CERAVISION

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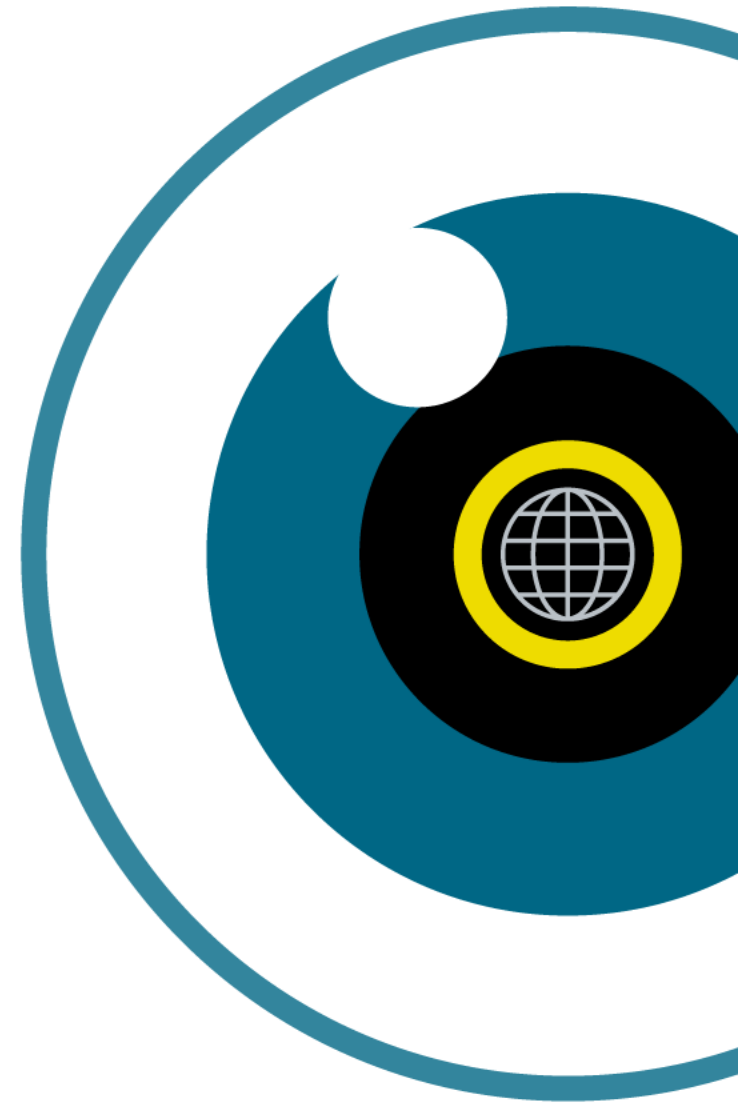
About Me

What is VUCA?

Volatility — Speed, turbulence and magnitude of change is increasing – "1 in x year events are becoming more frequent e.g. weather-related events"

Uncertainty — Unfamiliar territory and unpredictable outcomes – "uncertainty about exponential future technological advances e.g. Artificial Intelligence"

Complexity — Multiple interdependencies due to increasing interconnectivity – increased global flows of goods, capital, people, data and ideas

Ambiguity — Multiple perspectives and interpretations of scenarios – differences in opinions and priorities e.g. intergenerational preferences

In 2020, the average lifespan of a company on Standard and Poor's 500 Index was just over 21 years, compared with 32 years in 1965.

A few examples of "significant" VUCA

- The 2008 housing crisis
- The dot-com bubble burst in 2000
- Stock value loss after 9/11 attacks in 2001
- Hyperinflation event in Zimbabwe in 2008
- European sovereign debt crisis in 2009
- Disruptions caused by COVID-19

With increased frequency, severity and interconnectedness of risk sources, impacts of VUCA are expected to be higher going into the future. For example, climate change combined with prolonged economic downturns and disrupted supply chains may lead to serious humanitarian crises.

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Neuroscience – typical reactions to "significant" VUCA

"This can't be happening now?"

"We need some further analysis"

"It has, happened, what can we do now?"

