

Cambridge Centre for Risk Studies

The 10th Anniversary Risk Summit

FINANCIAL AND ECONOMIC RISKS: A CRS RISK OUTLOOK

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20 June 2019

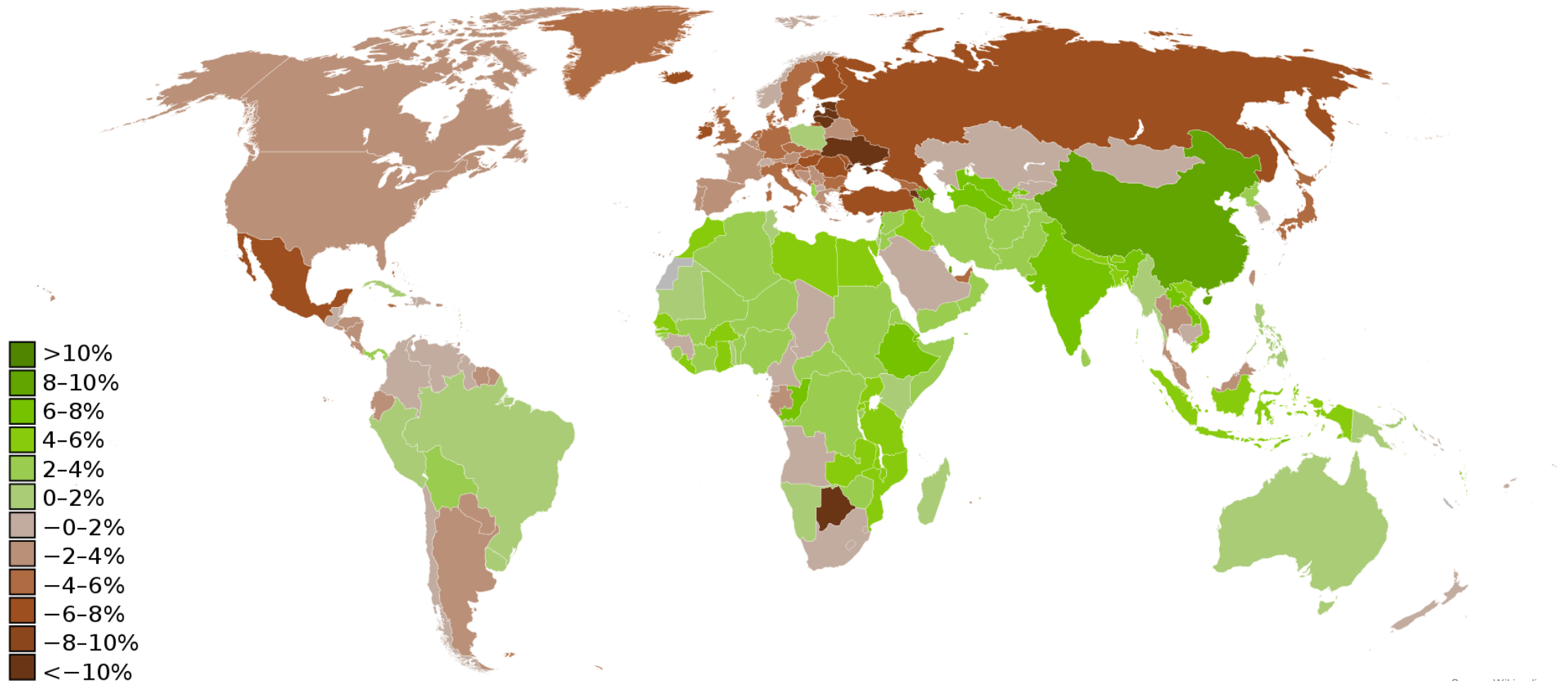
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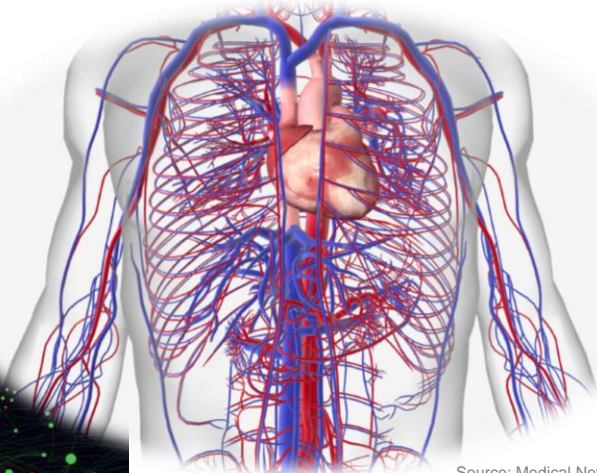
A Journey Started From Crisis



