investor Action: Growing Momentum

There has been talk about investor action on climate change for more than 10 years, with a cohort of leaders making it a priority to act, most noticeably over the past five years. They have led the way, establishing investor groups on climate change in key regions, with activities now captured under The Investor Agenda umbrella. This site outlines the coordinated engagements with global governments on policy expectations; investor disclosure on governance, strategic scenario analysis, risk management and metrics and targets; the growth in low-carbon investments; and the coordinated company engagement with the highest emitters through Climate Action 100+.

These and other developments, regionally and globally, have provided the foundations for today's heightened focus on planning for and engaging in the climate transition. Immediate risk mitigation and return opportunities remain a primary focus, but importantly, investors are now taking a strategic approach to aligning their portfolios with a 1.5 degree Celsius scenario outcome. This means investors have to set targets consistent with a "net zero emissions by 2050" ambition, with milestones for 2030. However, the real challenge is the next three years, when recognized decarbonization pathways suggest significant action is required.

The United Nations coordinated Race to Zero campaign, including investor representation via the Net Zero Asset Alliance, representing 33 investors with $5.1 trillion under management. Rumor has it that an asset manager equivalent is coming soon. The Science-based Targets initiative has an agreed methodology for the financial sector, in a pilot phase, to assess the integrity of commitments across the sector. The Global Investor Coalition representing Investor Groups on Climate Change across Europe, Pacific and North America are also finalizing guidance to support their members to set climate action plans with the working groups including dozens of investors in each region, representing trillions of assets under management. However, while the evidence for ambitious action is growing, the question remains: How will implementing these commitments and action plans actually work?

How Can Long-Term Transition Alignment Meet Short-Term Objectives?

As with all strategic planning, it requires establishing where you are now, where you want to be and the possibilities for getting from A to B. This can be achieved by calculating the current portfolio emissions baseline, agreeing the annual emissions reduction percentages for genuine 1.5 degree Celsius alignment commitments and assessing where in the portfolio those emissions reductions could come from.

Investors are no longer simply looking at fossil fuel reserves or emissions intensity numbers and comparing their exposure relative to a benchmark. Rather, they are now assessing the transition capacity of companies, supported (in listed assets) by the significant growth in the assessment data and tools available from the likes of FTSE, MSCI, ISS, Sustainalytics. The improvements mean there are now new "third generation" global equity indices that take company transition capacity into account. Transition capacity includes board skill sets, strategy, capital expenditures, patent

registrations, revenue growth in transition solutions and disclosure.

Strategic ambition and targets for measuring progress are key to establishing a transition in the portfolio, but capacity for short-term flexibility is also required to ensure other investment considerations such as liquidity, transition costs and pricing are recognized to deliver on both the long-term and short-term best interests of all beneficiaries.

A transition approach is not simply about divesting high carbon intensity companies — although, in reality, those assessed to have low transition capacity will be sold down by investors. It is focused on integrating transition capacity assessments into financial decisions; taking an active ownership approach with companies to support a successful transition; plus actively allocating capital to companies delivering solutions, ultimately building transition capacity across the portfolio.

Methodologies for investors with diversified portfolios will continue to evolve. But the first steps for the initial years for most investors are clear. Investors who have begun the assessment process are now in active conversations with their fund managers on the company level, detailing and prioritizing change. Fund managers are actively creating and promoting new strategies. Some companies may be noticing these changes already — for others, it will only be a matter of time.

Brink News

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Jillian Reid is a Principal in Mercer's responsible investment team, advising pension funds and other institutional investors on how to integrate environmental, social, and governance factors, sustainability trends, climate change, and stewardship. She co-authored Mercer's Investing in a Time of Climate Change (2015) and the Sequel (2019) and has more than 20 years' experience.

It's Time for Insurance to Catch Up to the Intangible Asset Revolution

John Trace
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Global Head of Business Intelligence at Guy Carpenter

The COVID-19 pandemic and social unrest in 2020 remind us that the insurance industry's challenges might change on a year-to-year basis, but they will never end. COVID-19 may represent the vanguard of a series of public health crises arising out of climate change, income inequity, fraying social safety nets, demographic imbalances, resource shortages and increasingly stressed urban infrastructures.

View of a destroyed building from Hurrican Dorian in the Bahamas. These extreme weather events are changing the nature of risk and are causing misery and significant amounts of insured and uninsured loss. Photo: Jose Jimenez/Getty Images

There is an old adage that "adversity builds character." However, before adversity builds character, it reveals character, and the numerous catastrophes that have occurred over the last several years combined with the ongoing pandemic have clearly revealed the character of the insurance industry.

The (re)insurance sector is well-versed at navigating market-changing events, and while the impact of previous shock events such as Hurricane Andrew, the terrorist attacks of September 11, 2001, and Hurricane Katrina may have resulted in a loss of capital and reduced capacity in the short-term, the market responded to each occasion by innovating, working with governments and attracting more capital in the long term. Since 2017, catastrophe claims in the United States alone have totaled $214 billion. Despite that, the capital supporting the reinsurance sector has risen to a near all-time high of $471 billion.

Spotting the Unexpected on the Horizon

While it is important to think about outlier events, putting too much time and effort into planning for a specific event at a specific time may be a fool's errand. Despite being a known risk, a pandemic was not on the risk radar for many people prior to COVID-19. Even in those instances where a rare event is identified, preparing for such a crisis during good times will always look more expensive. Therefore, instead of focusing on a specific event, (re)insurers are best served by maintaining capital resilience, access to liquidity, strong risk management, nimble operations and innovative thinking.

What Got You Here Won't Get You There

The (re)insurance industry entered 2020 with a strong balance sheet, pricing tailwinds and abundant capital. The impact of COVID- 19 was sudden and violent, and even though the equity markets have recovered from the depth of the crisis, the Standard & Poor's property and casualty index (down 13% year-to-date) still lags the broader S&P 500 (up 2.4%) recovery. Despite that, (re)insurers have raised approximately $28 billion in debt and equity so far this year, and approximately $4 billion of capital is waiting on the sidelines to be deployed.

Reserve releases have buoyed (re)insurer earnings for over a decade now. History has shown us that such an extended period of reserve releases usually ends in tears. On top of that, the Federal Reserve has communicated its desire to maintain lower interest rates for an extended period, and rating agency S&P has been sounding the alarm on (re)insurers' inability to meet their cost of capital for a number of years now. Going forward, in order to meet their cost-of-capital hurdles, companies will need to maintain combined ratios in the low 90s to account for a decline in reserve releases and investment income. At the same time, rating agencies continue to expect companies to hold significant excess capital in the face of macro-level uncertainties.

In response to these challenges, prices are rising, and companies have the opportunity to develop innovative products to address emerging risks.

The Changing Nature of Risk

The industrial world is in the midst of a series of seminal changes that will radically change the nature of risk. Two of these seminal changes are climate change and the Fourth Industrial Revolution, which both carry the potential to be engines of great promise as well as great peril.

Climate change is nurturing extreme weather events; hurricanes are now more intense and occur more frequently, the polar ice caps are melting, sea levels are rising and threatening coastal cities, wildfires are raging and flooding is commonplace. These extreme weather events are changing the nature of risk and are causing misery and significant amounts of insured and uninsured loss. From an insurance and reinsurance product design perspective, addressing climate change is more of a scale and cognitive bias challenge than a product design problem. The industry has a working understanding of the principles underlying the business model and the associated risks, perils, hazards and insured assets.

The same, however, might not be said of the Fourth Industrial Revolution. The insurance industry, on balance, may not have a deep understanding of the emerging digital technology risks and the associated opportunities, threats, perils and hazards. The insurance industry may also not appreciate the impact that narrow artificial intelligence (NAI) will have on everything, or the inherent risks associated with NAI. NAI will change the future of government, law, wealth distribution, civil rights, war and work; accelerate income inequity; and influence how we live and relate to each other.

In the Fourth Industrial Revolution, platforms have replaced traditional

companies and intangible assets have replaced heavy machinery as wealth drivers. Ocean Tomo's recently released intangible asset market study indicates that intangible assets make up 90% of the S&P 500's $28.94 trillion market value. Apple's market capitalization stood at nearly $2.3 trillion on September 2, 2020. The entire market capitalization of stocks in the Financial Times Stock Index (FTSE) 100 was valued at just under $2 trillion.

The intangible asset revolution presents an unparalleled opportunity for the insurance industry to develop new and complementary products and services. The insurance industry currently offers defensive and offensive intellectual property insurance and key person life insurance. More research and development work is ongoing to develop new products to protect the full range of intangible assets, including a company's research and development, intellectual capital, processes, patents, trademarks, franchises, goodwill, copyrights, IP, business-to-business offerings, brand, data, non-revenue rights, relationships and public rights.

Capital and Innovation Will Lead the Way

Insurers will need a significant amount of capital to support these growth opportunities and rating agency requirements. Companies will have to decide how much capital they want tied up to service the tail versus how much to deploy to capitalize more lucrative opportunities.

Solutions around customized, structured reinsurance products will enable carriers to redeploy capital supporting prior years' underwriting. By leveraging their existing balance sheets, carriers can essentially access capital in a relatively cost-effective way.

The opportunities that lie ahead for the insurance sector will require thinking about risks in terms beyond what is currently known and measurable. Intangible risk exposure is different: It is not geographically contained like a natural catastrophe and is not as explicitly calculable as a burning building. This is where insurers have an opportunity to be a leading beacon in the unrest sweeping our country.

Brink News

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John J. Trace is CEO of North America. He is a member of the firm's Executive Committee. John led the development of GC Marketplace and has led the Market Relationship Management initiative in the U.S. His expertise lies in specialty and alternative reinsurance products, including captives, risk retention groups and programs.

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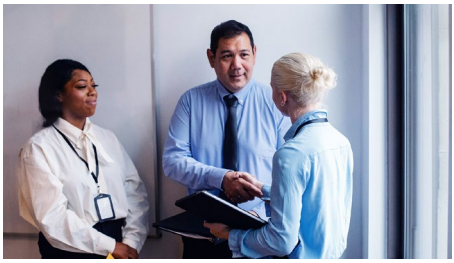

The first step in a successful acquisition is to understand the workforce and define a strategy to build momentum during and after the transition. Photo: Pexels

Amid the COVID-19 pandemic and daily geopolitical chaos, large mergers and acquisitions (M&A) deals have skyrocketed 256% quarter-over-quarter, totaling 3,494 deals globally in the third quarter. The second and third quarters of the year resulted in record-setting measures of private equity volumes, with private equity's market share ending at 19.7%, an all-time high.

Scale, scope and talent pool are the main elements driving transaction decisions for 40% of respondents to a Mercer survey, conducted in September. The current environment — wherein companies being held to higher standards of social responsibility by their own employees and consumers alike — is putting a greater emphasis on getting the workforce issues right when merging or acquiring businesses, and it's time for business models to transform.

Successful acquirers are taking a people-first approach and expanding retention programs beyond the C-suite.

The categories of people-risks in the deals process include retention of key talent, integration of corporate culture and placement of the right talent in the right roles. Successful efforts rest on treating workforce risks in the same early-and-proactive manner as regulatory and tax risks, a mindset also underscored in this report on talent retention.

The organizational change involved in most deals creates additional uncertainty, and without incentives to keep morale and productivity steady, it will lead to employees opting out or becoming disengaged. Successful acquirers around the world routinely manage people with the same rigor and discipline with which they manage balance sheet risk; they concentrate on the following three primary people practices.

Practices of Successful Acquirers

Engage the workforce: The first step is to understand the workforce and define a strategy to build momentum during and after the transition. Change management is the glue that binds the objectives of the deal to the business strategy, leading to long-term value creation. This starts with articulating a vision, engaging the leadership and key stakeholders, and building a robust communications and workforce transition plan

with identifiable metrics to monitor adoption.

Put rigor around retaining top talent: Retention programs are viewed as insurance policies to hedge against flight risk in transactions. By applying the right framework, buyers and sellers can effectively retain critical talent and drive operational excellence post-close.

Rewards: Aligning rewards — compensation, long-term incentives, benefits, etc. — is foundational to driving behaviors within the organization to unlock true value.

A People-First, Bottom-Up Approach Is Key

Successful acquirers are taking a people-first, bottom-up approach when designing retention programs. They're not first budgeting for retention and then distributing to employees — the typical top-down process; instead, they're focusing on talent first and making sure retention is designed with a focus on key employees.

This bottom-up approach reveals another significant trend: Retention programs are expanding outside of the C-suite. In fact, when asked about retention bonus eligibility outside of senior management and the C-suite, 70% listed "other employees critical for integration" and 35% listed "other employees regardless of critical for integration."

In addition, the "where" matters. Mercer's look at global talent retention practices reveals that a company's headquarter location and industry can greatly influence talent retention practices, company culture and incentive structures. These nuances need to be understood and taken into account to avoid talent flight and to ensure the right level of expenditure. Buyers and sellers need to be aware of certain industries that pay financial incentives that vary greatly from the norm. For example, globally in the technology sector, buyers fund individual retention bonuses for all levels on average at 49% above the market median.

A Risk-Transfer Trend to Be Aware of

In the current market, earnouts are becoming prevalent. Earnouts are an incentive arrangement where the seller must meet certain financial goals and critical milestones to receive a part of the purchase price in the future. This allows the buyer to transfer a part of the transaction risk to the seller. Traditionally used to motivate and retain founders, earnouts are becoming increasingly common as a mechanism to navigate the current M&A landscape where buyers expect lower valuations and sellers have yet to recalibrate financial expectations.

Successful buyers have elevated their retention strategies from an art to a repeatable science. The results are tangible and clear — increased productivity, engagement, owner-like behaviors on the part of retained employees and accountability. As M&A activity continues, successful organizations cannot risk ignoring the right strategies for talent retention. Taking the time to understand the workforce and culture of a new company is imperative, along with recognizing that people execute on what they are rewarded to deliver.

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Why Inaccurate Time Is a Significant Risk to the Digital Economy

Dr. Simon Harwood,
Director of Defense and Security at Cranfield University;
Dr. Richard Hoptroff,
Co-Owner of Hoptroff

Time is the hidden and fragile currency of our digital world. The more efficient and integrated and the faster our systems become — for the communication, energy, transport and financial services sectors — the more dependent they are on ultra-precise timings.

