

G20 to Support the Establishment of National Risk Officers?

By **Erwann Michel-Kerjan** | November 1, 2011

[G20: Global Risks: Catastrophes: Value Creation: Global Governance: Innovations: World News](#)

Looking at the past decade, one cannot but wonder about the series of unprecedented large-scale catastrophes and crises that occurred in such a short period of time. Massive terrorist attacks; repeated floods of unprecedented magnitude; numerous earthquakes and tsunamis with countless fatalities; devastating hurricanes, typhoons and storms in highly populated areas; major technological and environmental disasters; pandemics starting locally but spreading to all inhabited continents in a matter of weeks; sustained growth of chronic diseases; historical financial and fiscal crises.... Will historians see these events as an outlier in recent human history, or as an omen of what the 21st century had in store for us?

Take natural disasters. Hundreds of thousands of people lost their lives; millions were displaced; billions were severely economically affected. Direct physical losses from natural disasters between 2000 and 2010 were more than \$1 trillion. Whether they hit some of the richest (Japan) or poorest (Haiti) countries, these disasters had severe and enduring social, economic and political impacts.

Our vulnerability to future catastrophes is not slowing down, but rather growing very fast. Why? Increasing population, concentration of asset and interdependence are to blame here. This year we reached 7 billion people on planet Earth, a billion more than we were in 1999. In the next 10 or 15 years, we will be 8 billion. A large portion of this massive increase lives in large cities, many of which are located in vulnerable areas. Unmanaged concentration of individuals and assets over a few kilometer-squares will be prone to large concentrated loss (think of a pandemic for instance). Finally, we continue to push for always more social and economic globalization such that we have now reached a degree of interdependence not seen before in human history. But in doing so we might have forgotten that there is flip side: risks are becoming more global, too. A catastrophe occurring today in one continent will likely have ripple effects on the others tomorrow.

So, unless we undertake concrete actions with measurable output to collectively make our countries more resilient to extreme events, many more will come, and soon to follow. More firms around the world have now recognized the importance of addressing the challenges associated with better assessing, preventing and managing such extreme events. Most governments have not, however. In the best case, risks continue to be managed in silo (when they are at all), each ministry feeling in charge of "its" risks, but not necessarily getting the big picture of more global interdependent risks, nor the impact that their decision in how manage one type of risk can impact others. This is surprising because governments' exposure to catastrophes over the coming

decades is in trillions USD, a worrying figure if your country is already running a large deficit or is virtually on the edge of bankruptcy. That's precisely the worst possible time to have to manage another disaster. Moreover, the mismanagement of these risks has already proven to impact election results, too, which should be of concern for political leaders.

But it does not have to be that way. Every year, working with the World Economic Forum and several colleagues we prioritize 30-to-40 global risks with the potential to cause major human suffering and upwards of at least US\$10bn in economic damage. We discuss these risks in the now widely disseminated WEF Global Risks Report, which has correctly identified the risks arising from an asset price collapse (January 2007) and from food crises (January 2008) before these events materialized, demonstrating that it is possible to think strategically about global risks.

Could the G20 have a constructive role to play here? I think it has. So what can be done? Along with several fellow Young Global Leaders we have proposed two concrete steps which could be implemented in the next 2 years if supported by enough political will.

Proposal 1: Establish a new National Risk Officer (NRO) within each G20 government. This role would be similar to the Chief Risk Officer in the private sector. The office of the NRO would coordinate country-wide for forward-looking and comprehensive risk management. Specifically, the role spans:

- Identifying potential risks, particularly those that affect multiple government departments, in collaboration with experts and the private sector.
- Creating a National Risk Map that quantifies and prioritizes risks according to severity, uncertainty and inter-connectedness with other domestic and global risks.
- Facilitating dialogue between government entities and the public at national and international levels to ensure that major risks and the trade-offs between them are understood and appropriately incorporated into decision-making and policy.
- Making CEOs of top companies accountable for identifying risks and proposing solutions, facilitating exchange of information and people between the public and private sector.
- Fostering innovations from business and academia in order to develop solutions to reduce the probability of those global risks and their consequences.
- Coordinating governmental response in the event of a major catastrophe whose impact straddles the responsibilities of multiple departments.
- Develop ex ante a national strategy for catastrophe financing.

The role of National Risk Officer could initially be assumed by a senior staff member within a country's finance ministry or in the president or prime minister's cabinet. The NRO should have direct access to the leader of the government, potentially assuming a cabinet member position in the future. Several countries are currently considering this concept. We also suggest that 20 NROs formally meet as part of the G20 Summit process.

Proposal 2: Incorporate National Risk Mapping into the IMF's Mutual Assessment Process.

The IMF's Mutual Assessment Process focuses primarily on economic and financial policies. As other global risks need to be addressed, a holistic approach to policy measures needed to better anticipate and manage those risks will become increasingly important for both national governments and the G20. The G20 can play a central role in sharing good practices, which could then be used in many other countries as well.

The Cannes summit has the potential to be remembered as an important one, not only by what is actually achieved there, but also by what novel ideas are introduced there. No question that it will also be seen by many top leaders in the government and industry alike, and by civil society, as a test for our capacity to redesign global governance, step by step. Not one single initiative will be able to achieve this, but the combination of several good ones could. Establishing NROs and building on the IMF mutual assessment process should help.

The idea can be further developed this coming year in collaboration with the government of Mexico, which will then assume the G20 presidency. 2012 will likely see important changes in the international political landscape, with national elections in China, France, India, Mexico, the US, and Russia, all members of the G20. But the clock is ticking. I predict that several other large-scale disasters will likely have hit us by the autumn of 2012.

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NROs for Global Risk Management is one of the nine proposals that were developed for the French presidency, this year's G20 Chair, by the 'G20 Paris Initiative Task Force' of the World Economic Forum's Young Global Leaders community. Jill Otto (JP Morgan) and Kevin Lu (World Bank Group) also contributed to the proposal.

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This column focuses on the emergence of large-scale catastrophes and crises and some of the policy issues related to how better manage them collectively. It proposes the creation of national risk officer positions in G20 governments to help coordinate national and international management of global risks.

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