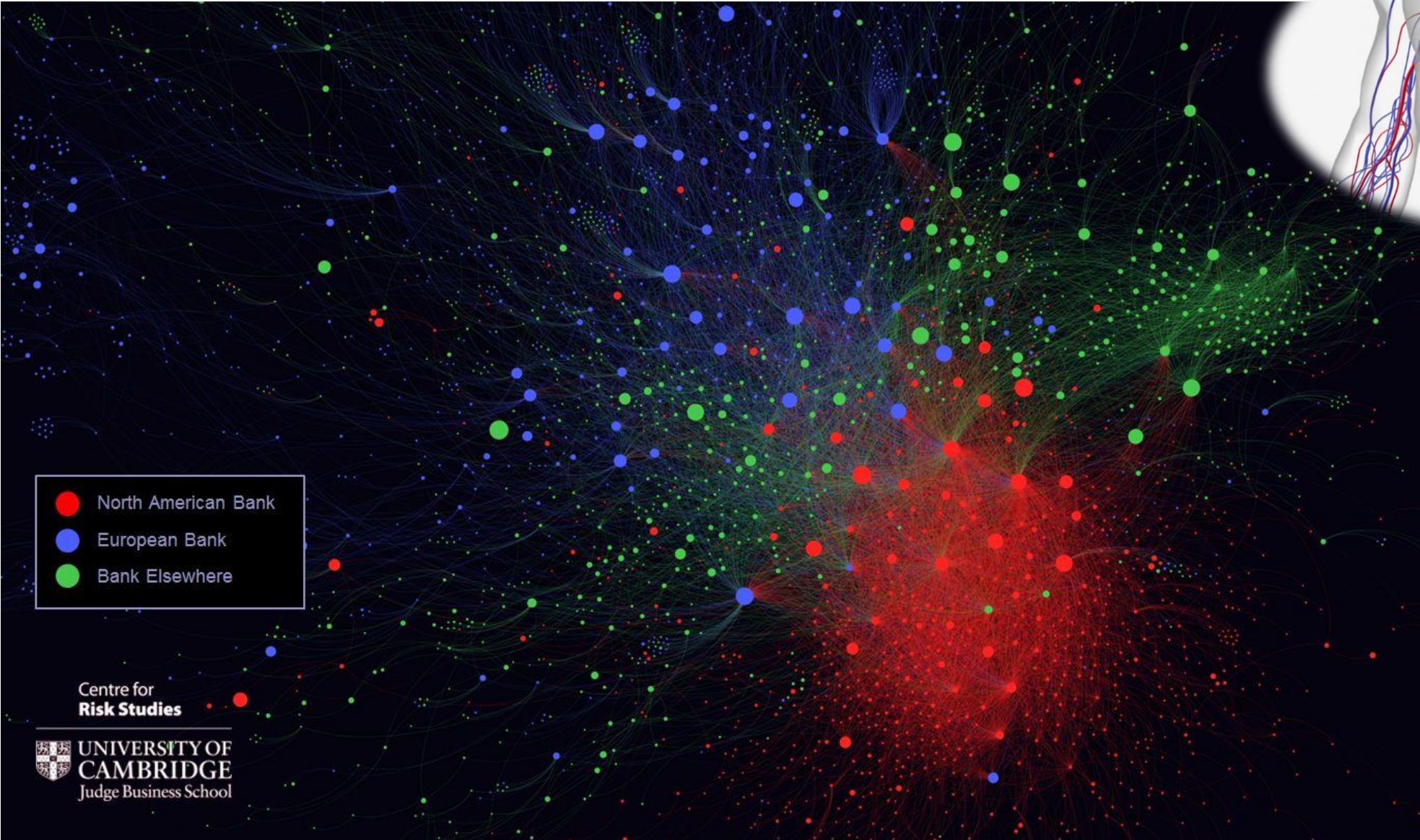
Real GDP Growth Rates in 2009

Source: Wikipedia

The Interconnected Financial System