Any slip in synchronization can result in damaging delays, unreliable records and a breakdown in trust. Accurate timing has become one of the most important pillars in the resilience of developed economies. Without it, the modern world has the potential to buckle and crash. There is an assumption among non-specialists that time is one constant factor we can rely on. They are wrong.

The Big Ben clock at the Palace of Westminster, London. Time systems are fragile because when it comes to such high levels of precision, all physical measurement machines are prone to error. Photo: Dan Kitwood/Getty Images

Fragile Systems

These time systems are fragile because when it comes to such high levels of precision, all physical measurement machines are prone to error — and because global data signals also have the potential to be jammed and spoofed by criminals and political enemies. For example, the U.K. government estimates that financial trading in London is affected by between 80 and 120 GPS jamming incidents every month. In 2016, the decommissioning of a single GPS satellite led to 12 hours of IT and phone system errors globally. Access to atomic clocks can become dependent on stable political relations.

Take one of the most typical time sources: our computers.

The system's clock tick rate is just a microscopic tuning fork a couple of millimeters long. No two are identical, each will be affected by temperature in different ways and each will age differently. A typical drift is up to two seconds per day, meaning that timestamps are wrong and interactions across networks might be based on inaccurate timings.

For example, the Microsoft Windows operating system relies on the Windows Time Service, which is based on a pool of Network Time Protocol servers. These have been found to involve clock inaccuracies of more than a second.

A False Control of the Problem

The work of astronomers, calculating time from the movement of the Earth, was replaced by International Atomic Time (TAI): ultra-precise observations of the caesium-133 atom by 340 atomic time clocks in different locations internationally. The most relevant of the atomic clocks to our everyday lives are those contained within Global Positioning Satellites, the ubiquitous GPS.

A free "global public service," GPS is made available by the U.S. government and operated by the U.S. Air Force. This means information determining time to within 100 billionth of a second is shared globally wherever a signal can be received via satellites — making it unnecessary for individual organizations to operate their own atomic clock.

GPS Is a Weak Signal

However, GPS is cheap and easy to disrupt simply by transmitting noise on the same radio frequency.

GPS satellites themselves can also malfunction, and solar flares sometimes interfere with signals, yet GPS is relied upon across all of our public and commercial infrastructures. Mobile phones and other wireless communications depend on rigid time standards — an accuracy level of less than one second difference over 3,000 years — to be able to put signals in order, prevent congestion and ensure calls and messages from different operators can be synchronized.

The same applies to electricity power grids that have to link up energy sources on the same frequency.

Accurate timestamps are critical for operations to be put into order, to identify and avoid data bottlenecks and to be relied on as evidence. For example, the dependence on the internet and distributed computing means clocks are needed to put vast streams into sequence, as a conversation and not just giant lumps of noise.

Financial institutions and other businesses need to have a guarantee of the time and date of transactions to the microsecond and the order that took place: an explicit chain of cause and effect that establishes responsibility.

Attempts to unpick the causes of the trillion-dollar "flash crash" in the Dow Jones index in May 2010 were severely undermined by clocks that disagreed. Records showed transactions occurring before they had technically been sent. As a consequence, the EU introduced the MiFID II Compliance directive, demanding that banks synchronize clocks to within a hundred microseconds (millionths of a second).

When another crash happened in the U.S. in 2014, Treasury investigators studied events though a "slow-motion replay" at a millisecond-by-millisecond level.

The Need For Backup Systems

The increasing and intensifying level of demand for accurate timings has exposed the essential need for multiple solutions for when things go wrong — a failsafe back-up system to correct any misalignments.

University of Cranfield researchers are working on technologies for trusted and reliable navigation, communication and surveillance, as well as timings for traffic management in digital aviation and transport in smart cities.

The work is built on existing tech created by the British company Hoptroff and its experience in the financial services sector developing a cloud-based back-up. The Hoptroff system is founded on a network of mutually resilient cloud timing hubs, each consisting of three nano-second accurate Grandmaster clocks connected to three different sources.

The hubs continuously compare the different timing sources to ensure accuracy and source traceability are constantly maintained. To mitigate against satellite communication issues, the back-up is supported by a terrestrial location at Research Institutes of Sweden (RISE).

However, the accuracy of GPS is not being monitored to the extent needed for resilience. We need to take on the challenge of how to enable national and linked international infrastructures to always depend on time data. That means recognizing the problem and investing in new ideas — in particular, being open and alert to emerging innovations coming through from entrepreneurs and small enterprises.

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Rethinking Resilience in an Age of Fractures: The Outlook for 2021 and Beyond

Carolina Klint,
Risk Management Leader for Continental Europe, Marsh

At a societal and individual level, we continue to deal with the fallout of the COVID-19 pandemic while striving to make progress on recovery efforts. As highlighted in the 2021 Global Risks Report prepared by the World Economic Forum with the support of Marsh & McLennan and other partners, the world is contending with a fractured future, where the disparities laid bare by the pandemic and the acceleration of risks such as cyber and climate must be carefully and creatively managed to produce a more sustainable and resilient future for people, businesses, communities and governments.

Homes are surrounded by floodwaters from Hurricane Florence on September 17, 2018, in Conway, South Carolina. Environmental risks retained top spots as the most likely and consequential risks over the next decade. Photo: Sean Rayford/Getty Images

Industry At a Crossroads

A disorderly industrial shakeout is currently underway, with businesses under increasing pressure from inward-looking national agendas, greater tech concentration and dependency, and heightened public scrutiny.

In their immediate response to the pandemic, governments injected substantial stimulus into their economies. They continue to do so with the $1.9 trillion plan unveiled by President-elect Joe Biden as the most recent example. However, in this quest for domestic resiliency and self-sufficiency, efforts may have been misdirected or overlooked certain industries and even restricted global supply chain and investment flows.

Smaller businesses are also facing increasing pressure from major competitors that have been able to leverage their resources to solidify their market position and expand. In the technology sector alone, dozens of acquisitions were made by the largest players throughout 2020. As governments look to enhance market competitiveness through more interventionist means, businesses may be exposed to more scrutiny or experience ripple effects due to their greater dependence on major technology service providers impacted by tightening regulations.

Pressures from investors, consumers and employees alike are mounting around key societal issues, from labor and consumer protections to company ethics, inequalities and climate change. At the height of the Black Lives Matter protests in June and July, for instance, thousands of businesses stopped their advertising on social platforms.

By meeting the societal imperative of taking firmer and more active stances on key issues, during this critical recovery period and well into the future, businesses can avoid diminishing their revenue, reputation and access to capital and talent.

Technological Transformations Driving Increasing Cyber Exposures

The pandemic precipitated an unheralded technology revolution for big and small businesses alike. Rapid digitization transformed social and work interactions overnight. E-commerce, virtual conferencing, gaming and streaming all underwent unprecedented growth. By some estimates, internet use in 2020 increased by 30% worldwide, with e-commerce expanding from 15% to more than 30% in major global markets.

This rapid digitization also exponentially increased companies' cyber exposures and created more complex and potentially less secure networks. This year's survey, in fact, highlighted the failure of cybersecurity measures as a top short-term risk. And throughout 2020, we've seen increasing cyberattacks on government agencies and companies globally. Comparing the second half of 2019 to the first half of 2020, the volume of cyberattacks doubled, with many leveraging the COVID-19 crisis for an entry point.

This monumental shift could create potential catastrophic risks on a longer horizon. Consider the long-term outlook for automation: It threatens to replace 85 million jobs in just five years. The rush toward digitization, in response to the need for efficiency and reduced on-site labor, may further expose businesses to unforeseen security, regulatory, financial and ethical risks, particularly with more socially activist consumers and workforces concerned with further job losses.

Overlooked Environmental Risks?

In a year when the pandemic and its cascading impacts were a primary focus and surfaced as a top five risk in the Global Risks Report, environmental risks retained top spots as the most likely and consequential risks over the next decade. This should come as no surprise, with 2020 one of the costliest years on record for natural hazards and with the pandemic complicating responses to extreme weather events. Most of the $210 billion in global losses from natural hazards globally were uninsured, compounding the recovery and resilience challenges for governments and society.

Looking forward, many governments are focusing on a "green recovery," with green infrastructure and clean energy project investment central to their stimulus packages. Over 146 such plans and programs were introduced, announced, proposed or implemented in 2020. The funding dedicated to such efforts has dispelled the myth that governments do not have the financial capacity or will to support more rapid decarbonization and energy-efficiency transitions. Lower consumption levels and demand for oil, if they persist, also may provide grounds for further accelerating regulatory action.

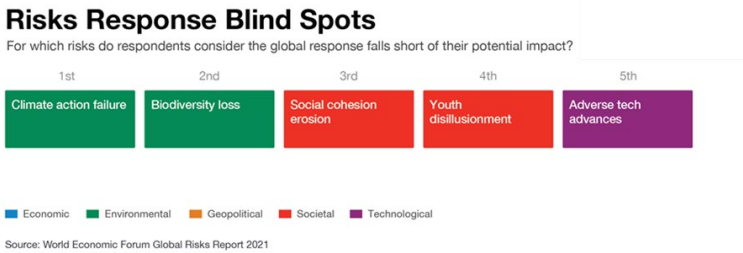
Business will benefit from investing in sustainability transitions now, leveraging increasing government-provided incentives, rather than risking forced timetables and a more disorderly and costly transition.

A Complicated Geopolitical Landscape

The geopolitical landscape continues to be shaped by the U.S.-China rivalry, with other nations having to navigate ratcheting tensions. This has constrained opportunities for countries who may lack superpower status, but still play influential roles in international relations, to create meaningful multilateral partnerships and tackle important global challenges.

Further complicating the outlook has been countries' varying successes dealing with COVID-19, which set back cooperation and diplomacy in many instances as countries turned inward to protect their own people. More than 90 jurisdictions implemented controls over the export of medical supplies and medicine in 2020.

Although some partnerships have been strengthened in 2020, notably the signing of the Regional Comprehensive Economic Partnership between 15 Asia-Pacific countries and upgrades to ties between the EU and ASEAN to a "strategic partnership,"



concerns still persist on critical global risks. Progress in important areas most in need of multilateral cooperation — such as trade, security, health and, notably, technology governance and climate change — remains at risk of being seriously impeded.

Creating a More Resilient and Sustainable Future

In the face of strategic uncertainties and complex emerging threats, the Global Risks Report serves as an important resource for businesses seeking to transfer lessons learned from the pandemic crisis to pressing global issues and their associated emerging risks. It also serves as a reminder that companies should remain vigilant about "forgotten risks" that may seem low in probability, but are potentially catastrophic in their impacts and their interactions with other perennial risks.

The pandemic has forced conversations on how we understand, prepare and manage risks — particularly emerging and complex risks — in a fast-changing environment. During a volatile recovery period, critical questions on risk ownership and governance are being asked, and new approaches to management — within organizations, across the public and private sectors and across borders — are being explored.

Business should use this opportunity and the report to understand, identify, and explore this complex risk ecosystem. It requires considering the potential for intersecting and cascading risks that could impact them in unique ways. These novel threats should be factored into strategy and decision-making, and appropriate responses should be devised. Throughout this process, businesses should also assess the extent to which different units and leaders think about risk, are empowered to reduce it, and collaborate to move toward organizational resilience. This will involve evaluating trade-offs in achieving true agility and resilience, finding the balance between efficiency and robustness, and carefully weighing risk acceptance, mitigation and transfer.

By keeping an eye on potentially high-impact events across the risk landscape, and by evolving into more prepared and responsive organizations, businesses should be able to enhance their resilience and successfully navigate the risks and opportunities ahead.

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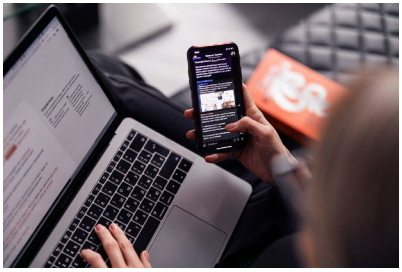
Carolina Klint is the Risk Management Leader in Continental Europe for Marsh. She also heads Marsh's inclusion and diversity programs in the region. She speaks frequently about values-based leadership, empowerment for breakthrough results and the importance of diversity.

How Businesses Can Use Social Media Influencers

Sara McCorquodale
CEO and Founder of CORQ



Often brands will look at an influencer, they'll look at that large follower number, and they'll say, we want to reach all those people. Whereas actually, if I'm working with a brand, I'll look at the quality of their commercial work. Photo: Unsplash

The concept of influencers is rapidly gaining ground in marketing. Some say that in a couple of years, the majority of online advertising will be done through influencers.

Yet as businesses try to figure out how to convert influencers' huge armies of followers into customers for their products, many are finding that it is not straightforward.

Sara McCorquodale is the author of Influence: How Social Media Influencers Are Shaping Our Digital Future.

MCCORQUODALE: I think that the influencer industry is slowly becoming the advertising industry and slowly becoming the marketing industry. By the time that we get to the end of 2021, agencies and brands will be dedicating more and more of their budget to supporting influencers. It has become an industry. There's no other way to describe it.

More and more people are buying products off of their social media feeds, as opposed to going directly to websites — that's where the customer journey starts. So if you are a CMO or the head of a brand, you're thinking, OK, I need to find my customers.

And at this point, many of these customers are not on the high street, so they can't rely on footfall. But they are on social media, and they are tuning to these influencers by the millions. It's quite a logical point of view to say "I need to get in front of these people," and a really good way to do that is via influencer channels.

A Big Following Does Not Always Result In Being an Influencer

BRINK: You would assume that someone with a large following is automatically an influencer, but you say that's not the case?

MCCORQUODALE: Not necessarily. Some people turn to YouTubers or celebrities because they want to be entertained. They don't want to be sold to. They're not looking for lifestyle advice. And they don't trust that YouTuber to recommend a face cream, or a garment or a place to buy their groceries. They are tuning in because they want that person to amuse them.

In contrast, there are many others who have turned themselves into lifestyle editors. They're doing the job that magazines have done for decades. They're saying, if you look across the market and you see that there are hundreds and thousands of face creams, actually these six are the best, and here's why.

