

# IOR England and Wales: Webinars

## COVID19: Black Swan or Gray Rhino - Lessons for Risk Management

Wednesday 13 May 2020 14:00 - 15:00 BST



In this webinar we will explore the issues raised in the recent discussion paper 'COVID 19 - Black Swan or Gray Rhino' published by Andrew Sheen. In particular we will explore the good and the bad practices in how firms have prepared for and managed the COVID-19 experience, and the learnings for risk management and risk managers.

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### Webinar Speakers:

Andrew Sheen FIOR, Director at AJ Sheen Consulting Limited

Dr Ariane Chappelle FIOR, CEO at Chapelle Risk Management Advisory

Dr Simon Ashby FIOR, Professor of Financial Services at

Vlerick Business School

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## COVID-19

# Black Swan or Gray Rhino – Lessons for Risk Management

1. Andrew Sheen
2. Ariane Chapelle
3. Simon Ashby
4. Q&A

# COVID-19

## Black Swan or Gray Rhino – Lessons for Risk Management

Andrew Sheen



# Session Focus

- Why this is important
- Is COVID-19 a Black Swan
- Lessons for Risk Management

# Why this is important?

It could be argued that:

- If Coronavirus is a Black Swan, firms and regulators can claim that it could not have been predicted and preventative and detective controls established. This could excuse all parties from failing to prepare for a truly unknown event;
- If it is not a Black Swan, then deficiencies in the risk management framework prevented the event from being identified and managed/mitigated. In this case these deficiencies must be addressed to ensure that firms do not fail to prepare for and mitigate similar events.

# Is COVID-19 a Black Swan?

In his book 'The Black Swan – The impact of the highly improbable' Nassim Nicholas Taleb notes that before the discovery of Australia, people in the Old World were convinced that all swans were white, an unassailable belief as it seemed completely confirmed by empirical evidence. Taleb continues that the sighting of the first Black Swan illustrates a severe limitation to our learning from observations or experience and the fragility of our knowledge.

# Is COVID-19 a Black Swan?

Taleb describes a Black Swan as having three attributes, the event:

- Is an **outlier as it lies outside the realm of regular expectations**, because nothing in the past can convincingly point to its possibility;
- Carries an extreme impact;
- In spite of its outlier status, human nature makes us concoct explanations after the fact making it explainable and predictable.

# Is COVID-19 a Black Swan?

Did the Covid-19 pandemic lie outside the realm of regular expectations:

- Three worldwide outbreaks of influenza occurred in 1918, 1957 and 1968. The 'Spanish flu' pandemic that began in 1918 is regarded as the most deadly disease event in history with an estimated 500 million people infected with this virus and the number of worldwide deaths estimated to be at least 50 million;
- Severe Acute Respiratory Syndrome (SARS) – This is a species of coronavirus and caused outbreaks of severe respiratory diseases in humans in 2002 and 2003. The virus infected over 8,000 people worldwide and is estimated to have killed almost 800;
- The Western African Ebola virus epidemic in 2013-2016 was the most widespread outbreak of Ebola virus disease (EVD) since it first appeared in 1976, causing major loss of life and socioeconomic disruption in the region. Isolated cases were recorded in the UK and Italy. About 28,000 people were infected and 11,000 died. The current Ebola outbreak began in 2018;
- 4 years ago Bill Gates used a Ted talk to warn that the greatest risk of global catastrophe was most likely to be a highly infectious virus and that the world was not ready for the next epidemic;
- The SARS related coronavirus was one of several viruses identified by the World Health Organisation in 2016 as a likely cause of future epidemics;
- Lloyds Market Paper 'Pandemic Potential Insurance Impacts' – A pandemic is inevitable: 1918 may not be the worst case; and economic impacts may be significant.

# Is COVID-19 a Black Swan?

- Some commentators have therefore described the pandemic as a 'Gray Rhino\*' - a highly probable, high impact yet neglected threat;
- Gray Rhinos are not random surprises, but occur after a series of warnings and visible evidence.