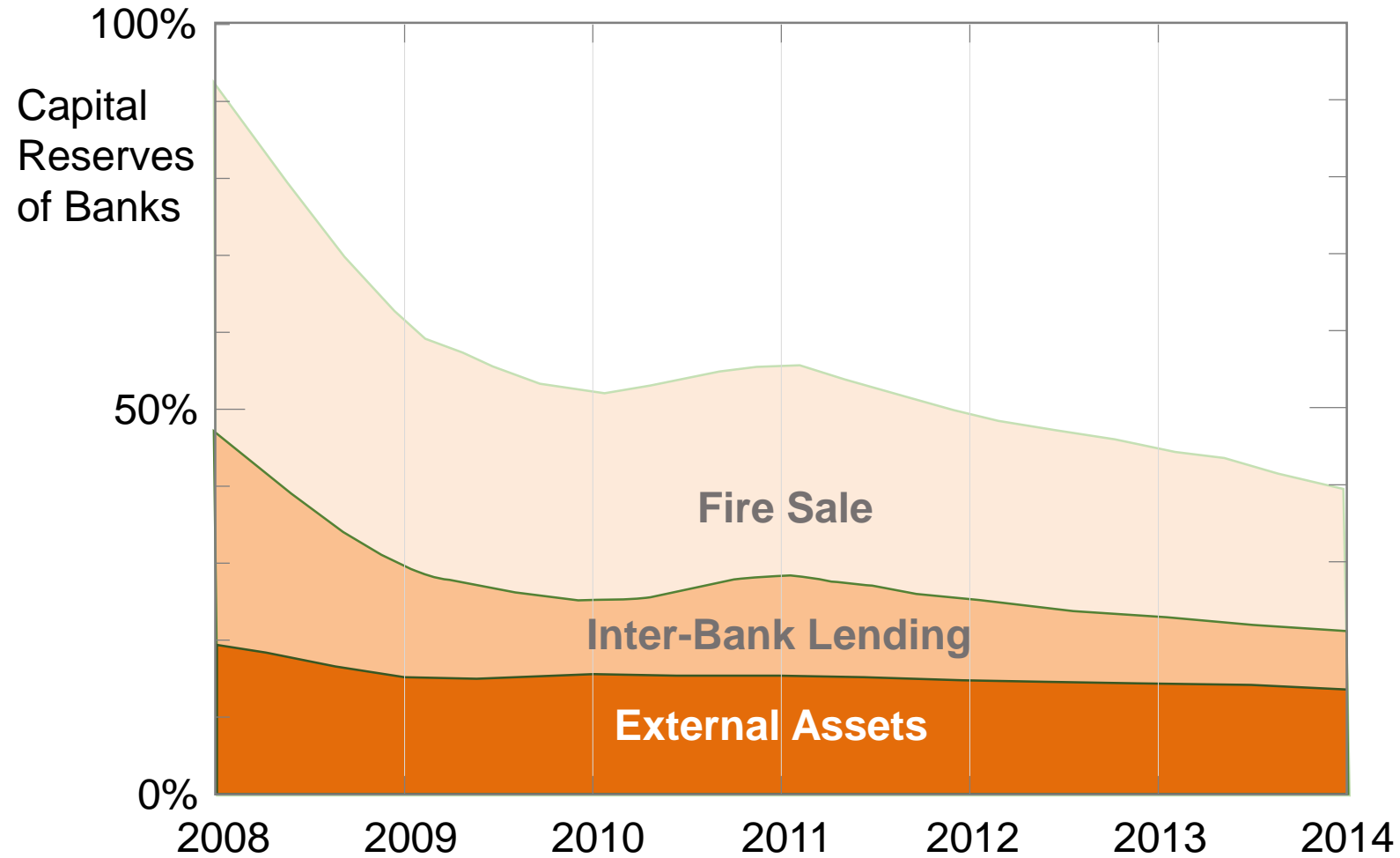


Source: Medical News Today



Financial Contagion