That's not to say that the entertainer can't necessarily influence their consumer behavior, or perhaps suggest a product to them. But it would have to be done in a very different way, so that they didn't turn off the consumer.

A lot of the influencers with highly engaged audiences have often picked a niche. So even if that influencer has only 40,000 followers, those are 40,000 very invested followers. And that's a valuable thing.

Finding the Right One Is Trial and Error

BRINK: How does a business decide which influencer will help it to sell a product and is, therefore, worth investing in?

MCCORQUODALE: This is a very experimental space. Any brand taking its first steps into influencer marketing should be aware that it is very unlikely that they're just going to hit a home run in their first few campaigns. You might see an influencer who, on the surface, seems to align very well with your brands — they have a similar ethos to your company, they are ticking all the right boxes for you — so you put your product in their hands and create content, and it could do nothing.

There's a very fashionable jewelry brand, which has a kind of cool-girl look, but it's not the obvious influencers who are driving sales for them. It's very much your girl-next-door YouTubers. And they only realized that because they started to experiment.

Often brands will look at an influencer, they'll look at that large follower number, and they'll say, we want to reach all those people.

Whereas, actually, if I'm working with a brand, I'll look at the quality of their commercial work. Often the commercial work isn't necessarily of the same quality as their organic content, and you need them to bring that same level of quality. You need someone who's going to take that same level of care and apply that creativity to an advert in the same way that they would an organic post.

The Need For a Hook

Secondly, you have to have a hook.

For me, the hook is what is often missing in influencer campaigns. So, I think especially in the first decade of influencer marketing, what you might find is a brand would just say to an influencer, I want you to advertise this shampoo.

And the influencer holds up the bottle of shampoo on Instagram and says, "Oh, I really love this shampoo. I use it all the time." And unsurprisingly, they get nowhere near the same engagement as their organic content. They have lots of negative comments under the post, and the whole thing just feels contrived.

Whereas, if you were a shampoo brand and you were aiming at an audience that really cares about, let's say, zero waste, and you were giving your customers a bottle, and they sent away for refills, instead of buying a new plastic bottle every time, then it would make sense for you to work with an influencer who has a history of talking about living a zero-waste lifestyle.

Someone who has authority in that area. Someone who walks the walk and, therefore, their audience is going to listen to them when they talk about your brand. Because they are probably very choosy and specific in the way that they live their life.

So, it's looking for that hook, whether it's in an influencer's lifestyle, whether it's in something to do with their personal history, you have to find the point at which your brand naturally intercepts with the influencer's narrative. That will create a good narrative, which will create a good campaign.

Risky Relationship for a Brand

BRINK: It's not a risk-free relationship. Presumably it can actually backfire for some brands?

MCCORQUODALE: Oh, it's enormously risky. Because at the end of the day, you're working with people, and people are risky!

People can change their minds. People can spell your brand name wrong. They can get the handle of your social accounts wrong. It's not like a brand working with a publisher, where you can look at the past 10 years of Vogue and you know what's coming in next month's edition.

When it comes to an influencer, they could turn around tomorrow and decide to completely change the aesthetic and focus of their content.

And on top of that, you see influencers constantly making gaffs on social media. You see historical tweets emerging from years past where influencers have been racist. So you have to know who you're working with.

BRINK: Where is this industry heading?

MCCORQUODALE: In 2019, I forecast that we would see a widespread political awakening of influencers across the board. And definitely the growth of the Black Lives Matter movement, and coronavirus, actually, has accelerated this. It's very difficult now to work with an influencer who hasn't expressed some kind of political view, be that party political or related to topical issues.

And they will readily criticize brands, in a way they never had before. These days, influencers' audiences, more and more, want them to have an opinion. It's not just about, I'm wearing this outfit, I'm buying this skincare, I'm going to this restaurant anymore. They want them to express an opinion. They want to get a sense of them as a real person.

And with that comes an element of risk, particularly if, for some brands, they

do not want to align with any kind of politics.

We're definitely seeing a greater crossover where influencers have used social media as a springboard and now they are crossing over to traditional broadcasters. And their aim is to become household names.

Gen Z Is Grittier and More Value-Driven

If you look at millennials, they came of age or graduated into the 2008 recession. And a lot of them switched off from that enormous problem and created these worlds online. So, you saw so many people who were documenting these idealistic, incredibly perfectionist lives on Instagram. And turning their backs to what was happening in the real world.

Whereas Gen Z has done the exact opposite. They are facing it head on. And they're saying, we need solutions to these problems. We need solutions to the mental health epidemic. We need solutions to gun violence. We need solutions to racism. And they're very, very vocal about it.

Those Greta Thunberg-style influencers who see social platforms as a way to effect change by building large digital audiences, and then using that to get their message into mainstream media — they're actually developing this whole notion of digital influence in a much more effective way than their millennial predecessors did.

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Sara McCorquodale is the CEO and founder of CORQ, an influencer intelligence and digital trends service used by brands such as the BBC, Deliveroo and Bumble. She is also a journalist, visiting lecturer in digital strategy at the University of Roehampton and non-executive director of River Cottage.

A New Year's Resolution for the World: Find a Common Path to Recovery

Sri Mulyani Indrawati
Finance Minister of Indonesia

JAKARTA – This year, the world experienced a global crisis unlike anything seen in generations. The COVID-19 pandemic is indiscriminate and unprecedented in scale, and has exposed pervasive weaknesses in health systems, emergency preparedness and multilateral coordination. Though the coronavirus is primarily a health issue, it remains a multidimensional crisis.

Russian President Vladimir Putin attends the Group of 20 summit hosted by Saudi Arabia via video conference at the Novo-Ogaryovo state residence, outside Moscow, on Nov. 21. | SPUTNIK / VIA AFP-JIJI

Owing to the sheer complexity of the pandemic's fallout, policymakers at all levels have been confronted with unprecedented challenges. Governments have had to strike a balance between protecting lives and livelihoods, and maintaining fiscal space and avoiding higher debt burdens. During these extraordinary times, the trade-offs between speed, accuracy and effectiveness in policy-making have become widely apparent.

Though most national governments have responded to the crisis in a similar overall fashion, the effectiveness of policies has varied widely across countries, reflecting differences in political leadership, institutional capacity, decision-making processes and other factors. Robust and inclusive health-care systems, emergency preparedness and social safety nets have all played a critical role. In the future, these systems, along with sound macroeconomic policy and available fiscal space, will allow countries to respond faster and more effectively to similar shocks.

And such shocks can be sharp and, worse, synchronous. From January to April this year, the global economy plunged from general optimism to the worst downturn since the Great Depression. The World Bank estimates that as many as 100 million people will be pushed into extreme poverty, reversing decades of progress.

Across developing countries, the burden of COVID-19, and the ensuing lockdown measures, has fallen the hardest on workers and households that lack access to adequate social safety nets. Without an expansion of assistance, the near-poor and other vulnerable groups could easily fall into deeper penury. But the efficacy and pace of a government's response depends heavily on the availability and reliability of data. Countries that already have detailed, easily accessible information about potential beneficiaries can adjust their programs very quickly to target at-risk populations. For those without unified databases, however, expanding the data in the midst of a pandemic

poses significant challenges.

For its part, Indonesia, like most countries, has responded to the pandemic by reinforcing its public-health infrastructure, expanding social protections, and extending support to small businesses. With a unified household database for the bottom 40% of the population already available, we have been able to expand eligibility for benefits quickly, with the goal of covering the bottom 60% of households.

Whereas small businesses and the informal sector were relatively well-cushioned from previous economic crises, these constituencies have now been among the most vulnerable to pandemic lockdown measures. Like many other countries, Indonesia has therefore emphasized policies to support small businesses, including through subsidized interest rates, debt restructuring and working-capital loans combined with credit guarantees.

Looking toward 2021, it is already clear that the shape and pace of a global recovery will depend on several related factors. But the most important is global leadership. The international community needs to agree on a common platform for driving a recovery that is consistent with the 2030 Sustainable Development Goals.

Yet, whereas G20 leaders came together in the aftermath of the 2008 financial crisis to save the world economy from a deeper collapse, we are now facing an unprecedented lack of global leadership. The United States and China are locked in a conflict over trade, 5G technology and other geopolitical issues, and multilateral systems and processes have been sidelined in the name of national sovereignty.

In the absence of global leadership, each country is left to focus on what it can do domestically to avoid the worst-case scenario of a protracted pandemic while maintaining progress toward the SDGs. For example, Indonesia's social protection programs and policies in support of small businesses include special carve-outs for women beneficiaries. This approach not only improves financial inclusion for women, but also advances other development goals, because women tend to allocate more resources to children.

Policymakers must also reckon with the pandemic's impact on how people work and interact, and with sharply higher reliance on digital technologies and Internet infrastructure. The COVID disruption thus represents an opportunity to transform the economy through more efficient, effective and flexible working arrangements and a reduced carbon footprint. Investments in digital technology and infrastructure are both valuable in themselves and powerful catalysts for economic recovery.

Moreover, with narrowing fiscal capacity everywhere, reforms to improve the quality of public spending have become increasingly important. Transparent policy design, accurate data, and effective institutions are all crucial to ensure that all public resources are spent on what really matters for development.

But even as governments focus on domestic challenges in the near term, global cooperation ultimately will be critical to secure a sustainable and inclusive recovery. Concerted international collaboration is needed to manage the upcoming debt tsunami that the pandemic has set in motion. Many countries were already struggling with

unsustainable debt burdens before the crisis, and it will take global cooperation to avoid sweeping credit downgrades and a wave of sovereign debt crises in the months ahead.

Moreover, because the pandemic will not be defeated until the virus has been eradicated in all countries, global cooperation will be needed to ensure universal access to vaccines. Without universal vaccination, COVID-19 will further widen the gap between rich and poor, exacerbating social and political instability within and across countries.

So far, the world has managed to avoid the worst-case scenario, having heeded many of the lessons of the 2008 crisis. But we have yet to pass the pandemic test. The 2020 crisis has shown us that we need even more global cooperation in order to face this century's toughest challenges.

The global recovery is now on the line. We must reform and revive the multilateral system and resist those who would throw the baby out with the bathwater. The global economy is one boat carrying the fate of 8 billion people. Its recovery is in the interest of every business, every national government and every multilateral forum.

Japan Times

Potential for a big bounce-back in 2021?

MOHAMED A. EL-ERIAN

Customers sit outside at a cafe in Wellington on Dec. 15. | BLOOMBERG

CAMBRIDGE, ENGLAND – For people around the world, arguably the greatest hope is that 2021 will be a year of beneficial transformation: rapidly recovering economies, firms eager to pivot to offense with "resized" business models, and governments talking about "building back better." The risk, as yet insufficiently appreciated, is that decision-makers will end up spending most (and too much) of the year dealing with both existing and new damage from the COVID-19 shock.

There are four good reasons to be optimistic about 2021. First and foremost, scientists and pharmaceutical companies have worked furiously to develop a COVID-19 vaccine, often supported by sizable direct and indirect government funding. A handful of vaccines have been approved, thus opening the way to the herd immunity needed for economic and social interactions to return to normal.

Second, a substantial part of the private sector — supported by wide-open capital markets providing ample low-cost financing — has been busy thinking and planning for the post-pandemic world. Firms are looking to emerge from the crisis with a better balance between resilience and efficiency, as well as with the increased operational agility and open-mindedness that they were able to acquire only when forced into a highly uncertain and uneven crisis-management paradigm.

Third, the inherent difficulties of management during the pandemic have highlighted myriad leadership shortfalls in companies and local and national governments. The COVID shock has also exposed major global and regional coordination failures, and impelled a better and more widespread appreciation for low probability, high-impact "tail events." All this should serve to accelerate the much-needed adaptation of yesterday's governance structures to today's more fluid realities.

Finally, the various natural experiments forced on many countries and segments of societies during the pandemic have fostered much greater recognition of the importance of sustainability, cognitive diversity, and social responsibility. That shift may in turn allow for a much-needed change in implicit economic operating models in many areas. Instead of continuously borrowing from the future, we can and must do a lot more now to ensure greater resources for future generations so that they, too, are better off than their parents and grandparents were.

My fear is that these four possibilities are thwarted by our inability decisively to overcome pandemic-inflicted damage. Such an outcome certainly would not be the

first time that an imperfect journey prevents economies from reaching a promising destination.

Following the 2008 financial crisis, for example, many policymakers were so quick to celebrate victory over the real threat of a multiyear global depression that they took their eye off the ball when it came to securing robust, inclusive, and sustainable long-term growth in its aftermath. Particularly in rich countries, this lapse aggravated structural fragilities of all types — economic, financial, institutional, political and social — and drained their bounce-back potential.

To avoid repeating this mistake in 2021 as the world emerges from the pandemic, policymakers must act early and decisively in three areas.

First, we need to ensure that we can live better with COVID-19. Even if a vaccine is approved soon, producing and disseminating it will take several months. Moreover, neither high adoption rates nor durable effectiveness are guaranteed. Therefore, we may not attain an appropriate level of herd immunity until the second half of 2021, and even that timetable is optimistic.

Many advanced economies urgently need to repress COVID-19 infection rates while quickly building up critical testing and tracing capabilities, enhancing therapeutics, and improving communications. In particular, governments and public-health bodies need to do a lot more to reinforce the message that while being careful about COVID-19 involves hardships and sacrifices, it is the only way to protect oneself, one's family and the community.

Second, governments must take steps now (such as infrastructure modernization, green-economy investments, labor retraining and retooling and tax reform) to counter the mounting long-term pressures on potential growth. If they fail to act quickly, the post-pandemic world will be awash with corporate bankruptcies and prolonged unemployment. Corporate concentration will be higher, globalization will trend down, competitiveness will fall, and inequality of income, wealth and opportunity will worsen. The global economy will be less productive and more fragmented, with less participation and access, along with a higher degree of household financial insecurity. All of this could result, on both the supply and demand side, in prolonged, hard-to-overcome structural obstacles to economic recovery.

Third, policymakers must address the decoupling of finance from the real economy, which has become so extreme that future economic well-being is in jeopardy. The last thing the global economy needs is a wave of disorderly financial deleveraging in which the unwinding of non-bank financial institutions' excessive risk-taking in the past few years undermines or even derails the economic recovery, as weak as it may be.