"Where did we go wrong" – how did our models not predict this?"
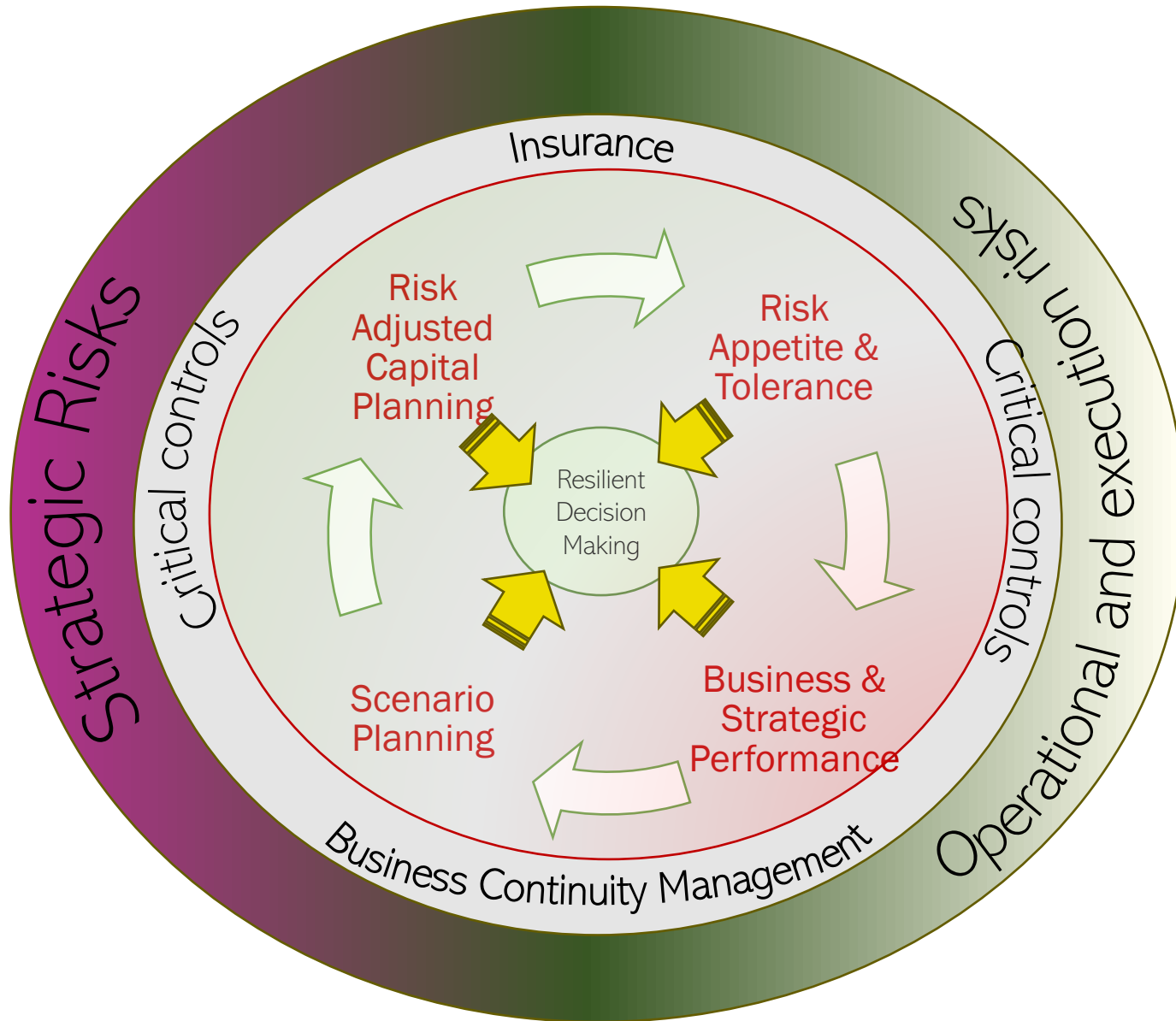
"Our models predicted this but no one listened"

"What opportunities does this create"

"How can we use this to prepare for the future"

It is important to understand how decision makers make decisions given the insights they are presented with. There are several mental models which affect how people make decisions.

A Framework for Decision Making

Strategic risks examples

- *Global supply chain disruptions*
- *Increased competition and new business models*
- *Geopolitical factors*
- *Geo-economical*
- *Changing customer preferences*
- *Etc.*

Operational and Execution risks examples

- *People – changes in mental wellness of employees affecting their ability to perform their duties properly*
- *Process failures - increased magnitude of process failures due to automation*
- *System failures - larger magnitude of system failures due to integration*
- *Others: Financial (liquidity, solvency, etc.) depending on industry*

- *These vary from quantifiable – data rich, quantifiable – data poor to qualitative*
- *Velocity, frequency and impact of these risks vary*
- *There is a tendency to focus on the quantifiable - data rich risks as opposed to the qualitative, which can distort how decision makers make decisions*