For a shock of 0.5% asset devaluation

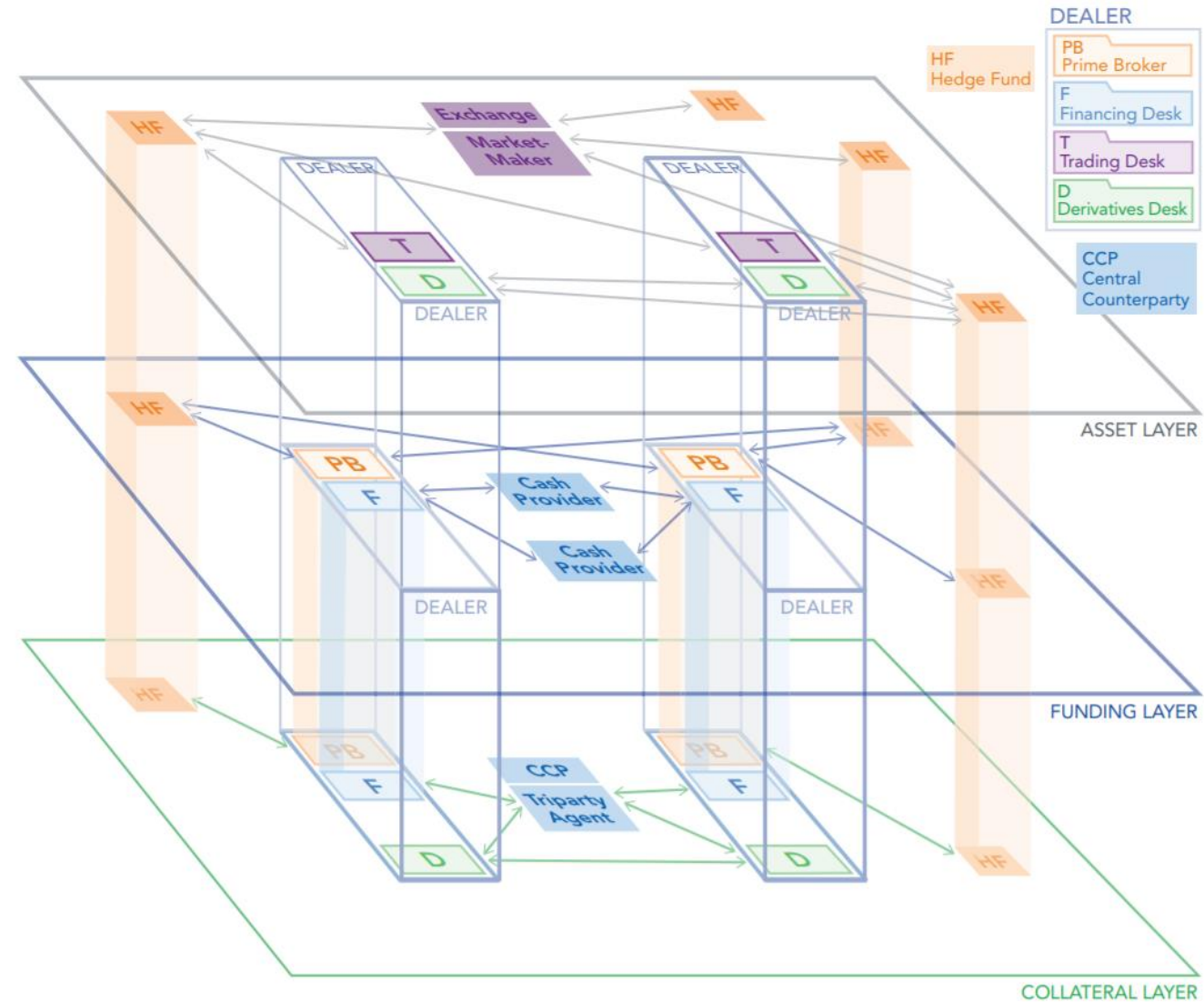
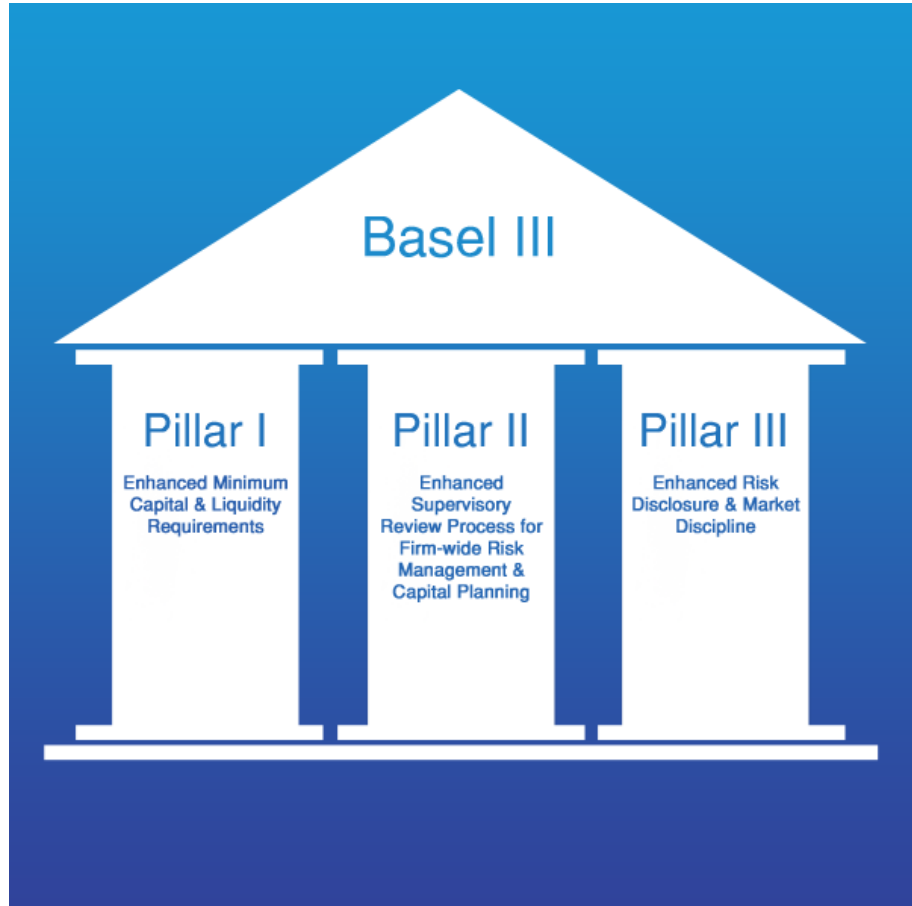