Failure to act rapidly on these three imperatives will significantly heighten the risk that the post-pandemic global economy becomes stuck in a paradigm of insufficient growth, excessive inequality, increasing social ruptures and periodic bouts of financial volatility. Already, too many people are at risk of permanent economic displacement owing to pandemic-related legacies and long-incipient structural changes. A sluggish policy response will sap the energy, ingenuity, and community buy-in needed to ensure

a smooth transition to new, productive, well-paying opportunities.

Engineering a big economic rebound in 2021, and maintaining strong and sustainable growth thereafter, will require much more than a COVID-19 vaccine. But with bold measures, inspirational leadership, and a bit of luck, policymakers can help to set the global economy on the right path.

Japan Times

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Will Companies Remain Empathetic After the Coronavirus?

Ilya Bonic,
President, Career, and Head of Strategy at Mercer;
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The COVID-19 pandemic has disrupted — and reinvented — the notion of business as usual. For many organizations, working life is a new, home-based reality. Others are innovating safer ways to deliver essential services to the public, while still others have had to suspend operations. In a climate of such turmoil and uncertainty, the capacity to focus on the well-being of employees and the economics that underpin the enterprise has never been more urgent.

In the current disruption, HR has the opportunity to lean in to analytics to answer strategic questions raised by the COVID-19 downturn. Ultimately, delivering on the employee experience could be the most important — if most difficult – trend to build on in 2020.

For now, the fallout of COVID-19 may overwhelm our sightlines and operations. Yet, when business and society move past the pandemic and toward a brighter future, the impact — and opportunity — of artificial intelligence and technology will have vastly accelerated. So will a more expansive, empathetic view of organizational purpose. More than ever, workers expect their employers to look after their health and deliver positive outcomes for customers, society and all stakeholders by utilizing data and analytic insights.

Change has rarely come so quickly, and new data underscores that profound workforce transformation was in the air before the pandemic. As AI, robotics and remote-working technology race ahead, Mercer's 2020 Global Talent Trends study — which surveyed 7,300 senior executives, human resources leaders and employees from nine industries and 16 geographies — told us that 77% of executives see contingent workers playing a far greater role in the future. Meanwhile, 34% of employees expect their jobs to disappear in the next three years — and this was before the COVID-19 pandemic.

Winning with Empathy

Indeed, concern about job security has risen during the COVID-19 crisis. These concerns challenge businesses to proceed with empathy in relationships with employees, and there is evidence everywhere that they are heeding the call. For example, organizations have been quick to enact work-at-home policies supported by the digital

technologies that make the change as seamless as possible.

A home-based workforce needs policy flexibility to deal with crisis health care, childcare and societal restrictions. Major organizations are even pledging not to lay off workers during the COVID-19 unemployment surge, or are beginning to explore temporary talent swapping to both lend support and offset costs. Global concerns about expatriates or business travel have added layers of complexity, foreshadowing changes in the housing, hotel and airplane industries.

Public-facing organizations have had to enact new safety routines. Companies are trying to extend maximum empathy not only to employees facing furloughs or layoffs, but also to customers whose ability to pay may be disrupted by job loss. Examples abound of banks and automotive companies adjusting grace periods for mortgage or car payments, and numerous executives have taken pay cuts. Companies that can are adjusting their severance policies — for example, to soften the blow for workers who may lose health care coverage — and instilling hope in furloughed workers via alternative work schemes and plans for "reboarding" once the pandemic passes.

It will pass. When it does, there will be renewed pressure to recruit, or re-recruit, talent. Importantly, the 2020 Global Talent Trends Survey noted that thriving employees (defined as prospering in terms of health, wealth and career) are twice as likely to work for an organization that balances economics with empathy in their decisions. For businesses, winning with empathy will be a measure of how well they master three crises: a health crisis, most obviously; but also a digital crisis, as work technology ramps up and requires new skills, and an economic crisis brought on by the disruptions of COVID-19.

U.S. businesses face such financial consequences as the pandemic's impact on 2020 self-insured health plan costs. Empathy and economics must guide the hands of self-insureds: How will they respond to announcements that major U.S. health insurers will waive cost-sharing for all COVID-19 care and treatment for insured plan members?

In a recent poll of 650 self-insured employers, more than a third said they were very likely or likely to waive cost sharing as well, while just under a fourth said they were unlikely or very unlikely to do so. But 39% had not yet begun to consider the question, facing a number of considerations, from in-network/out-of-network treatment to billing, quality and time-frame issues.

Four Trends for Tomorrow

These complexities are, perhaps, just the tip of the long-term iceberg. Mercer's 2020 Global Talent Trends research identified four trends that will shape the future for organizations and the people who comprise them, beginning with a focus on the future.

For one thing, 68% of executives want to accelerate progress on environmental, social and governance (ESG) metrics in 2020. But at the same time, the COVID-19 pandemic's impact on productivity makes it imperative that good financial advice for all generations in the workforce will be a key part of today's and tomorrow's value proposition. As for M&A activity, sustainability will be a core part of due diligence in

the future. This is also the time to embrace multi-stakeholder empathy as societies face challenges to the social safety net and welfare.

Then there is the race to reskill. Nearly 100% of organizations said they want to pursue transformation in 2020, but report significant skill gaps. The C-suite regards reskilling as its top talent investment for business success, and one that has come sharply into focus as companies seek to prepare their people to emerge effectively from the downturn. The new work-at-home paradigm prompted by COVID-19 adds further urgency to the reskilling race. It's an opportunity to dedicate more time to learn digital skills — as well as other skills cited in the Global Talent Trends report — and more than 75% of employees said they are ready to learn them. HR leadership can play a major role in readying the workforce for a reskilled future.

Just as urgently, the trend toward predictive analytics has gathered strong momentum in recent years, but workforce science insights should be used more widely. Only 43% of organizations use metrics to identify likely-to-leave employees, while 18% know the impact of their pay strategies and just 12% use analytics to correct inequities of gender, race and age — all valuable data in times of change. The key question today is, what data is required to enable executives to make decisions with empathy?

In the current disruption, HR has the opportunity to lean in to analytics to answer strategic questions raised by the COVID-19 downturn: What are the best strategies for enhanced performance? Which departments need more contingent staff? Where should skilled talent hubs be located?

Ultimately, delivering on the employee experience could be the most important — if most difficult – trend to build on in 2020. While 58% of businesses are trying to become more people-centric, only 27% of C-suite executives believe their investment in the employee experience will yield a business return.

Regardless, employee well-being ranked as a top workforce concern by nearly half of survey respondents, but only 29% of HR leaders said they have a health and well-being strategy, although this is likely to be changing as the COVID-19 crisis continues. With two-thirds of employees globally feeling at risk of burnout in the year ahead, how likely is that risk to mushroom in a time of social distancing, remote working, closures and prolonged quarantines?

Energizing employees at a time of unprecedented crisis is the challenge of our moment — and our immediate future. If anything, the COVID-19 pandemic has underscored the need for action beyond business contingency plans and safety measures, and the data shows that employees who say they feel energized by their job are more resilient, more ready to reskill and more excited by the changes ahead.

Only an empathetic culture can keep employees energized amidst so much uncertainty, enhancing the stability and agility organizations seek in these tumultuous times.

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Why Showing Kindness Benefits Business and Society

Wolfgang Seidl
Partner at Mercer

A major study into the link between well-being and productivity shows that well-treated employees up to 10.6 days of additional productivity, per person, than those that have just average physical and mental well-being.

As employers seek to ease the lockdown, many ethical dilemmas will need to be resolved. As the compassionate approach demonstrated by the leaders of countries such as New Zealand, Germany, Taiwan and Finland showed, there's much to be said for moral decision-making based on the principles of care and benevolence.

Instead of attempting to defy the virus on the grounds that most people would be okay, these leaders locked down hard and early to protect as many people within their communities as possible. The result was a masterclass in the value of kindness, which is, if nothing else, putting other people's needs above your own.

In the past, solutions would typically be based on moral frameworks that focus on the just application of rules and principles, even if they put some people at a disadvantage. But far from hindering progress, this type of decision-making known as "ethics of care" brings huge social, business and economic benefits because when the group thrives, the individuals within it thrive.

Kindness Benefits Businesses

Kindness is the theme for this year's Mental Health Awareness Week, and it's worth bearing in mind that kindness brings huge business benefits, too.

We all know how much more likely we are to go the extra mile for an employer or colleague who shows us kindness. A major study into the link between well-being and productivity shows that employers who treat people well, by prioritizing employee well-being, are up to 10.6 days more productive, per person, than those that have just average physical and mental well-being.

This is something worth bearing in mind at a time when industries, already impacted by poor productivity before the epidemic, are now looking to recover outputs that have fallen by 60%-80%.

Unfortunately, instead of demonstrating kindness to employees, research into the causes of mental health issues at work shows that nearly two-thirds of managers (62%) have put the interests of their organization above staff well-being. Although this might seem to make good business sense at the time, it hurts businesses and individuals in the long run.

In This Climate, Kindness Has Become a Priority

Employers who acted swiftly to allow people to work from home, to keep them safe, before they were ordered to do so by the government, will have enhanced the culture of the organization, by making people feel like they mattered.

Similarly, employers who perhaps weren't prioritizing well-being as much as they could have in the past, now have a unique opportunity to shift the culture of their organization, by relaunching their well-being strategies and putting the welfare of their people at the heart of their business strategies.

Ordinarily, such a focus on people would have been met with mistrust, unless accompanied by another shift in culture, such as the appointment of a new CEO. But the disruption caused by the virus and emotional impact of the lockdown means we are ready to re-evaluate the importance of health and well-being, the meaning of work, and the value of work-life balance for boosting mental well-being.

What This Means in Practice

Employers that want to harness this must start by showing the caring face of the organization and re-engineering their workplaces around human needs, instead of continuing to ask people to fit their lives around work.

Some things may never return to "normal," with elements of flexible working here to stay. Perhaps more importantly, questions around the purpose and meaning of work will be posed, and creative and effective answers provided.

The impact of the coronavirus on the mental health of the workforce is not to be underestimated.

People have been emotionally bruised by the prolonged period of isolation, pressures of home-schooling and reduced opportunities to do things that gave them joy. People who were already suffering from existing mental health issues and problems, such as domestic violence, have had their problems made worse.

It's Not About Giving Free Fruit

Going forward, showing the caring face of the organization isn't about giving people free fruit, the odd day off, or the opportunity to take part in one-off mindfulness workshops.

It's about recognizing the need to design work around human needs, and not the other way round. It also requires introducing and thoroughly embedding the concepts of "good work" into health and well-being strategies and the culture of the organization itself.

Not least by asking: Can we keep our people safe once they return to work? Do people have realistic targets? Are they allowed to control their workflow and deadlines to reduce stress levels? Do they have the opportunity to take breaks, exercise and eat well? Are they able to enjoy positive interactions with others?

Do they have the opportunity to use their key strengths at work every day? Do they have a chance to reach their full potential or at least get close to it? Do they have

the flexibility to meet their needs outside of work?

A New Era of Data-Driven Well-Being

Most employers have now reached a crossroads of maturity where health and well-being at work is about to move on from haphazard and uncoordinated programs based on anecdotal evidence. The future requires a strategic and evidence-based approach, based on data-driven assessment, sector insights and benchmarks.

Just as you would want the easing of lockdown to be based on factual data and reasonable assumptions, so you should want your well-being strategy to be based on reliable business data that you can see rationally will make a positive impact.

For example, research carried out by Google found that psychologically safe teams, where people could be themselves free from ridicule or recrimination, exceeded targets by 17%, while those in teams that were not psychologically safe missed their targets by 19%.

This requires an integrated understanding of peoples' needs, ranging from their financial wellbeing and sense of belonging, to their ability to balance work and life and derive a sense of purpose from work.

Defining the Future of Work

For too long, working practices have evolved with little or no thought being given to the underlying people's objectives needed to support the organization's goals on things like facilitating team working or reducing mental health issues.

Example: putting people's working environments into the cloud so teams can work remotely, without also considering how best to facilitate knowledge-sharing, teamworking, social interaction and the other human elements needed to unlock the value of transformation.

Now that the recent crisis has helped to focus our minds on what really matters, employers have a unique opportunity to transform their workplaces in ways that genuinely allow people to thrive at work, in a way that will allow business and society to thrive also.

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A Bullish Outlook for Asia in 2021

Bart Édes,
Former North America Representative of The Asian Development Bank

There are sound reasons to be upbeat about Asia's prospects for the coming year. Several countries in the region have managed to subdue COVID-19 and have left the worst behind.

The Asian Development Bank (ADB) forecasts that China, Taiwan and Vietnam will all register positive growth for 2020, something that will elude all G-20 economies, other than China. Across developing Asia as a whole, ADB expects growth in gross domestic product of around 7% in the coming 12 months.

Customers buy coffee in a trendy coffee shop inside an upscale shopping mall in Bangkok. Business leaders in the biggest Asian economies exude confidence about the near-future. Photo: Mladen Antonov/AFP via Getty Images

Confidence Is High

Business leaders in the biggest Asian economies exude confidence about the near-future. A December 2020 survey of executives found that a larger share of respondents from both Greater China and India say that things will be better in six months than those from Europe, Latin America and North America.

Bloomberg News reports that official data from China show that 2020 may be a record year for new foreign investment in the country. Exports have been surprisingly resilient for many Asian countries, due in part to great demand for computers and other IT equipment by professionals working from home.

However, while prospects for an accelerating rebound are bright, there are several uncertainties that could tarnish the picture. Here are seven risks that investors, businesses and policymakers should keep in mind as they plan for the new year.

1. Vaccines Don't Deliver

Great hope surrounds the various COVID-19 vaccines that were quickly developed and are now being distributed. Many loss-making businesses will not be back in the black until a sizable share of the population is vaccinated, and Asian governments will maintain measures to uphold social distancing and limit mingling with people across borders well into the new year.

This will put a continued damper on the airline and tourism sectors, causing continued pain in tourism-dependent economies like Macau, the Maldives, Thailand and several Pacific island states. India has recorded more than 10 million confirmed cases of COVID-19, second only to the United States, and has not been nearly as successful in containing the virus as other Asian countries.