\* The Gray Rhino: How to Recognise and Act on Obvious Dangers We Ignore by Michele Wucker  
(Published 2016)

# Lessons for Risk Management



IOR Webinar

# Covid-19, Black Swan or Grey Rhino





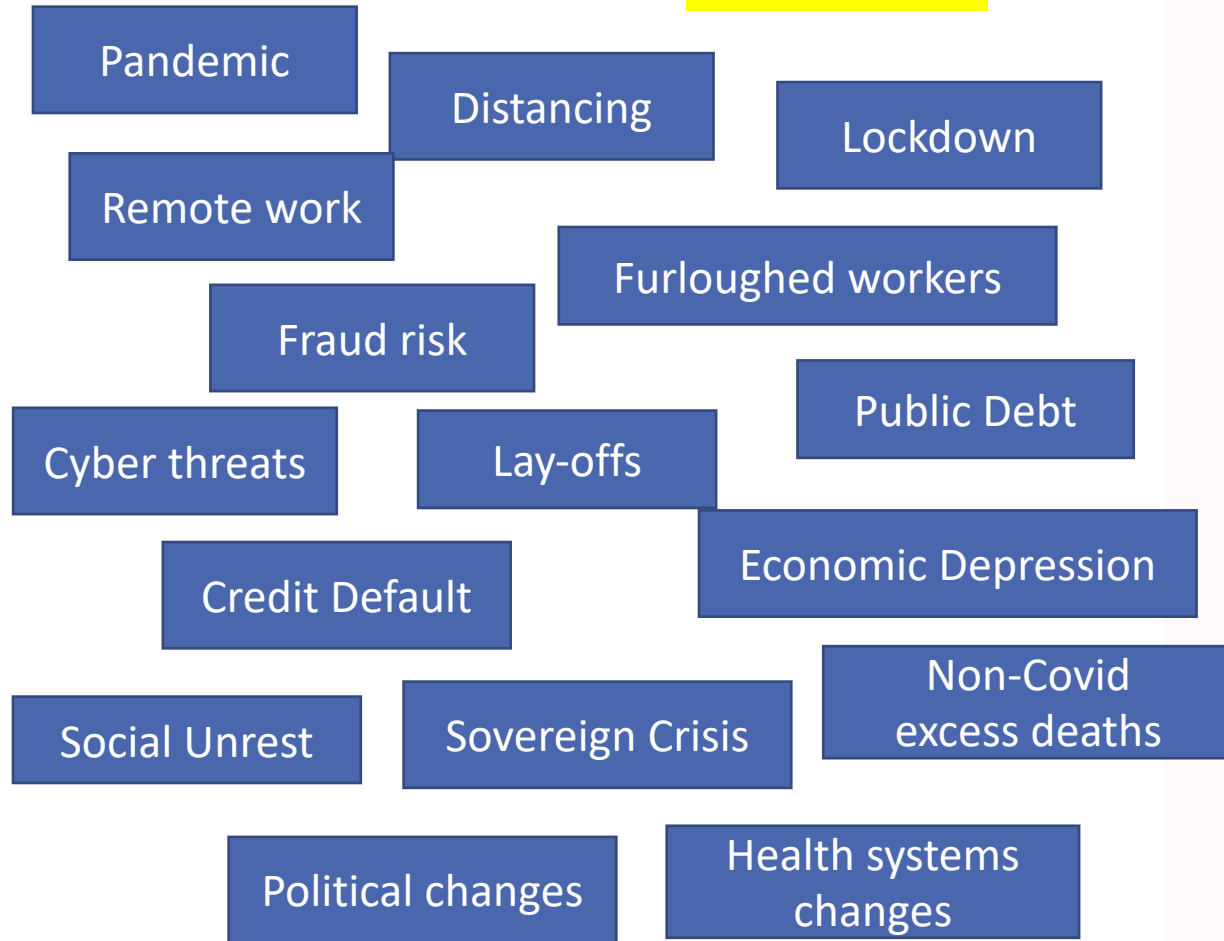
# Covid-19, a Grey Rhino

*“From a risk assessment perspective, reaction to this pandemic converges into a strange combination of under- and overestimation. Pandemic risks are sometimes called ‘grey rhinos’: **probable, high-impact trends that are clearly observable, but often ignored until it’s too late.** Before the current outbreak started, most would class pandemic risk as **important, but not urgent.**”*

*Ariane Chapelle, risk.net, “Coronavirus is testing op risk managers to the limit”, 23 March 2020 (open to all viewers)*