Olaf Bochmann: Cambridge Banking Model



Source: Roger Beale

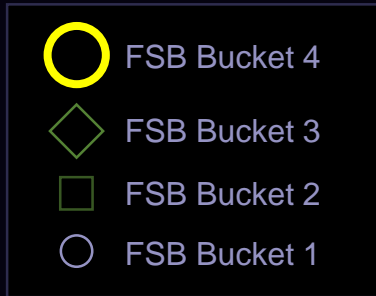
Macroprudential Regulation



Source: Office of Financial Research



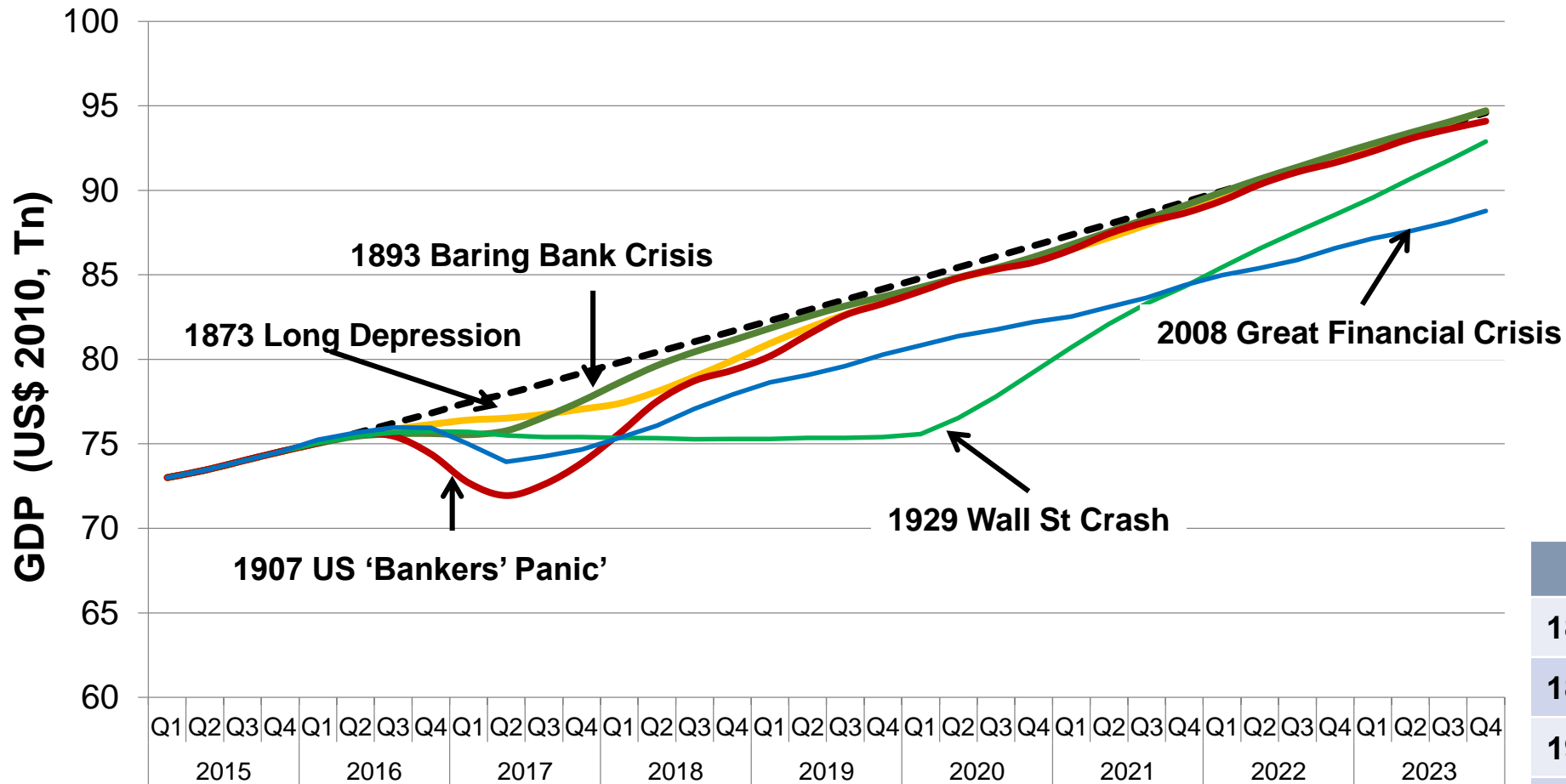
Global Systemically Important Banks (G-SIBs)