Developing Asian countries are far behind OECD member countries in the number of pre-ordered vaccine doses. And when people finally get the chance to receive an injection, history shows that not everyone reacts to a vaccine in the same way. Illnesses or deaths attributed, rightly or wrongly, to one of the new COVID-19 vaccines could lead to a pause in delivery. The complex vaccine distribution chain is also vulnerable to a myriad of failings, including intentional disruption by antivaxxers or others seeking to create chaos. With so much riding on the success of this grand effort, effective distribution of COVID-19 vaccines is the most consequential risk confronting Asia (and the world) in 2021.

2. China and the US Tensions Deepen

President-Elect Joe Biden is expected to maintain his predecessor's tough stance on China's trade, subsidies, intellectual property rights protection and other business practices, while more vocally condemning Beijing's human rights violations and undemocratic practices. Taiwan, Hong Kong and the South China Sea will remain flashpoints.

For his part, Chinese President Xi Jinping intends to encourage domestic consumer demand, strengthen internal supply chains and intensify self-reliance in critical technologies, thereby contributing to gradual decoupling of the world's two biggest economies. China's "wolf warrior" diplomacy will ensure defiance in the face of criticism about violating international norms. The rest of Asia will suffer if the United States and China settle into a post-pandemic cold war, compel third countries to choose sides and fail to find common ground on serious global problems requiring cooperation.

3. Deprivation Spurs Unrest

The pandemic has wreaked havoc on economies and labor markets and increased poverty, hunger and inequality. World Bank economists estimate that COVID-19 could force 164 million people into poverty in South Asia and East Asia and the Pacific. The International Labor Organization reports that the crisis has led to the loss of more than 80 million jobs in Asia and the Pacific.

Before the pandemic, most people in the region were living in countries where income inequality had been growing. The IMF warns that the ongoing crisis risks exacerbating inequality in the region and is having especially negative impacts on younger workers, women and people who are more vulnerable.

Frustration with authoritarianism, corruption and joblessness, and lack of opportunity, could inflame passions and lead to violent civil disturbances in some Asian countries. Regional research and data show that conditions in South Asia and Southeast Asia are ripe for social unrest stimulated by food shortages, rising prices and reduced incomes due to lost livelihoods and remittances.

4. Negative Impacts of Climate Change Multiply

The International Federation of the Red Cross and Red Crescent Societies

has reported that the Asia and Pacific region faced a record number of climate-related disasters in 2020, affecting tens of millions of vulnerable people already hit hard by the pandemic. The relief agency reported that it had responded to 24 climate-linked events this year in the region, one-third more than in the previous year. The environmental incidents included floods, typhoons, extreme cold and drought.

While brutal weather events are annual occurrences on the Earth's most disaster-prone continent, the negative impacts of climate change are growing year-by-year, making this a perennial risk to economies and human well-being across the Asian continent.

5. Domestic Debt Stifles China's Strong Recovery

China's emergence from the pandemic and expected strong growth next year could spur a successful regional and global rebound. Yet this hopeful scenario is threatened by a faltering Chinese property market. According to data from China's court system, 228 real estate companies went bust in the first half of this year.

Separately, Fitch Ratings reported that between January and October 2020, state owned enterprises in different lines of business defaulted on a record 40 billion yuan ($6.1 billion) worth of bonds — about as much as in the previous two full years combined. A collapse in real estate prices, or acceleration of defaults among SOEs, could leave the domestic financial system vulnerable and slow the pace of economic growth, with implications for Asia as a whole.

6. Cybercrime Soars

Fraud, theft and extortion carried out through computers have become a growing source of concern to private and public organizations. Microsoft has estimated that cyberattacks are costing the Asia and Pacific region 7% of its gross domestic product.

A survey of more than 2,000 business leaders in Asian and Pacific countries by the Australian research firm StollzNow between late May and early June 2020 found that seven in 10 respondents were more concerned about cyberattacks than before the pandemic. Cybercrime risks have grown as corporate computer systems are linked with remote workers whose IT security arrangements are less stringent than at the office, and hackers are attempting to benefit from the changed circumstances.

7. Developed Countries Stumble

While several Asian economies have come back to life, large swaths of Western Europe and North America are struggling to gain control over the deadly virus. The never-ending Brexit saga poses an economic risk not only to the United Kingdom, but also to the European Union.

The unhealthy partisan political divide in Washington, D.C., could lead to gridlock that prevents further actions that would help the battered economy, like direct aid to budget-strapped American states and infrastructure investments. Slow recovery

of demand in key non-regional export markets for Asian manufacturers would constrain the pace of growth in Asia.

Conclusion

So long as COVID-19 vaccines are rapidly and widely distributed — and prove to be as effective as early testing has shown — the accompanying rise in the confidence of consumers, businesses and investors would likely overwhelm the potential impact of other risks to Asia's rebound.

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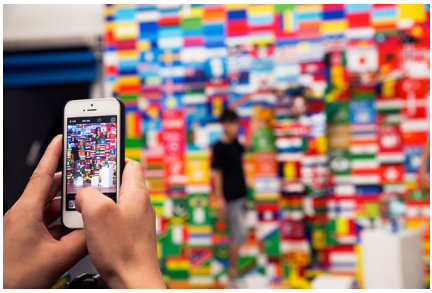
Bart Édes is an international trade and development policy specialist focused on transformative trends reshaping Asia and the world. Between 2009 and 2020, he held senior staff positions at the Asian Development Bank, most recently serving as its representative in North America.

The Sustainable Development Goals Are Good for Business

Jon Hales,
Business and Climate Director at Project Everyone



Artwork for the Global Goals campaign in August 2015 in Beijing, China. September 2015 marked the launch of the SDGs. The SDGs can be used to engage employees with an agenda that might otherwise sit isolated in sustainability teams. Photo: James Wasserman/Getty Images for Global Goals/ United Nations

This is the first in a series about the state of business around the SDGs, in anticipation for the COP26 Conference in November.

The Sustainable Development Goals celebrated their fifth anniversary last September during a year that caused most of these goals to slow down, stop or, in many cases, reverse. The global pandemic negatively impacted almost all of the issues found in the SDG framework.

Unlike their predecessors, the Millennium Development Goals, the SDGs were developed with the ideas from businesses. Companies helped shape the agenda, agreeing in principle to hold themselves accountable for their part in achieving the Goals by 2030. The resources, innovation and adaptability of the private sector are critical for attaining the ambitious set of 17 global Goals and 169 targets.

The Trust in Businesses Is Rising

As companies line up to nail their colors to the mast on the topics of race, climate change, gender, education and more, the time has come for the private sector to double down on tackling the world's biggest challenges.

Many people remain skeptical of the notion that business can truly be a force for good — and that skepticism is well earned. Decades of tax avoidance, corporate lobbying and human rights abuses have played their part in tarnishing the private sector's reputation.

Yet, according to the recent Edelman survey, trust in business is currently higher (61%) than in NGOs (57%), government (53%) and the media (51%). And trust in peoples' own employers is significantly higher still (76%). Furthermore, of the above listed institutions, business is the only one seen by a majority as both competent and ethical.

As governments falter at hurdle-after-hurdle in dealing with the pandemic and its effects, a large proportion of businesses have managed to act in the best interests of their employees and broader stakeholders. With the rollout of the vaccine program, we have witnessed the incredible power of private sector innovation when combined with

public sector investment (SDG Goal 3 – Good Health and Wellbeing). Technological innovations fueled by entrepreneurial solutions enabled huge sections of the population to continue working remotely when offices closed (Goal 8 – Decent Work and Economic Growth).

Expectations of Social Responsibility

With this increase in corporate standing and trust comes more responsibility.

Companies and CEOs are increasingly expected to take the lead on societal change, rather than wait for governments to impose it. They are also increasingly at risk of being called out for poor practice in the wake of movements such as #MeToo and Black Lives Matter (Goal 5 – Gender Equality and Goal 10 – Reduced Inequalities) and of being held accountable by customers and employees if their business practices don't parallel the values they say they believe in.

On the climate side, it is no longer 'news' to declare a net zero plan by 2050 — companies are under increasing pressure to do so by 2040 or sooner (Goal 13 – Climate Action).

It would be naïve to suggest that pure altruism is fueling this sea change in corporate behavior, but it is just as much of a fallacy to suggest it is merely cynical posturing and box checking.

Enlightened Self Interest Is Growing

What we are witnessing is a show of enlightened self-interest. According to research, purpose-driven companies witness higher market share gains and grow three times faster on average than their competitors — all while achieving higher workforce and customer satisfaction. They are a magnet for talent.

The recognition that there are 'no jobs on a dead planet' is growing, shorthand for the effects the climate and ecological emergency is already wreaking on the economy in the form of floods, storms, fires and, of course, the global pandemic.

At Project Everyone, we convene a group called the Business Avengers: Seventeen companies who believe in the Sustainable Development Goals as a route for progress and who are leading in areas related to one or more of the Goals.

Some of the largest and most influential companies in the world — such as Google, Microsoft, Unilever and Mastercard — are increasingly using the SDGs, not merely as a CSR tool, but as a means to shape their long-term strategic planning and vision. It has been incredibly gratifying, when speaking to these companies, to hear their intentions to use this moment to 'double down' on ambitious target setting and sustainability commitments, even in the wake of vast challenges to their operations.

Using the SDGs to Guide Long-Term Planning

The SDGs provide the Business Avengers and other companies, large and small, with a comprehensive and robust framework to help measure their impact, both positive and negative, on the societies they operate in.

They serve as a reminder of the interconnected nature of these huge global challenges, and can help frame a narrative of how companies are striving to be responsible businesses by taking a systematic approach to all areas in which they either have material impact or the ability to affect.

In addition, the SDGs can be used to engage employees with an agenda that might otherwise sit isolated in sustainability teams. Their breadth means that every employee is likely to see themselves reflected in at least one of the Goals.

One may be passionate about female representation at the executive level (Goal 5 – Gender Equality), another about protecting the oceans (Goal 14 – Life Below Water) and another about species extinction (Goal 15 – Life on Land). Those employees can gain a sense of pride that their company is taking action, be encouraged to push for more ambition internally, use volunteer days or donate to charities to advance progress toward their chosen Goal.

Times of crisis are opportunities to re-evaluate our priorities. They are moments to shift and innovate. Every company should be taking this opportunity to examine their business practices, their purpose and their impact. The SDGs provide the most complete framework to do just that.

Brink News

About Author

Jon Hales
Business and Climate Director at Project Everyone

Jon Hales is the business and climate director for Project Everyone, a non-profit organization that seeks to put the power of communications behind the Sustainable Development Goals, also known as the Global Goals. Before joining Project Everyone, Jon was the director of Strategic Partnerships for Climate Action, where his focus was on helping facilitate public-private partnerships to accelerate the low carbon transition.

The Productivity Puzzle of Working Remotely

Emma Harrington,
PhD Candidate in Harvard University's Department of Economics

New research by Harvard University suggests that there are productivity gains for companies that offer remote working — both before and during the COVID-19 pandemic.

However, whether those gains will persist after the pandemic depends on the type of workers attracted to remote jobs. BRINK spoke to Emma Harrington of Harvard University, who contributed to this research on remote working with her colleague Natalia Emmanuel.

A Harvard University report found that in this remote work setting, people with childcare responsibilities are more productive than those without those responsibilities — both before and after the pandemic. Photo: Pexels

HARRINGTON: We studied the effect of going remote for workers in two different settings. In both, we found that working remotely improved worker productivity.

First, we looked at workers who started working in a call center and then transitioned to working remotely before the pandemic. For those workers, we found a pretty sharp increase in their productivity following that transition — the calls they took per hour rose by about 8% when they went from the office to working at home.

Productivity Rises When Remote

Second, we looked at what happened when the pandemic forced all the onsite workers at the same retailer to work remotely. Then, we compared the productivity of newly remote workers, who were no longer able to go into the office due to the pandemic, to the productivity change of their already remote working peers.

The productivity of newly remote workers rose relative to their already remote peers. So even if they didn't volunteer to be remote, they still became more productive when working from home. In both cases for a given worker, transitioning from onsite work to remote work led to about an 8% increase in productivity.

Our explanation for this increase in productivity is that it likely stems from a reduction in distractions. So you might be spending less time interacting with your coworkers. Particularly in the context of a call center, you might have a reduction in ambient noise of people chatting around you on the phone.

Some Workers Are More Productive Than Others

BRINK: But you found a difference between those who were hired to do remote work and those who were hired to work on site, but were then forced to go remote.

HARRINGTON: Yes, so there are two dimensions of productivity. One is: Are people reaching their full potential of their personal productivity? And the other is: How productive are the people who are taking a particular job? When we think about the extent to which people are reaching their personal potential, it looks like remote work is helping people.

However, the people who were hired for remote jobs turned out to be relatively less productive than the people hired initially into onsite jobs and then transferred to remote working.

So, from the firm's perspective, when they think about which work arrangement is going to be more productive, they also need to also think about what types of workers are going to take these two types of jobs.

When we get out of the pandemic, a company might prefer to hire new workers into an office role — even though that worker might be more productive being remote — just because the type of worker who is willing to go into the office may on average be more productive.

In other words, the willingness to go into the office may reveal some sort of dedication to the job that can be divorced from the effect of being in an office on someone's productivity.

Workers with Childcare

BRINK: One of the findings showed a positive correlation with childcare responsibility. Is that correct?

HARRINGTON: Yes, we found that in this setting, people with childcare responsibilities were more productive than those without those responsibilities — both before and after the pandemic. The gap became marginally larger after the pandemic.

I think one possible explanation for that finding is that this is a relatively low wage job. Therefore, I think choosing this role because of constraints at home might be a better signal about a worker than choosing this job without those constraints.

BRINK: This research was conducted with call center workers, which are relatively low wage jobs. Do you think these findings have equal application in other higher paid or executive level jobs?

HARRINGTON: I think the benefits of being remote in reducing distractions are likely to be pretty generalizable. In lots of jobs, you're going to be benefited by having fewer distractions.

But in those other jobs, these benefits need to be weighed against the potential costs of remote work, making coordination more difficult. You might also lose some of those productive water cooler chats that you would likely have in the office.