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Critical controls, insurance and BCM

- Regular review of performance of critical controls – controls that are crucial to preventing an event or mitigating its consequence

- Regular review of adequacy of insurance cover for VUCA events (an opportunity for insurers to develop products for future needs e.g. parametric insurance for weather-related events)

- Regular testing of current business continuity management processes
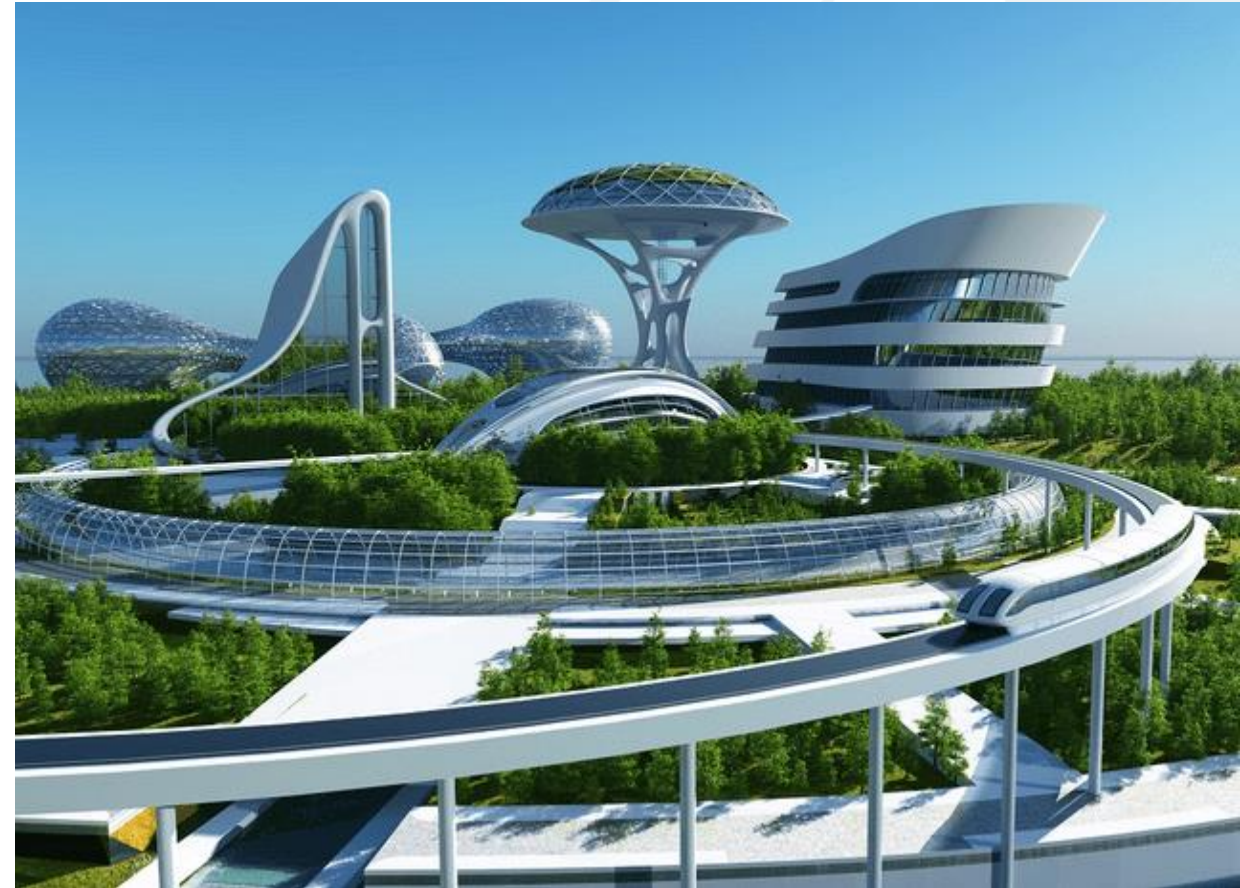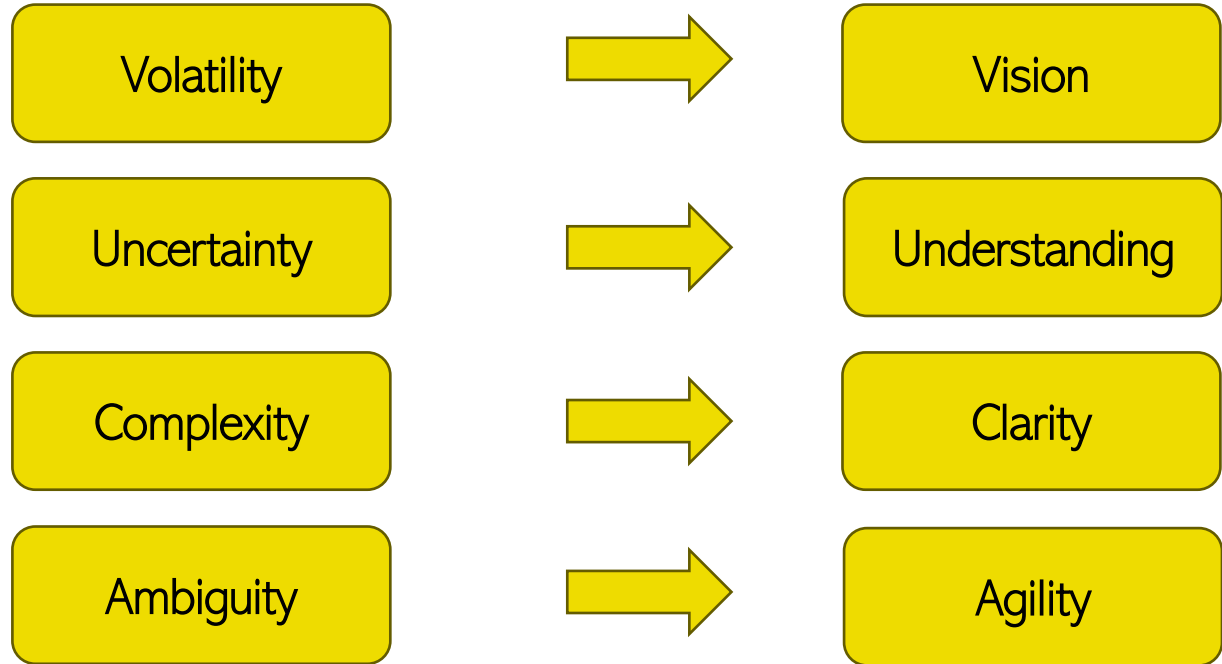
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Insight provision through R.A.C.P, R.A.T, Scenario Planning and Performance Reviewing