Wells
Fargo

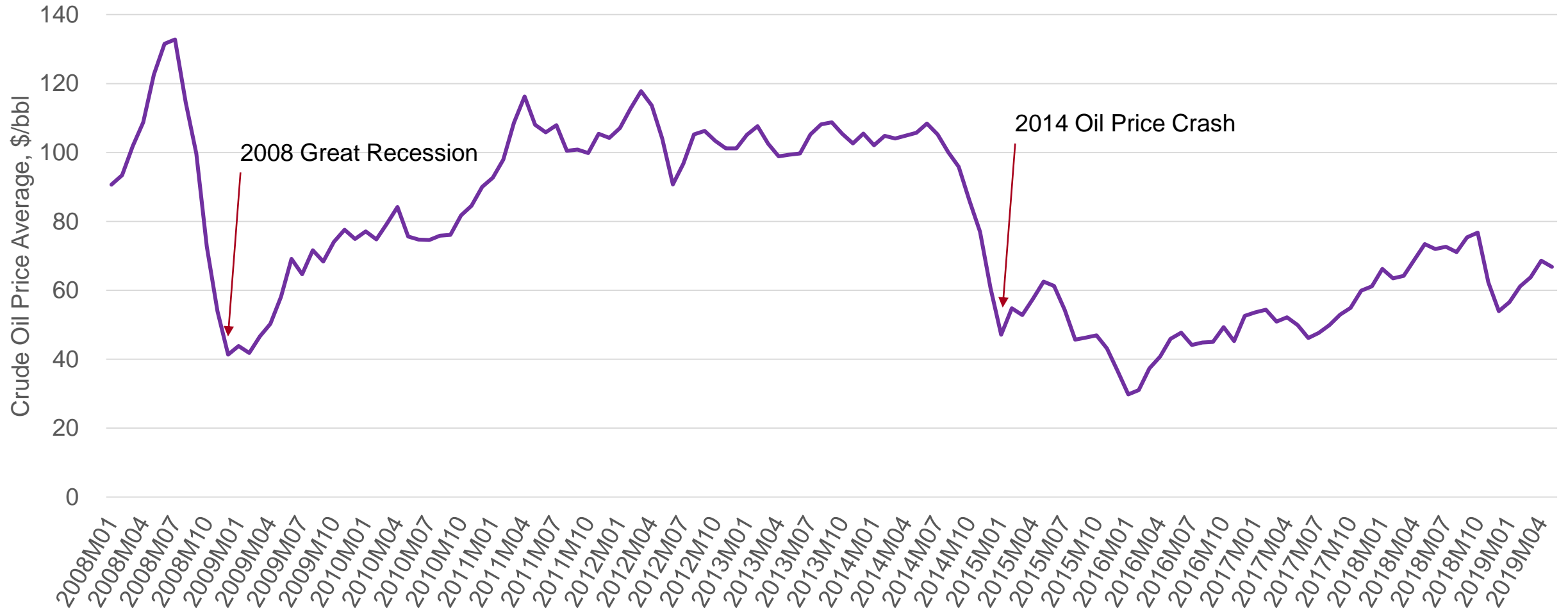


Beyond Financial Markets



GDP@Risk US\$ Trillion	
1893 Baring Bank Crisis	5
1873 Long Depression	7
1907 US 'Bankers' Panic'	14
2008 Great Financial Crisis	20
1929 Wall Street Crash	30