Further, in other occupations, the question of who takes a remote versus onsite

job might be an even bigger concern. When productivity is harder to assess, workers who are less productive may have a more direct incentive to be remote to hide their lower productivity from their manager.

Going Back to the Office Post-Pandemic

When firms think about what to do after the pandemic, there may be incentives for them to return to the office because they prefer to hire workers who want to go to the office rather than work remotely.

That doesn't mean going back to the office is the socially optimal outcome. Using remote versus onsite work to sort workers into different types can lead to a market failure. Some workers who would prefer to work remotely, and would be more productive at home, still might decide to go into the office because they don't want to be seen as less productive.

The market doesn't necessarily get to the best solution because the incentives of individual firms don't necessarily align with maximizing total output. Privately, each firm might be worried about the types of workers it will hire into remote jobs. But, in the aggregate, productivity might rise if more jobs were remote.

Thus, one implication of our findings is that moves by governments and other entities to try to support remote work may improve efficiency. Further, since workers with childcare responsibilities have an added interest in working at home, such policies may also improve economic equity.

Brink News

About Author

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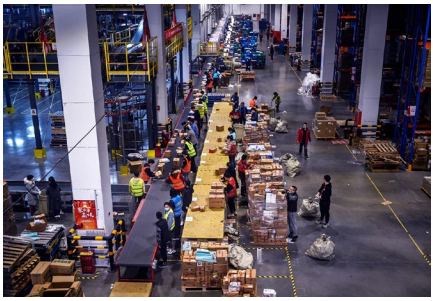
Emma Harrington is a labor economist studying the changing nature of work. She is a PhD Candidate in Harvard University's Department of Economics and a Stone Scholar in the Harvard Inequality and Social Policy Program

10 Questions That Will Determine the Future of Work

Jeffrey Brown,
Head of Tech Policy at Bertelsmann Foundation;
Stefaan Verhulst,
Co-Founder and Chief Research and Development Officer of The Governance Laboratory



Employees work in a warehouse in Beijing, China. If we want to design "good" future-of-work policies, we must have an inclusive and wide-ranging discussion of what we are trying to solve before we attempt to develop and deploy solutions. Photo: Kevin Frayer/Getty Images

In the span of a few months, the COVID-19 pandemic has prompted a rethink not only of how workers work, but of long-term policies that respond to disruptions being unleashed by technology and automation.

Policymakers are quickly drawing up plans to address the future of work from the perspectives of inequality, skilling, social protection, gender and the role of human labor in the 21st century.

The Pre-Pandemic Future of Work

Prior to the pandemic, many governments and policymakers treated future-of-work policy making with little urgency, believing that technology and automation would be implemented gradually. But the pandemic has shown that the job and labor market disruption can come from nearly any direction — not just through technology and automation.

Still, governments around the world broadly face a set of common themes when it comes to preparing their countries for the future of work. Since up to 14% of workers globally may have to change occupations by 2030, policymakers are rightly concerned with exactly how training models can avert skills obsolescence.

The pandemic has also heightened concern over inequality and job disruption among specific groups, which in turn has led to granular discussions of how governments can build social safety nets that protect workers while welcoming new technologies that boost workers' productivity and living standards.

But in many cases, policymakers face a blizzard of contradictory information and forecasts that can lead to confusion and inaction. Unable to make sense of the torrent of data being thrown their way, policymakers often end up being preoccupied by the answers presented — rather than reflecting on the questions that matter.

Right Time, Wrong Questions

If we want to design "good" future-of-work policies, we must have an inclusive

and wide-ranging discussion of what we are trying to solve before we attempt to develop and deploy solutions.

Deficiencies in our policymaking processes leave us ill-equipped to respond to complex policy challenges, ranging from pandemics to climate change and the future of work. Future challenges (and many current ones) require a rethink of how we develop policy and search for answers to our most vexing public problems.

While the pandemic has catapulted questions surrounding the future of work into the mainstream, we still lack a basic stable of solutions for policymakers to test-drive. Among the approaches that have been floated are universal basic income (UBI), increasing digital literacy and reskilling programs.

Some of these, notably UBI, have gained traction around the world, from the United States to Germany and Kenya. Don't get us wrong: UBI may indeed be among the policy solutions that work. But, in future-of-work policy deliberations, "solutions" such as UBI often precede a reasoned and methodical discussion of exactly what problems we are trying to solve.

Putting the Cart Before the Horse

Solutions cannot come before a clear understanding of the problem. What is required are more foundational — and inclusive — discussions and society-wide debates that would help identify the most important questions and more generally establish priorities to guide how scarce resources should be allocated.

We have found that policymakers often fail to ask questions and are often uncertain about the variables that underpin a problem.

In addition, few of the interventions that have been deployed make the best use of data, an emerging but underused asset that is increasingly available as a result of the ongoing digital transformation. If civil society, think tanks and others fail to create the space for a sustainable future-of-work policy to germinate, "solutions" without clearly articulated problems will continue to dictate policy.

The 100 Questions Initiative

Over the past six months, TheGovLab and the Bertelsmann Foundation engaged with more than 100 "bilinguals" — practitioners across fields who have both domain knowledge and data science expertise. We used a participatory and iterative process to harness the power of collective intelligence and to compile a set of questions that could be transformative if answered.

Our 100 Questions Initiative seeks to interrupt this cycle of preoccupation with answers by ensuring that policymakers are, first of all, armed with a methodology they can use to ask the right questions and from there, craft the right solutions.

We are now releasing the top 10 questions and are seeking the public's assistance through voting and providing feedback on whether or not these are really the right questions we should be asking:

Preparing for the Future of Work

1. How can we determine the value of skills relevant to the future-of work-marketplace, and how can we increase the value of human labor in the 21st century?
2. What are the economic and social costs and benefits of modernizing worker-support systems and providing social protection for workers of all employment backgrounds, but particularly for women and those in part-time or informal work?
3. How does the current use of AI affect diversity and equity in the labor force? How can AI be used to increase the participation of underrepresented groups (including women, Black people, Latinx people, and low-income communities)? What aspects/strategies have proved most effective in reducing AI biases?
4. How do automation and digitization impact income inequality? How can workers from all backgrounds benefit from technological innovations in the world of work?
5. What factors hinder women's participation in the labor force? How do these barriers impact women's work in the future and their career trajectories? What policies or programs can facilitate women's work and remove barriers to their work and careers?
6. What new systems of education and training could help workers reap gains from technology and automation?
7. How can we demonstrate the relationship between skills gained and economic mobility? What characteristics of retraining programs produce equitable outcomes for workers — across a range of demographic and professional characteristics — and what is the impact of these educational/training programs and vocational schooling?
8. Who determines the legal and governance frameworks, as well as the ethical conditions under which technologies are developed and used, and how can we make these decisions more democratic? What legal gaps need to be identified and filled in order to protect the labor market and society from any negative effects of technology? What aspects of and practices from international law can help mitigate the impact of technology and automation on workers and the labor market?
9. What does a labor force that is resilient to technological, financial, health or other shocks look like?
10. In what ways will technology and automation widen or narrow gaps between developed and developing nations? What steps can developing countries take to harness and apply new technologies?

The 100 Questions Initiative is not just about becoming more methodical and less driven by buzzwords. Rather, we want to prioritize questions that can steer the creation of purpose-driven data collaboratives for policymakers to incorporate into their own decision-making.

While this project has channeled the expertise of 100 "bilinguals," future systems and practices could be developed to ask the right questions — and solve for the right variables — at scale. Indeed, as policy challenges grow increasingly complex, this

approach will seem not optional, but necessary.

Brink News

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Jeffrey Brown leads the technology policy portfolio at the Washington, D.C.,-based Bertelsmann Foundation. He works with stakeholders in Europe and the U.S. to build policy around new technologies and the future of work.

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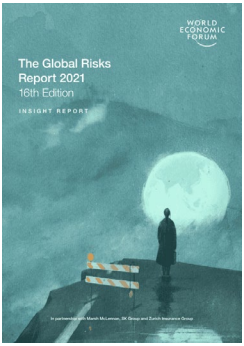
The Global Risks Report 2021



The 16th edition of the Global Risks Report, published by the World Economic Forum with support from Marsh McLennan, highlights the disruptive implications of major risks, including the COVID-19 pandemic, that may reshape our world in 2021 and over the next decade. The report draws on the survey results from nearly 700 experts and decision-makers globally who were asked to rank their top concerns in terms of likelihood and impact.

The immediate human and economic cost of COVID-19 is severe. It threatens to scale back years of progress on reducing poverty and inequality and to further weaken social cohesion and global cooperation. Job losses, a widening digital divide, disrupted social interactions, and abrupt shifts in markets could lead to dire consequences and lost opportunities for large parts of the global population. The ramifications—in the form of social unrest, political fragmentation and geopolitical tensions—will shape the effectiveness of our responses to the other key threats of the next decade: cyberattacks, weapons of mass destruction and, most notably, climate change.

In the Global Risks Report 2021, we share the results of the latest Global Risks Perception Survey (GRPS), followed by analysis of growing social, economic and industrial divisions, their interconnections, and their implications on our ability to resolve major global risks requiring societal cohesion and global cooperation. We conclude the report with proposals for enhancing resilience, drawing from the lessons of the pandemic as well as historical risk analysis.

Risk Response Blind Spots

For which risks do respondents consider the global response falls short of their potential impact?

1st	2nd	3rd	4th	5th
Climate action failure	Biodiversity loss	Social cohesion erosion	Youth disillusionment	Adverse tech advances

Economic | Environmental | Geopolitical | Societal | Technological

Source: World Economic Forum Global Risks Perception Survey 2020

Widening digital gaps

Digitalization – extraordinarily accelerated by the pandemic – is widening the digital gap between individuals and across countries, thereby aggravating existing inequalities, polarization, and regulatory uncertainties.

Youth disenfranchisement

Youth are facing a grim economic outlook characterized by unresolved challenges from The Great Recession and opportunities robbed by the current one, leading to a deep sense of anxiety that can boil over into anger, backlashes, and societal upheaval.

Middle powers in a fraught geopolitical landscape

As the geopolitical landscape continues to be shaped by the US-China rivalry, the chance for meaningful multilateral partnerships led by middle powers to tackle important global challenges has diminished.

Intensifying pressures on businesses

A disorderly industrial shakeout is currently underway, with businesses under increasing pressures from inward-looking national agendas, greater market concentration, and popular scrutiny and volatility. A creative recovery with public-private partnerships under the right governance frameworks is needed.

World Economic Forum

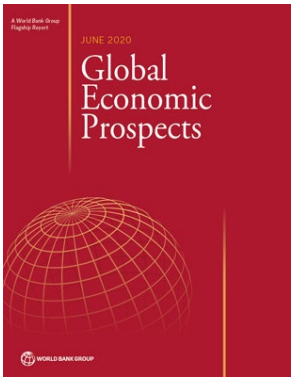
Global Risks Landscape 2021

Rank	Top Global Risks **by Likelihood**	Top Global Risks **by Impact**
1st	Extreme weather	Infectious diseases
2nd	Climate action failure	Climate action failure
3rd	Human environmental damage	Weapons of mass destruction
4th	Infectious diseases	Biodiversity loss
5th	Biodiversity loss	Natural resource crises
6th	Digital power concentration	Human environmental damage
7th	Digital inequality	Livelihood crises
8th	Interstate relations fracture	Extreme weather
9th	Cybersecurity failure	Debt crises
10th	Livelihood crises	IT infrastructure breakdown

Economic Environmental Geopolitical Societal Technological

Source: World Economic Forum Global Risks Perception Survey 2020

Global Economic Prospects



Executive Summary

Although the global economy is emerging from the collapse triggered by the pandemic, the recovery is projected to be subdued. Global economic output is expected to expand 4 percent in 2021 but still remain more than 5 percent below its pre-pandemic trend. Moreover, there is a material risk that setbacks in containing the pandemic or other adverse events derail the recovery. Growth in emerging market and developing economies (EMDEs) is envisioned to firm to 5 percent in 2021, but EMDE output is also expected to remain well below its pre-pandemic projection. The pandemic has exacerbated the risks associated with a decade-long wave of global debt accumulation. Debt levels have reached historic highs, making the global economy particularly vulnerable to financial market stress. The pandemic is likely to steepen the long-expected slowdown in potential growth over the next decade, undermining prospects for poverty reduction. The heightened level of uncertainty around the global outlook highlights policy makers' role in raising the likelihood of better growth outcomes while warding off worse ones. Limiting the spread of the virus, providing relief for vulnerable populations, and overcoming vaccine-related challenges are key immediate priorities. With weak fiscal positions severely constraining government support measures in many countries, an emphasis on ambitious reforms is needed to rekindle robust, sustainable and equitable growth. Global cooperation is critical in addressing many of these challenges. In particular, the global community needs to act rapidly and forcefully to make sure the ongoing debt wave does not end with a string of debt crises in EMDEs, as was the case with earlier waves of debt accumulation.

Global Outlook.

Following a collapse last year caused by the COVID-19 pandemic, global economic output is expected to expand 4 percent in 2021 but still remain more than 5 percent below pre-pandemic projections. Global growth is projected to moderate to 3.8 percent in 2022, weighed down by the pandemic's lasting damage to potential growth. In particular, the impact of the pandemic on investment and human capital is expected to erode growth prospects in emerging market and developing economies (EMDEs) and set back key development goals. The global recovery, which has been dampened in the near term by a resurgence of COVID-19 cases, is expected to strengthen over the forecast horizon as confidence, consumption, and trade gradually improve, supported by ongoing vaccination.

Although aggregate EMDE growth is envisioned to firm to an average of 4.6 percent in 2021-22, the improvement largely reflects China's expected rebound.

Absent China, the recovery across EMDEs is anticipated to be more muted, averaging 3.5 percent in 2021-22, as the pandemic's lingering effects continue to weigh on consumption and investment. Despite the recovery, aggregate EMDE output in 2022 is expected to remain about 6 percent below its prepandemic projection.

Downside risks to this baseline predominate, including the possibility of a further increase in the spread of the virus, delays in vaccine procurement and distribution, more severe and longer-lasting effects on potential output from the pandemic, and financial stress triggered by high debt levels and weak growth.