- Risk adjusted capital planning is crucial to stress test the adequacy of capital requirements – Economic capital should be reviewed considering the increased frequency of occurrence of severe adverse events

- Risk Appetite & Tolerance should be regularly reviewed in light of the changing landscape (both quantitative and qualitative aspects are important). Need to be careful of "silent" adoption of complex risks e.g. technology-related risks

- Scenario planning is a crucial tool for identifying key themes of alternative futures (important to narrow it to a few manageable scenarios) to gain strategic insight

- Regular review of performance of the business gauges the distance between actual and plan, providing insights on levers than can be pulled to enhance performance

- *for the insurance industry, it is important to understand that weather related claims have increased tenfold over the last decade, and that catastrophe (CAT) claims are continuing to increase in severity and frequency*

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Influencing Resilient Decision Making

- Understand the audience – effective communication is key. A perfect model communicated poorly is less effective than a less-than-perfect model communicated clearly

- Be clear about the message and <u>action</u> that the insight should drive

- Avoid information overload – give decision makers what matters while being clear about uncertainties

- Invest time in learning about neuroscience and mental models

- Collaborate widely to increase knowledge about how different businesses operate

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What is required in a VUCA world

Volatility	→	Vision
Uncertainty	→	Understanding
Complexity	→	Clarity
Ambiguity	→	Agility

VUCA leadership skills:

1. Decision making – realise some decisions are easy while others are not but need to be made

2. Emotional intelligence – understand how emotions, biases, triggers affect your decision making

3. Curiosity and self-development are important (life-long learning)

4. Adaptability – be open to new situations and unexplored solutions to challenges

5. Collaboration – collaborate for innovative solutions and to improve communication skills

6. Creating a clear shared vision – being able to create a clear vision amidst uncertainty which maintains high energy and enthusiasm

Conclusion - Making Resilient Decisions in a VUCA world

1. The world will continue to be even more VUCA
2. Consider the decision-making framework to provide insights to decision makers
3. Actively influence resilient decision making
4. Understand VUCA creates disruption, but also creates upside
5. VUCA is best addressed through VUCA – vision, understanding, clarity and agility
6. Leaders should consider the VUCA leadership skills to make resilient decisions going into the future

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