Oil Price in the Past Decade

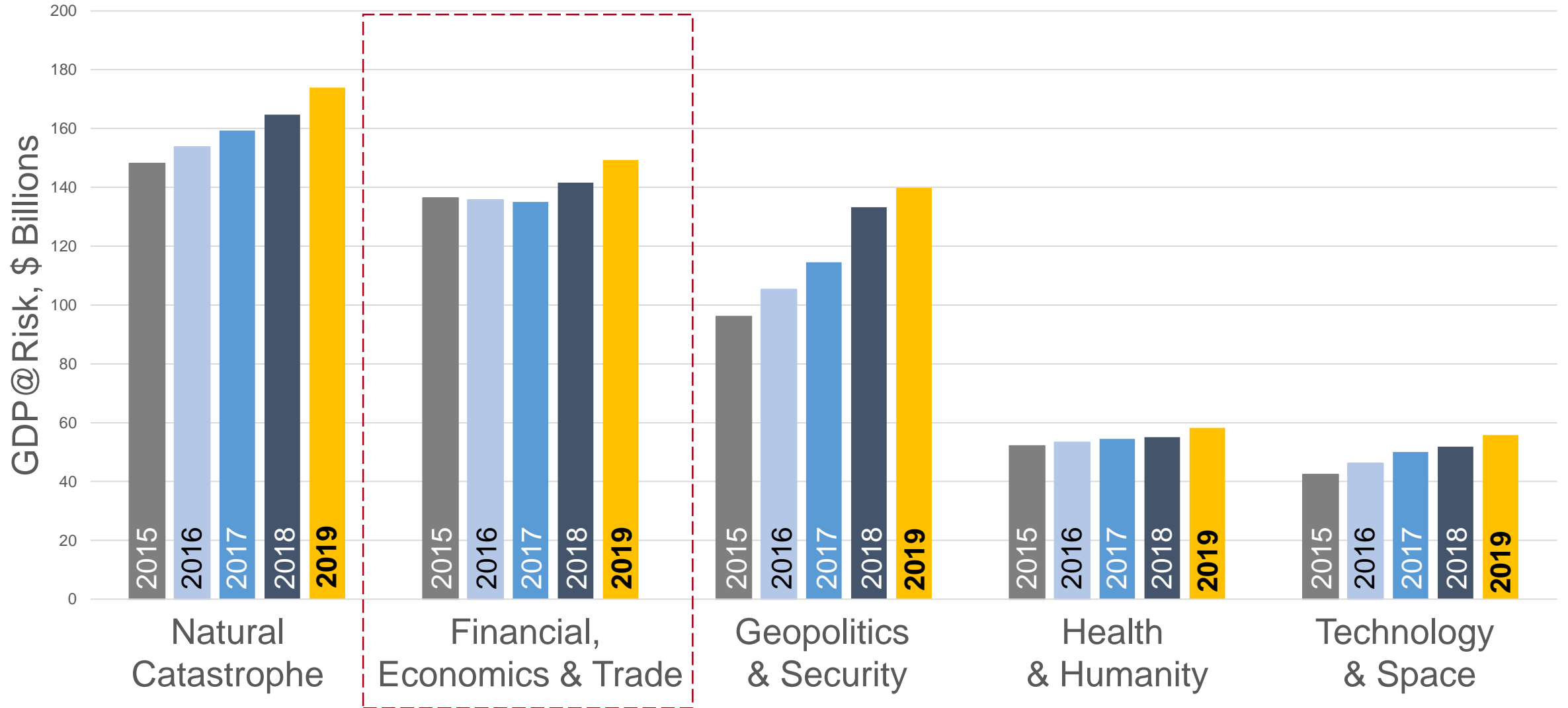


Source: World Bank 2019

“Energy” in the Next Decade



Cambridge Global Risk Index (CGRI)



Financial & Economic Threats

Macroeconomic

- Market Crash
 - Asset Bubble
 - Financial Irregularities
- Economic Recession
- Economic Restriction
- Trade Sanctions
- Tariff War
- Commodity Price Fluctuations
- Sovereign Crisis Default
- Investor Sentiment
 - Negative Market Outlook
- Low Carbon Transition

Competition

- Disruptive Competitor
- Aggressive Competitor
 - Price War
- Counterfeit Products

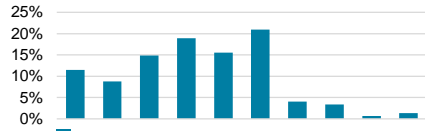
Counterparty

- Creditor Failure
- Customer/Client Failure
- Government Failure
- Supplier Failure
 - Bargaining Power Against Suppliers
 - Supply Chain Disruption

Finance & Economics

Finance and Economics US-European Trade War

Trade tariffs imposed on imports between US and Europe

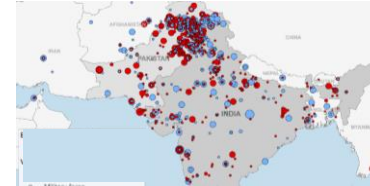


- S1** 10% tariff on products £0.15 Bn
- S2** 20% tariff on products £0.49 Bn
- S3** 40% tariff on products £0.99 Bn
- X1** 140% tariff on products £2.60 Bn

Geopolitics & Security

Geopolitics and Security India-Pakistan Conflict

Military conflict in India subcontinent causes market depression and loss of assets in India subsidiary



- S1** Regional war £0.06 Bn
- S2** National conflict £0.28 Bn
- X1** High casualty nuclear £1.41 Bn

Technological

Technological Cyber Attack Contagious Malware

Diskwiper payload infects many endpoints in the company's network and central ERP system



- S1** Infection disables ERP 4 days £0.04 Bn
- S2** All systems down 10 days £0.41 Bn
- X1** System rebuild 3 wks £1.05 Bn

Environmental

Environmental Flooding of Key Facilities

Key distribution and production facility for major lines of products are made unserviceable by floods



- S1** 0.8 m depth, 2 weeks, clean £0.38 Bn
- S2** 1.3 m, 3 mths, mod contam £0.88 Bn
- X1** >1.5 m, 12 mths, high contam £2.45 Bn