Limiting the spread of the virus, providing relief for vulnerable populations, and overcoming vaccine-related challenges are key immediate policy priorities. As the crisis abates, policy makers need to balance the risks from large and growing debt loads with those from slowing the economy through premature fiscal tightening. To confront the adverse legacies of the pandemic, it will be critical to foster resilience by safeguarding health and education, prioritizing investments in digital technologies and green infrastructure, improving governance, and enhancing debt transparency. Global cooperation will be key in addressing many of these challenges.

Regional Prospects.

The pandemic has exacted substantial costs on all EMDE regions. Although all regions are expected to grow this year, the pace of the recovery varies considerably, with greater weakness in countries that have larger outbreaks or greater exposure to global spillovers through tourism and industrial commodity exports. The East Asia and Pacific region is envisioned to show notable strength in 2021 due to a solid rebound in China, whereas activity is projected to be weakest in the Middle East and North Africa and Sub-Saharan Africa regions. Many countries are expected to lose a decade or more of per capita income gains. Risks to the outlook are tilted to the downside. In addition to region-specific risks, all regions are vulnerable to renewed outbreaks and logistical impediments to the distribution of effective vaccines, financial stress amid elevated debt levels, and the possibility that the impact of the pandemic on growth and incomes may be worse than expected over the longer term. In a downside scenario of a more severe and prolonged pandemic, growth would be lowest among the six EMDE regions in Latin America and the Caribbean, the Middle East and North Africa, and Sub-Saharan Africa, reflecting these regions' reliance on exports of oil and industrial commodities, the prices of which would be reduced by weak global demand.

This edition of Global Economic Prospects also includes analytical chapters on the implications of the pandemic for long-term growth prospects, as well as on benefits and risks of recent unconventional monetary policy measures in EMDEs.

Global Economy: Heading into a Decade of Disappointments?

The COVID-19 pandemic has caused major disruptions in the global economy. Economic activity has been hit by reduced personal interaction, owing both to official restrictions and private decisions; uncertainty about the post-pandemic economic landscape and policies has discouraged investment; disruptions to education have slowed

human capital accumulation; and concerns about the viability of global value chains and the course of the pandemic have weighed on international trade and tourism. As with previous economic crises, the pandemic is expected to leave long-lasting adverse effects on global economic activity and per capita incomes. It is likely to steepen the slowdown in the growth of global potential output—the level of output the global economy can sustain at full employment and capacity utilization—that had earlier been projected for the decade just begun. If history is any guide, unless there are substantial and effective reforms, the global economy is heading for a decade of disappointing growth outcomes. Especially given weak fiscal positions and elevated debt, institutional reforms to spur growth are particularly important. A comprehensive policy effort is needed to rekindle robust, sustainable, and equitable growth. A package of reforms to increase investment in human and physical capital and raise female labor force participation could help avert the expected impact of the pandemic on potential growth in EMDEs over the next decade. In the past, the growth dividends from reform efforts were recognized and anticipated by investors in upgrades to their long-term growth expectations.

Asset Purchases in Emerging Markets: Unconventional Policies, Unconventional Times.

Central banks in some EMDEs have employed asset purchase programs, in many cases for the first time, in response to pandemic-induced financial market pressures. These programs, along with spillovers from accommodative monetary policies in advanced economies, appear to have helped stabilize EMDE financial markets. However, the governing framework, scale, and duration of these programs have been less transparent than in advanced economies, and the effects on inflation and output in EMDEs remain uncertain. In EMDEs where asset purchases continue to expand and are perceived to finance unsustainable fiscal deficits, these programs risk eroding hard-won central bank operational independence and de-anchoring inflation expectations. Ensuring that asset purchase programs are conducted with credible commitments to central bank mandates and with transparency regarding their objectives and scale can support their effectiveness.

World Bank Group

The Emergence of Social Bonds as a New Rating

Lori Shapiro,
Sustainable Finance Associate at S&P Global Ratings

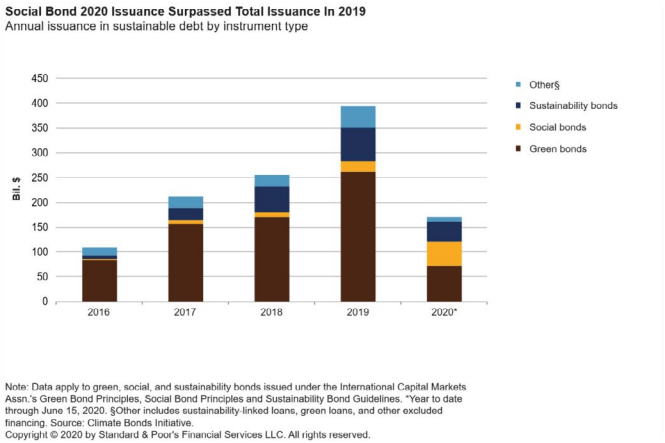
The COVID-19 pandemic has dragged countries around the world through a period of economic disruption, the depths of which have not been seen since the Great Depression. Increased unemployment, rising fatality rates and strained health care systems have placed a spotlight on a future fraught with social risks. In parallel, corporations and financial institutions have been looked to for leadership in addressing these unforeseen challenges.

A doctor stands outside the Roosevelt Hospital in Guatemala City on January 27, 2021. In April 2020, Guatemala became the first country to issue a sovereign social bond aimed at financing COVID-19 response efforts. Photo: Johan Ordonez/AFP via Getty Images

Positive Social Outcomes

S&P research shows that this call for a greater focus on mitigating social risks has spilled over into the capital markets, particularly through the rapid rise of social bond issuance — even as credit conditions have weakened sharply.

Social bonds have emerged as an unlikely tool in the economic fight against the virus to address the demands of consumers and communities that are increasingly aware of current social issues. The International Capital Market Association (ICMA) defines social bonds as those whose proceeds fund new and existing projects with positive social outcomes, such as improving food security and access to education, health care and financing.



Although historically only constituting a relatively small part of the overall sustainable debt market, social bond issuance has more than quadrupled this year — with growth outpacing the more mature green bond market. The trend could foretell a pivot away from a historically climate-centric sustainable debt space and reflect a diversification of sustainability objectives financed by investors.

And, while the COVID-19 pandemic may have precipitated this recent surge, the appeal of social bonds as a sustainable finance instrument may endure long after the pandemic's effects have subsided. According to the Climate Bonds Initiative (CBI), of the $400 billion in sustainable debt issuance in 2019, social bonds constituted approximately $20 billion — just 5% of market share. But, from this low-base, their share is growing rapidly: According to Morgan Stanley, $32 billion of "social" and "sustainability" bonds were issued in April 2020 alone.

This also marked the first month during which social and sustainability bond issuance surpassed green bonds.

Impact of COVID-19

Undoubtedly, much of this rapid growth can be attributed to the effect of the COVID-19 pandemic, which has accelerated the issuance of social bonds to finance both public and private responses and create positive social outcomes, especially for target populations.

In March 2020, ICMA underlined the relevance of social bonds in addressing the coronavirus pandemic and provided additional guidance for eligible social projects, which could include coronavirus-related health care and medical research, vaccine development, and medical equipment investments.

The increased scope of projects eligible to be considered under the social bond designation likely led issuers, particularly supranationals, to become more active in the space.

In March 2020, the International Finance Corporate completed its largest social bond issuance since its social bond program was launched in 2017 to finance its response to the coronavirus. Soon after, the African Development Bank launched a $3 billion "Fight COVID-19" social bond, which, according to the Institute of International Finance, was the world's largest dollar-denominated social bond transaction to date.

First Country to Issue a Sovereign Social Bond

Furthermore, In April 2020, Guatemala became the first country to issue a sovereign social bond aimed at financing COVID-19 response efforts. These recent issuances indicate that the pandemic has not turned issuers' or investors' attention away from sustainable finance; in fact, interest in this space seems to be expanding. We do not believe that market engagement in green bonds or loans will tail off entirely.

However, as the sustainable debt market grows, we anticipate social bonds will make up a significantly larger share. As calls for transparency become louder, social

bond reporting and robust disclosure practices will only gain importance.

Historically, green bonds have been more popular than their social bond counterparts, partly because their impact can be tracked using more easily quantifiable and science-based metrics (i.e., a reduction in greenhouse gas emissions or energy use) that are well-understood by investors.

This mitigates the risk of "greenwashing" — where a company misuses the "green" label to overstate the true environmental benefit of a transaction and, in doing so, misleads market participants. The standards surrounding social bonds, however, are more complicated because assessing social impacts tends to be more qualitative and less standardized than for green projects.

The Risk of 'Social Washing'

As interest in social risks grows, particularly amid the COVID-19 pandemic, investors now face a new issue — social-washing — which, in our opinion, could arise if the proceeds are labelled as "social," but the implied social benefits are questionable. In order to standardize the definition of social projects and mitigate this risk much like it did for the green bond market, ICMA developed a set of Social Bond Principles (SBPs) in 2018. These were later updated this year.

The principles encourage companies to define what they consider "eligible projects," structure their transactions to avoid misallocation and regularly report on use of proceeds. Adherence to the SBPs is generally valued as a sign of credibility and market integrity given enhanced transparency and standardized disclosure practices.

However, the guidelines are voluntary, and unlike for green bonds, where around 80%-90% of issuances are aligned with the Green Bond Principles, a number of institutions have issued COVID-19 and other self-labelled social bonds that are not aligned with ICMA's SBPs.

In addition, with so many issuers currently accessing the social debt market, speed to market has become the most important factor, with many issuers foregoing external verification/review. Therefore, while we are seeing growth in social debt for crisis response, improvements in tracking and disclosure are experiencing a significant lag. As social bond issuance picks up, we anticipate expectations for transparency will grow while social bond impact reporting will be imperative to developing a more standardized social bond market.

Although still small, we believe the social bond landscape is growing and evolving rapidly and that the correct steps are being taken to ensure sustained capital flows toward socially beneficial objectives. The recent surge in social bond issuance to address the COVID-19 pandemic has given investors the rare opportunity to evaluate an entity's commitment to its stakeholders — including employees, customers and communities — in the short-term.

Improved transparency and reporting practices will ultimately help reduce some of the social bond risks, including social-washing, and solidify investors' confidence in the asset class as it grows, ultimately propelling further issuance.

About Author

Lori Shapiro
Sustainable Finance Associate at S&P Global Ratings

Lori Shapiro joined S&P Global Ratings in 2017, and has been on the Sustainable Finance team since February 2020. Since joining the team, Lori has led thought leadership on social risks and on the evolution of the sustainable debt market.

Can the Insurance Industry Bridge the Pandemic Insurance Protection Gap?

Ruth Lux,
Head of Public Sector EMEA at Guy Carpenter

Pandemic insurance coverage has existed for a long time, but it has always been expensive and relatively rare. According to the Geneva Association, less than 1% of the estimated $4.5 trillion global pandemic-induced GDP loss for 2020 will be covered by business interruption insurance.

Pandemic insurance has suffered from both supply and demand limitations. The pay-outs, while sporadic, can be so enormous that they dramatically exceed insurers' capacity to bear them. And it's always harder to convince a company to buy insurance that protects against something that hasn't happened in a hundred years and seems theoretical.

Since the start of this pandemic, we have seen both insurers and reinsurers applying exclusions to pandemic-related risks. This raises the question of how the "protection gap" — the difference between insured and total losses — will be bridged in the face of another future pandemic.

The Need for Government Involvement

COVID-19's impacts are too wide-ranging for any one sector to carry the risks alone, and some sort of mechanism with government participation needs to be put in place.

Depending on the solution that is employed, being either a 100% governmental solution or one where insurers share part of the financial risk, reinsurers can provide vital risk capital to support both tax payers and insurers' exposure, as they do for a number of other critical risks including flood and terror.

Much will depend on the appetite of local insurance industries to assume pandemic risk, which will likely be limited in the short-term, due to the high correlation characteristic of pandemic risk.

There are a range of different design considerations for a pandemic public-private partnership solution, and there is no one-size-fits-all option available for each country, but each of them will consider some version of the following characteristics:

1. The primary goal is to ensure all businesses have prearranged coverage, enabling them to provide business continuity and employment if another COVID-type event occurs. To this end, the solution does not necessarily need to be mandatory, especially if risk mitigation practices are linked to premiums and the overall premium is affordable.
2. Secondly, parametric insurance should be considered as a preference as it has the key benefit of channeling claims monies into the hands of policyholders more quickly and efficiently than traditional indemnity products.

3. Thirdly, many people in the insurance industry believe pandemic risk is best managed through a standalone policy, rather than being expanded into original policies. The policy can provide a predetermined fixed limit, which might cover essential operating expenses, such as wages, rents for a period of one to three months following a governmental order to shut down business or a stay at home order. This type of approach can enable the efficient dissemination of funds to ensure business continuity in the event of another COVID-19-type pandemic.

Many Discussions

Globally, there are over forty country-level discussions about the establishment of a pandemic public-private partnership solution in progress.

A key consideration is the trade-off between fairness of coverage versus the need for the swift disbursement of funds. In the context of Europe, discussions are taking place among a range of European stakeholders, including the Federation of European Risk Management Associations (FERMA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Commission on a potential EU solution to uninsurable and systemic risks.

While most stakeholders agree there is a need for solutions for uninsurable and systemic risks, there is a general sentiment that doing so from the outset could stall progress due to the magnitude of the risks and correlation and aggregation concerns. Instead, the focus will likely be on non-damage business interruption cover stemming from future pandemics.

A good example of this approach is the French CATEX solution, which while currently stalled, may be reinstated later this year. Originally, a broader systemic risks scheme was considered, which would integrate the existing natural catastrophe and terror pools into the scheme, but it was decided that it was too complex.

The best approach is probably to focus on pandemic risk at the beginning and then ensure that any program that is set up would be able to cover other systemic risks down the line, once modeling capabilities and capacity have been developed.

Insurer of Last Resort?

Another aspect of the discussions from Europe is the possibility of the EU taking on the role of insurer of last resort on top of any national schemes that are eventually put in place.