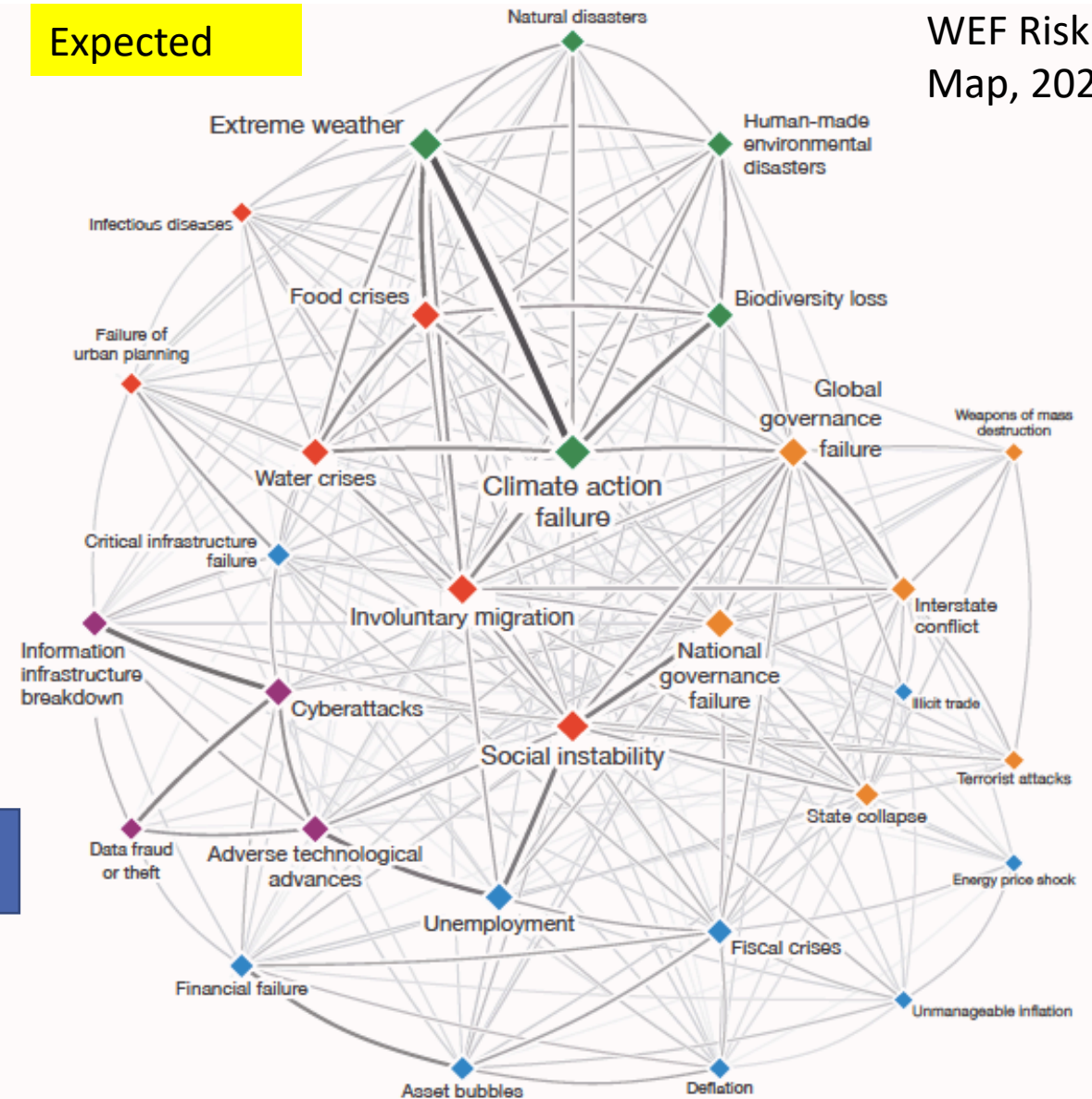
# Black Swan: the reaction

## On-going



## Expected

WEF Risk  
Map, 2020



# Why did we miss it?

- “Experts” consensus has very poor predictive performance
  - We merely reproduce recent past to predict the future (linear thinking)
- We have short memory
  - Pandemics, Terrorists attacks, Corporate scandals, etc. remain 2 or 3 years in top risk registers before fading away
- Risk managers should be *counter-cyclical*, not pro-cyclical
  - This means going against the tide and beware of group think, look for blind spots
- Lack of different models to cover each other’s biases and weaknesses
  - We need to prepare for alternative scenarios, not only variations of one (L-M-H)
- Diversity is vital (in all aspects)
  - To quality of decision-making, in corporations and governments... and it’s lacking

# What now?

## Old threats have not gone away

- Cyber threats and systems dependencies (*while we are all online...*)
- Climate change and extreme weather events
- Migration and international tensions