Social & Humanitarian

Social & Humanitarian Severe Pandemic

Extended staff absenteeism from illness and fear, with economic demand shock



- S1** Standard response £0.52 Bn
- S2** Slow response £0.78 Bn
- X1** Slow response and vaccine is not effective £1.78 Bn

Governance & Liability

Governance & Liability Gender Pay Dispute

Company's pay disparity between genders gives rise to employee action and to reputational loss



- S1** Class action and protests £0.10 Bn
- S2** Strikes affect production £0.22 Bn
- X1** Consumer demand reduces £0.84 Bn

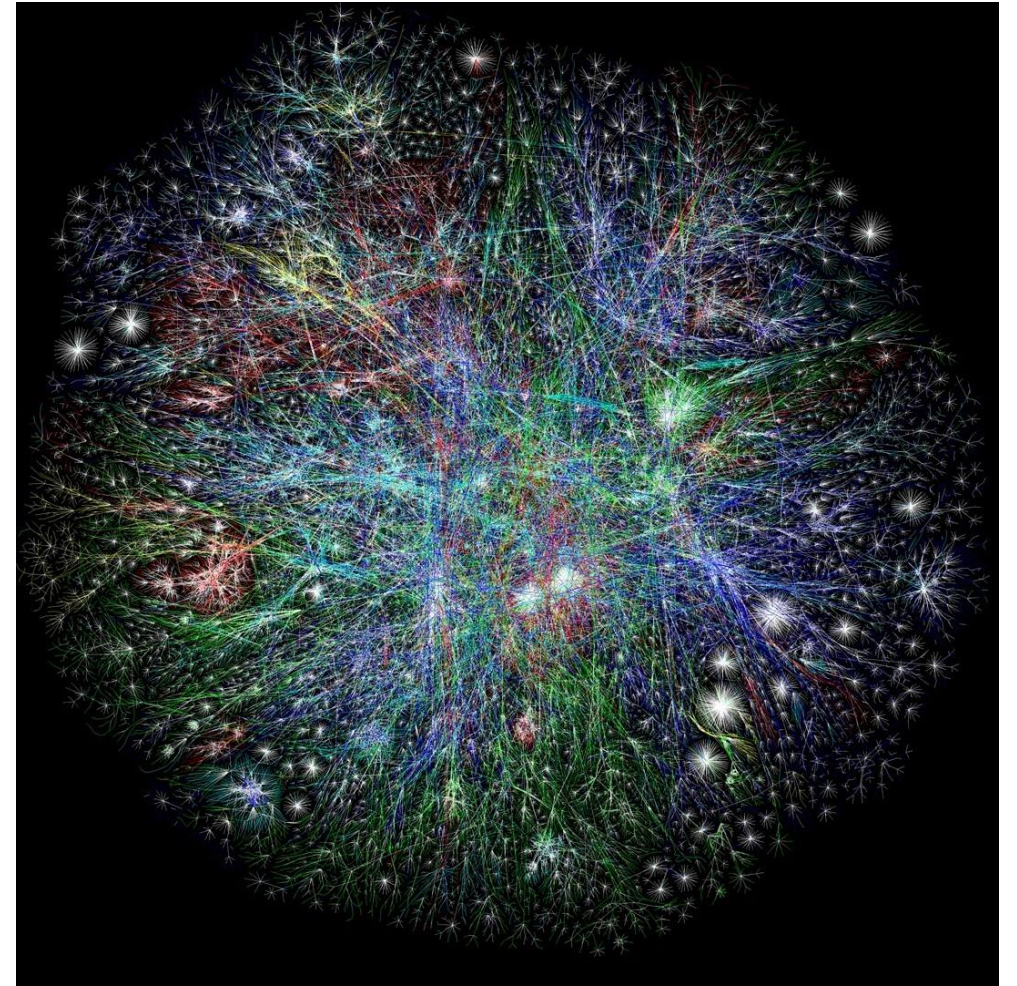
Connecting the Past to the Future

“An emerging risk is a new risk, **changing risk, or novel combination of risks** where the broad impacts, costs and optimal management strategies are not yet well understood.”

CCRS

“Anything that can go wrong will go wrong.”

Murphy's Law



Source: Stephanie Huesler

Session Speakers



Discussant: Dr Andrew Pitt
Head of Global Research, Citi



Financial Crises of the Future: the Lessons of History
Dr Duncan Needham, Director, Centre for Financial History

- Case studies of financial crises in history
- Fundamental changes over time within western banking
- Discussion about the next major financial crisis



Challenges in Managing Financial Risk in the Future: A Practitioner's Perspective
Dr Alessandra Mongiardino, outgoing Head of Enterprise-wide Risk Management,
Nordea Bank Abp

- Non-financial risks in financial risk management
- Risks and opportunities of digitalisation
- Commercial risks to a financial firm's future profitability and viability

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