Policymakers and stakeholders are generally cautious about what role this should be. As mentioned, some member states are already setting up schemes for pandemic, while others have existing pools for other catastrophic risks, such as flood or terrorism, and others have no pools nor the experience and knowledge required to set them up.

The role of the EU as an insurer of last resort in these conditions and considering the politically sensitive nature of post or pre-funding at the EU level will probably come

once discussions mature. Conversely, there is a clear need for coordination across the EU considering the cross-border nature of the risk and the interconnectedness of the European Single Market.

EU involvement in the discussion also guarantees that all member states will be involved in the discussions, and those without public-private partnership experience can benefit from the best practice experience of others.

Multiple Approaches

It is also worth highlighting the different discussions taking place in the U.S., which are not wedded to one solution. There are five approaches being considered for a U.S. pandemic public-private partnership solution.

The Pandemic Risk Insurance Act of 2020 was a bill on the table of the 116th Congress. The bill is based on the U.S. terrorism insurance backstop and establishes a system of shared public and private compensation for business interruption losses from pandemics. It asks a lot of the insurance industry, as it proposes expanding original policies to provide full pandemic coverage. Intended to be a starting point for the discussion on a pandemic insurance solution, Congresswoman Carolyn Maloney is actively seeking feedback from the industry and policyholder community to galvanize support for her bill. This Congress, she intends to reintroduce the legislation and consider feedback from the industry in an effort to advance the solution.

Meanwhile, the American Property Casualty Insurance Association, which is advocating for the Business Continuity Protection Program, is a 100% governmental solution, however, risk mitigation is not actively promoted by it.

Then there is a proposal from Zurich, based on the Federal Crop Insurance Program, and another from Chubb, the Pandemic Business Interruption Program; this is a two-part public-private partnership with a parametric trigger for small businesses and an indemnity trigger for large businesses.

In summary, with the right public-private solution, policyholders can take significant steps to bend the risk curve in collaboration with carriers, brokers and risk advisers. One lesson of the coronavirus is that we all underestimated our susceptibility to a pandemic and the domino effect it would have on our global economy.

The right pandemic insurance system can address the critical protection gap, making us more resilient to risk — and inspire more economic confidence in the future.

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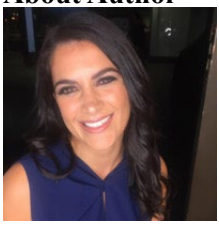

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4 Predictions for Blockchain in 2021 — From Cryptocurrencies to Art

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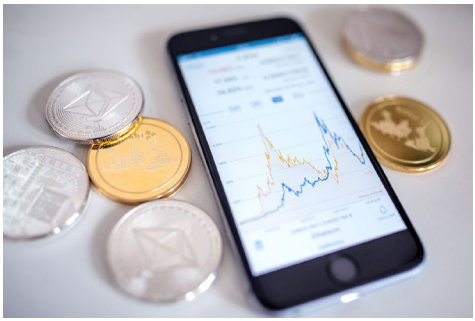

Cryptocurrency sits arranged beside a smartphone displaying the current price chart for ethereum in London, England. It's likely that we will see continued interest around digital currency from regulators and policymakers around the globe. Photo: Jack Taylor/Getty Images

This year has been off to a notable start for cryptocurrency and blockchain. On January 7, the total cryptocurrency market hit an all-time high, exceeding $1 trillion for the first time. Renewed interest in, and conversations around, blockchain technology and digital currencies from industry and government leaders have accompanied the rise.

At the same time, the challenges of 2020 continue, including the global pandemic. COVID-19 dominated the recent Davos agenda, with the need for digital solutions and real-time multi-party access to consistent information highlighted across multiple sectors.

At the World Economic Forum, we will continue to work with hundreds of experts from governments, business, civil society and academia to bring together the seemingly disparate worlds of crypto and long-standing institutions.

Identity

All eyes are on digital identity for COVID-related needs — but long-term strategies and implications remain to be seen.

The COVID-19 crisis has increased consumer demand for identity solutions that don't compromise individual privacy and freedoms. Of course, outlooks of what constitutes the ideal level of privacy preservation vary widely around the world, with China and the U.S. taking deeply divergent perspectives. As the travel industry and various governments continue to explore ideas like "immunity passports," which would maintain vaccination and/or testing records, the creation of a global standard around digital credentialing seems both necessary and elusive.

In addition, what does it mean to anchor on digital identity as a reaction to a very specific set of circumstances (namely an unprecedented global pandemic)? Digital identity systems are relevant for everything from financial services to re-skilling workforces, which each have distinct requirements. Focusing on one sector without

taking a longer-term view can mean that we lose out on opportunities, duplicate efforts and create more complicated user experiences.

As it stands, there are very few regulations or industry standards to prevent fragmentation of technical solutions, protect privacy or promote inclusivity, interoperability and portability — all essential principles for digital credentialing beyond time-sensitive use cases. As global society struggles to return to "normal," there is a need to ensure potential solutions that embrace the use of digital credentials, leverage the experience of the digital identity community, consider a longer-term and holistic view and create strong partnerships with public authorities.

Institutional Adoption

Last year was the year of "institutional investment" in bitcoin — a buzzy phrase that was seen across pundit analyses of the crypto rallies — referring to large-scale investments of players such as MassMutual and Square (SQ). It is likely that financial institutions and service providers will intensify their own experiments with, and use of, cryptocurrency this year, whether via investment or actual deployment.

In some instances, they are also being used for improving internal processes. For example, in a Davos agenda panel, Hikmet Ersek, CEO of Western Union, cited the company's use of a stable "WU Coin" to exchange different currencies — done "21 times every second."

COVID-19 also raised the profile of the conversation around central bank digital currencies' exploration of blockchain technology. We saw the launch of some of the first national-level, blockchain-based systems — including in the Bahamas and Cambodia. At the same time, progress around China's DCEP (Digital Currency/ Electronic Payment) continued in the background, with the People's Bank of China having completed pilots in Shenzhen, Xiong'an and Suzhou, processing RMB 1.1 billion across 3.1 million transactions.

Still, many governments and central banks, including the U.S. Federal Reserve and European Central Bank, continue to research whether central bank digital currencies (CBDC) hold potential but have maintained they do not see value in issuing one at this time. Many are also watching the growth in the stablecoin space — with total value now surpassing $25 billion — fueled by decentralized finance (DeFi) and institutional interest. This has corresponded with increased attention from regulators, for instance the controversial STABLE Act in the U.S. and the recent letter from the Office of the Comptroller of the Currency. We can expect continued regulatory interest and activity in this area from around the world.

NFTs Boost Inclusive Wealth

We have come a long way since CryptoKitties, yet relatively little progress has been made in realizing the potential of non-fungible tokens — a cryptocurrency token that is indivisible and unique — outside of the gaming context.

But we are already seeing shifts around the dialogue of inclusion. Previously,

there was talk of democratizing access to high-value assets, such as art. While there still might be potential here, it's important to consider the implications for creators as well. For instance, some have spotlighted black artists and the role that crypto art can play in allowing for greater ownership and wealth creation within the space, as well as art exchanges. We've also seen early signs of how this may translate to music or writing.

Decentralized Infrastructure

Awareness of the power that centralized platforms and service providers wield over our lives is moving beyond the crypto and blockchain community to the mainstream. Take, for example, the recent mass exodus from WhatsApp to Signal following a, relatively minor, change in Facebook's data-sharing policies.

This may create an increase in demand for decentralized service provision. In 2020, we saw the highly anticipated launch of Filecoin from Protocol Labs and continued growth of Web 3.0 projects such as Keep, Oasis and Polkadot. The public cloud market is among the most highly concentrated in existence, with four providers controlling 80% of the market. Decentralized cloud storage is currently the only alternative that could pose a challenge to this status quo. Along with advances in AI, this transition could lead to significant expansion of the scope of human and machine interaction, and an acceleration of the transition to Web 3.0.

Even as we have been wrestling with the consequences of the greatest social and economic disruption of our lifetimes, the pace of work across the blockchain ecosystem has been accelerating. The great news is that awareness of the potential of decentralized systems now lives beyond the minds of a tiny minority and is slowly gaining awareness among a larger audience — although the bitcoin price index remains the biggest reason most people pay any attention to the space.

As a result, it's likely that we will see continued interest from regulators and policymakers around the globe, especially around digital currencies. We're already starting to see increased market consolidation, which may be a sign of increased market maturity. Regardless of what happens in 2021, it's sure to be a wild year and one for the books.

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Practical Ways to Improve Credit Data Quality

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Despite unremitting regulatory pressure and millions of dollars of investment in data governance, many banks have made little real progress in addressing the root causes of "dirty" credit data.

The consequences of this failure are enormous; data quality issues undermine basic credit risk management. For example, without reliable data, like single-client identifiers or product codes, banks struggle to connect various exposures in different products to the same counterparty. Without timely delivery of critical data, like mark-to-market collateral values, net exposure calculations may be incorrect.

The building of the European Central Bank in Frankfurt am Main, Western Germany. COVID-19 has shown that banks with better credit risk data can see potential problems earlier and react more quickly, getting ahead of peers with poor data. Photo: Daniel Roland/ AFP via Getty Images

Indeed, poor data often means that credit officers spend more time debating the accuracy of underlying data than they do addressing the critical credit issues that the data should inform. At a large bank, we found credit officers spent, on average, one to two hours every day checking and remediating exposure and collateral data.

COVID Has Been a Wake-Up Call

The COVID-19 crisis has served as a wake-up call for risk departments, underscoring the urgent need for better credit data. In the absence of clean data, credit officers have scrambled to answer critical questions about primary exposures to vulnerable industries such as airline, retail, and oil and gas companies. Many have been at a loss to explain potential secondary exposures to affected industries via supply chains or investment funds. Others have struggled to track drawdown behavior across products at a client level, connecting the dots only after a considerable delay — at one bank, it took a week to pull together its total exposure across all products to oil.

The crisis has shown that banks with better credit risk data can see potential problems earlier and react more quickly, getting ahead of peers with poor data. They can also operate more efficiently, dispensing with legions of "data elves" that manually validate and clean dirty data.

The benefits of clean credit data have not been lost on regulators. Even before the current crisis, many regulators had become more proactive in pushing banks to show

credible plans for addressing the root causes of credit data issues. Amid continuing economic uncertainty, banks need to be able to quickly respond when the next spasm strikes. Regulators are watching.

Indeed, the ECB's recent letter to Significant Institutions underscores its concern about banks' ability to manage distressed portfolios.

Progress on Cleaning Data Has Been Limited

Many banks do not have a solid operational approach for their critical data processes. At most banks, the lack of process-related KPI's to track drivers of poor data (e.g., manual uploads, adjustments, hand-offs, checks and controls) is revealing. Banks are not applying the same level of operational rigor to critical report generation processes that they apply to, say, mortgage or other key customer processes.

The systems in place to ensure proper data "ingestion" into risk processing environments do not work well. In fact, traditional ETL (Extract-Transform-Load) tools have become a major cause of data indigestion. These systems struggle to control the quality of incoming data. For large banks, multiple layers of business rules (amounting to millions of lines of code) parse thousands of feeds per day from dozens — sometimes hundreds — of different data sources, creating an impenetrable barrier for those diagnosing the root causes of data issues.

Banks need to rethink their approach to cleaning up credit data as a matter of urgency. Based on practices at peers that are making progress, we have four recommendations for next generation credit data remediation.

Recommendation One: Source Consolidation

Leading banks are consolidating upstream data repositories to create single sources of truth or "golden sources" for critical types of data. Source consolidation reduces the effort that risk departments (and others) need to expend in data ingestion by decreasing the number of feeds by as much as 75%. Building golden sources for reference data domains (for example, book, product, party, legal entities, instruments) is particularly beneficial because so much risk data remediation work typically involves sorting through inconsistent reference data to create comparable data sets.

Leaders are also ensuring that the data in these "golden sources" are accurate, up-to-date and complete, reducing the effort involved in downstream data clean-up by as much as 95%. Since "accurate" may have a different meaning for risk than for data owners, a few banks have put in place service level agreements to define specific data quality standards.

Recommendation Two: Treat Your (Data) Indigestion

Pioneer banks are replacing their existing, over-engineered ETL tools with modern data orchestration layers, often leveraging tools from cloud storage providers that are highly customizable and less expensive than traditional tools.

These orchestration layers are typically simpler, more efficient and more

flexible than older data ingestion systems. They contain far fewer business rules and have "user friendly" libraries that enable non-technical users to have a clear understanding of previously "hard-coded" adjustments.

Recommendation Three: Measure, Measure, Measure

Leading banks are also deploying incentives and penalties in order to encourage ownership and accountability among data providers. Corporate goodwill and good intentions are often not enough. Without carrots and sticks, it is tough to motivate busy executives to dedicate time and effort to clean data.

A few years ago, after a series of reporting issues, a leading European bank set up a central data quality team to monitor and control data inputs. This team flagged "dirty data" issues and communicated them back to data providers. If these issues persisted, the offending data providers received a punitive charge for internal reporting purposes until the problem was fixed. Senior executive bonuses could be directly affected by a failure to respond. After one year, the bank noticed a dramatic turnaround in its data quality, with errors and restatements falling by 80%. Moreover, the scheme created much greater awareness of (and cultural aversion to) dirty data.

Leading banks like the one mentioned above are measuring data quality with a level of precision that allows them to identify the root causes of problems. Ideally, these measurements should rely on controls and checks carried out at the source of data to give risk and other users advanced warning of issues.

Recommendation Four: Clean Up the Clean-Up Crews

Leading banks are revisiting the need for large teams of manual data fixers. Many risk departments have built clean-up crews to validate, correct and enrich data. These armies of data fixers often constitute a cheap and expedient way to deal with dirty data.

But the remedy can be worse than the disease over the long run. Clean-up crews reinforce a culture of manual workarounds that can become self-perpetuating and delay a proper reckoning with the root causes of dirty data.

Re-Thinking Credit Data

Banks can no longer afford to ignore the knocking and rattling coming from their credit engines. Poor credit data — like contaminated fuel in a combustion engine — can undermine performance, make it difficult to keep up with competitors and ultimately cause a complete breakdown.

Against the backdrop of the current crisis, banks need to revisit their existing programs and take decisive action to clean up credit data once and for all.

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