## Revived ones are staring at us

- Economic depression
- Social unrest
- Inflation and sovereign debt crisis

# Addressing these known threats

## At state level

- International cooperation
- Laws and regulations
- Long term policies for innovation and remediation

## At organisational level

- Identification of impacts and interrelations
- Adaptation of operating models
- Prevention and remediation controls

## At personal level

- Individual risk assessment
- Personal protection measures
- Collective behaviours

# Other Grey Rhinos

## Upcoming risks with disruptive potential

- Quantum computing
- Overdue innovation in nuclear energy, old plants

## Upcoming risks in organisations

- Lack of Board diversity
- Group think and ineffective whistleblowing channels
- Underinvestment in people skills and training

## COVID-19

# Black Swan or Gray Rhino – Lessons for Risk Management

Professor Simon  
Ashby

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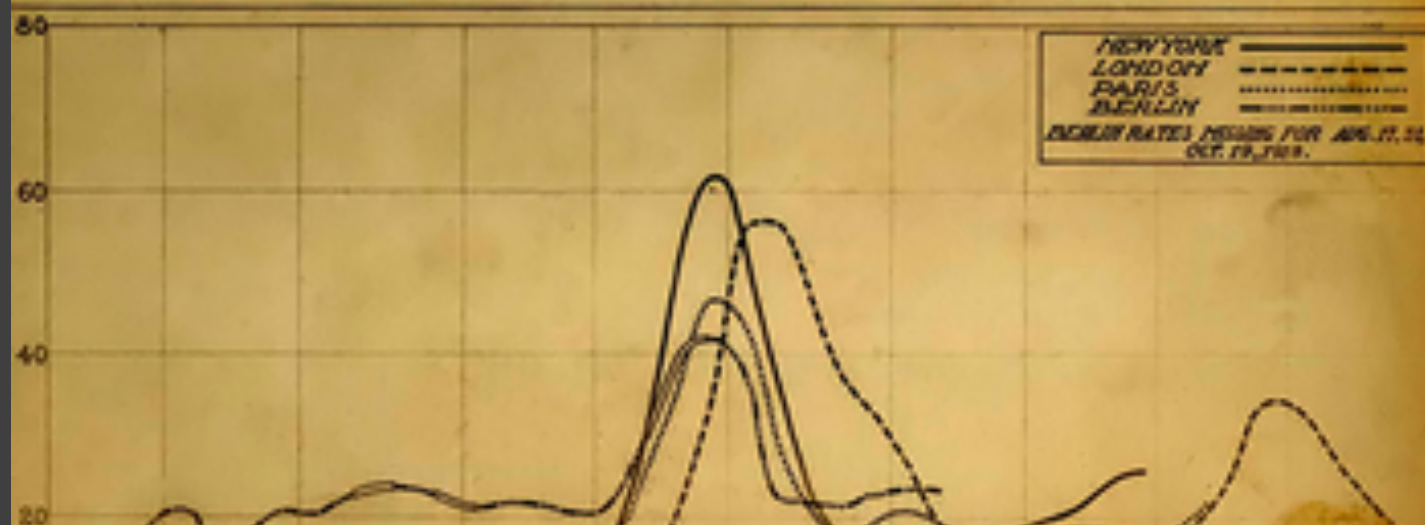


"Is **THIS** the line you're telling me not to cross?"

# INFLUENZA PANDEMIC

## MORTALITY IN AMERICA AND EUROPE DURING 1918 AND 1919

DEATHS FROM ALL CAUSES EACH WEEK  
EXPRESSED AS AN ANNUAL RATE PER 1000



Same old problems

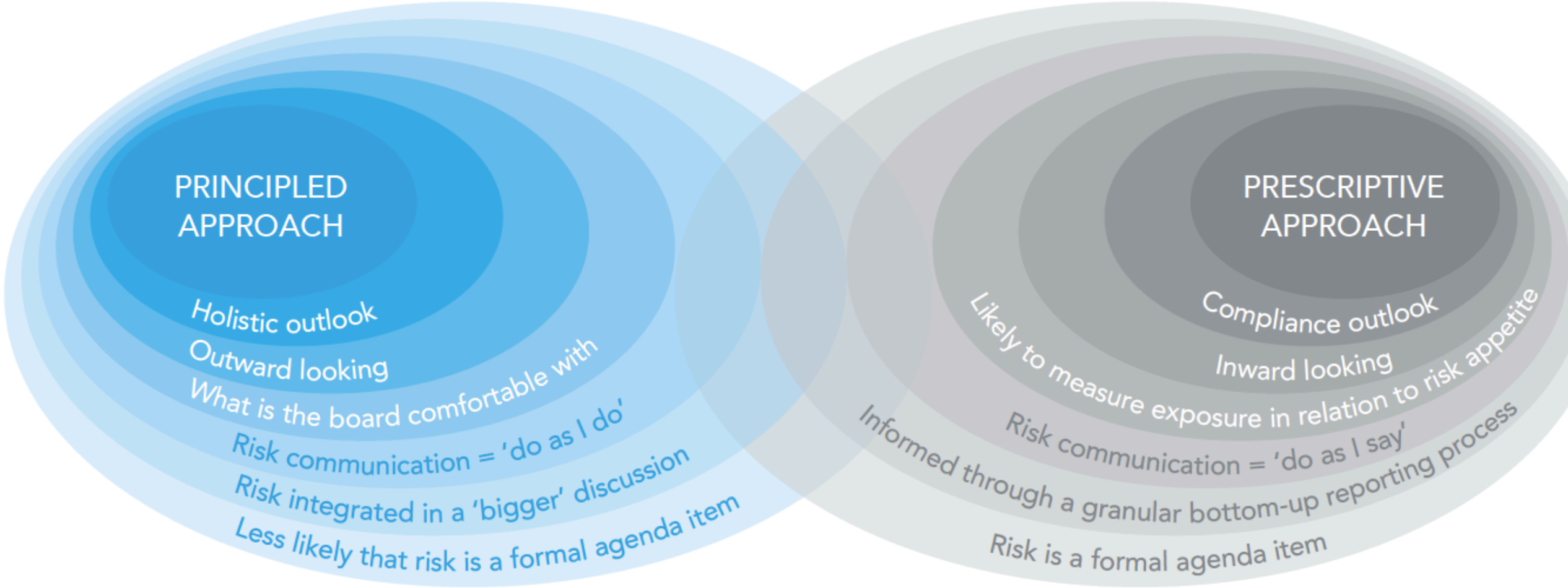
But in a very different world!

<https://onlinelibrary.wiley.com/doi/full/10.1111/1468-5973.12241>



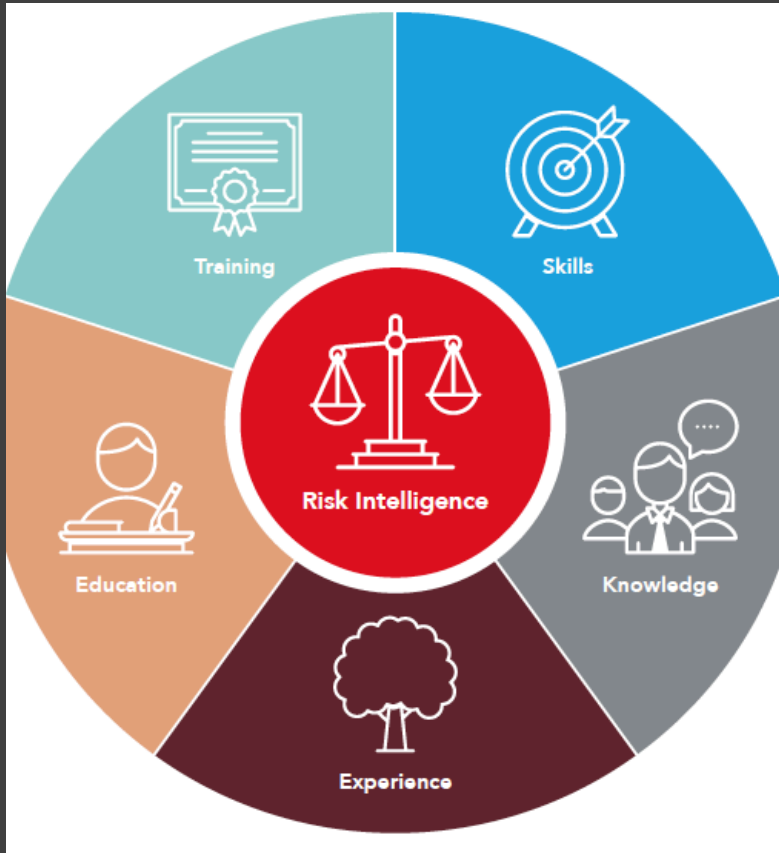
A photograph of two chickens standing on a wooden deck. The chicken on the left is brown with a red comb, and the one on the right is grey with a red comb. The background is a green lawn. Overlaid on the image is the text "Thought 1: Don't be a chicken....." in white, with a vertical line to the left of the text.

Thought 1:  
Don't be a  
chicken.....



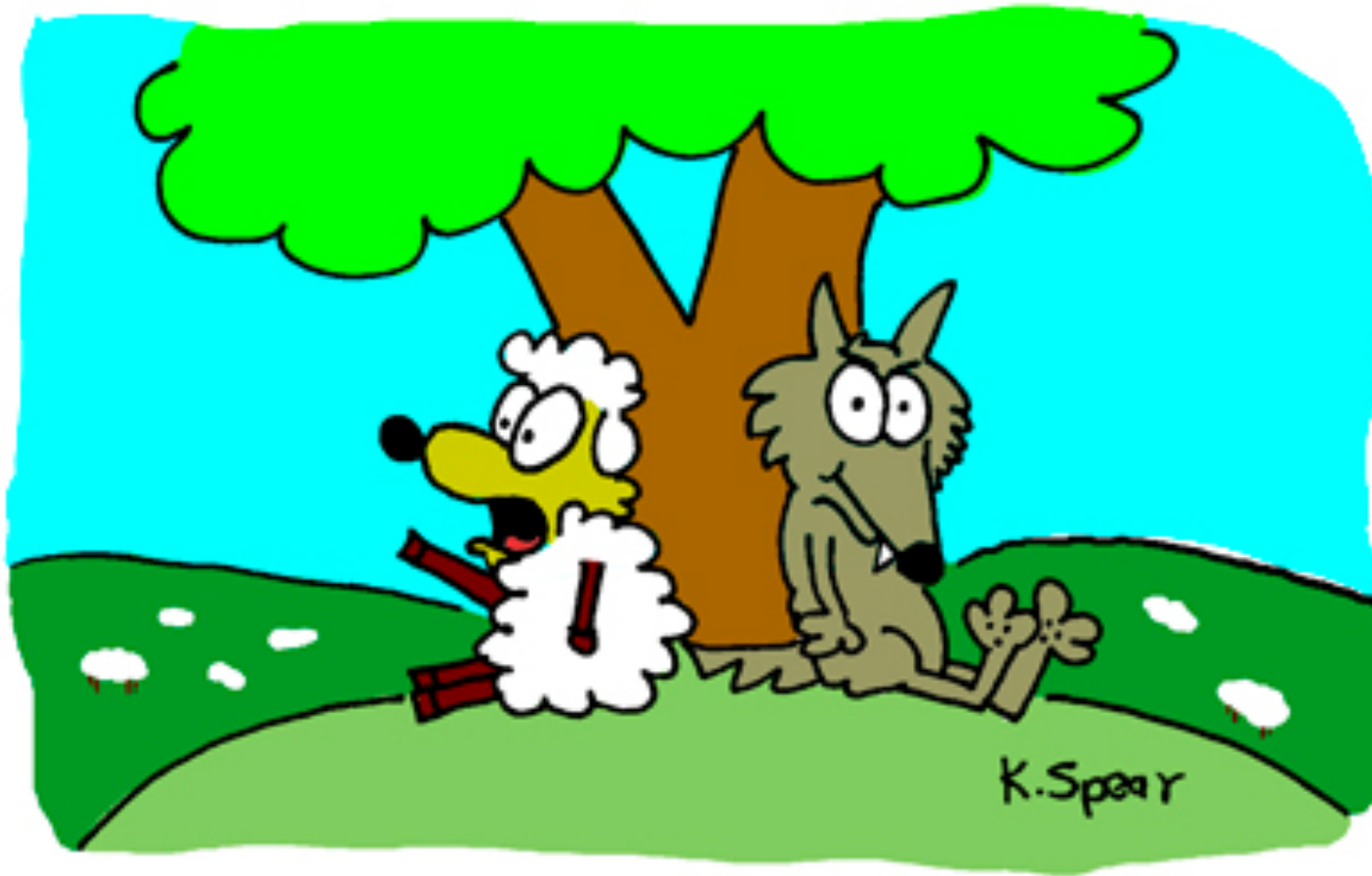
Thought 2: promote creative thinking |





## Thought 3: Risk intelligence matters

Resilience requires collective thinking. You need a diverse range of perspectives to ensure risks are not ignored.



"This year, I resolve to stay away from unnecessary risks."

Final thought:  
Reducing one  
risk can  
create others!





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