

# News analysis: WEF Global Risks 2014 report identifies wealth gap and cyber-attacks as key risks

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*In a press conference in London today the World Economic Forum (WEF) identified what it sees as the top risks facing the global economy during 2014 and the decade to come, reports **Neil Ainger**. Ahead of next week's Davos gathering of global leaders in Switzerland, unemployment and the related wealth gap and generational tension were highlighted in the WEF Global Risks 2014 report - alongside extreme weather events and cyber-attacks - as the key issues for the year ahead, by the 700 risk experts canvassed in the report.*

The **WEF Global Risks 2014 report** assesses 31 risks that are global in nature and have the potential to cause significant negative impact across entire countries and industries if they take place. The risks are grouped under five classifications – economic, environmental, geopolitical, societal and technological – and measured in terms of their likelihood and potential impact, with interestingly cyber-attacks listed as one of the principal threats under the latter grouping, amidst post-Edward Snowden worries about the security of the internet and privacy of data.

The top five risks as outlined by the World Economic Forum (WEF) were:

- Income disparity (societal risk)
- Extreme weather events (environmental risk)
- Unemployment and underemployment (economic risk)
- Climate change (environmental risk)
- Cyber-attacks (technological risk).

## **Major Risks Identified: Cyber-attacks, Income Inequality and Weather**

The chronic gap between the incomes of the richest and poorest citizens is seen by the WEF report as the biggest risk which is likely to cause serious economic damage in future years; closely followed by typhoons, tsunamis and other extreme weather events impacting insurers. But technologically speaking, the proliferation of cyber-attacks against **Target, Adobe, JPMorgan Chase** and many others last year - combined with the implications of **Edward Snowden's** revelations about the US National Security Agency's (NSA) tapping of Google, Apple and Microsoft data centre cables and weakening of the SSL internet encryption communication protocol - was also rated as a top five significant risk. The lessening of individual and corporate privacy perimeters, company security and the proliferation of cyber-criminality is already causing a strengthening of **anti-spying capabilities**, and it was earlier identified by the chief information officer (**CIO**) at SWIFT, Michael Fish, as a crucial challenge during a *bobsguide* interview last year; all of which means cyber-security is now ranked right up there as a principal global economic threat.

"Trust in the Internet is declining as a result of data misuse, hacking and privacy intrusion," said Axel P. Lehmann, chief risk officer (CRO) at Zurich Insurance Group. "A fragmentation of the Internet itself is the wrong way to solve this issue, as it would destroy the open, connectivity benefits the Web provides to all of us. Rather than building walled gardens, it is time to act by setting up security standards and regaining trust by collaborating more."

Speaking to *bobsguide*, after the WEF press conference in London ended today, Lehmann added that it is not only a technical problem but one of leadership and for humanity generally. "Some reports indicate that 70% of net users have been attacked at some point and it can take some companies 230 days to realise they've even been attacked," he continued, while highlighting the importance of recovery and business continuity procedures. "Cyber-security is a reputational and share price issue for senior management and the board. I also think that it's wishful thinking to believe that you can encrypt everything in response to Snowden and proliferating cyber-attacks - admittedly though, you have to be much more mindful of encryption now."

The **WEF Global Risks 2014 report** even includes a special investigation into what it terms the risk of "cybergeddon" in the online world as increasing web connectivity enhances risk. The increasing complexity of geopolitical risk as the world moves towards a regional and multipolar non-superpower distribution of power and influence, plus the curse of youth unemployment and underemployment, were the other two special investigative areas in the report.

David Cole, group chief risk officer at Swiss Re, even referred to a "lost generation" of youngsters during the London press conference, when discussing unemployment in developed markets. The three issues - of cyber-attacks, regional fragmentation, and a "lost generation" of unemployed youngsters - are certainly all deserving of investigation and were viewed as key risks that could impact share prices, asset and investment management sentiment, global economic performance and well-being in the coming years.

### **Conclusions: Risk of a Fiscal Crisis Still Prevalent**

A fiscal crisis, caused by government over-indebtedness, is seen as the single most impactful risk that may come to fruition in the years ahead, with the 700 risk experts canvassed in the report, including representatives of Marsh, Swiss Re, Oxford and Singapore Universities and the US Wharton Risk Management School, highlighting it as their major on-going fear.

"Each risk considered in this report holds the potential for failure on a global scale," commented Jennifer Blanke, chief economist at the WEF, and an imminent attendee at next week's Davos conference in Switzerland. "It is the interconnected nature of these risks that makes their negative implications so pronounced, as together these risks can have an augmented effect."

"That is why it vitally important that stakeholders work together to address and adapt to the presence of global risks in our world today," she continued, stressing the need for cooperation and collaboration to advance global markets and trade; something that was initially seen at the London and Pittsburgh G20 meeting after the financial crisis of 2008 but has since waned as retrenchment and regionalism gains popularity.

"Global governance failure is at the centre of WEF's graph for the *Global Risks 2014* report," concluded Blanke, commenting in regard to tendency of governments to just look to serve

their domestic national constituencies in recent years, which is additionally agitating fears about regulatory arbitrage too.

A lack of global governance capability and cooperation was also troubling John Drzik, president of global risk at Marsh, and a fellow panellist at the London press conference today, as he ruminated that “the capacity to resolve global problems was weakening”.

It is obvious that the WEF thinks globalisation could be stalled by the recent financial crisis and that it needs encouragement to be restarted, or at least for the economic advantages gained by multinational corporations (MNCs) so far to be protected. It is a debate that will no doubt run and run at Davos between the business people, technologists and politicians attending the global leaders’ summit next week, and one that is reflected in the wider world as the tensions between protectionism and openness play out - both online and economically.

**Neil Ainger, bobsguide, Editor-in-Chief, on General Fintech and Industry Developments**



As editor-in-chief of *bobsguide* Neil Ainger is responsible for setting the editorial strategy and writing news analysis, blogs, hosting webinars, commissioning and so forth. He has a keen interest in technology and banking, particularly in the payments, cloud, data centre, trading, infosec and mobile technology fields, having previously been the deputy editor at *Banking Technology* and editor of *FS*Tech. Ainger has a BA (Hons) in English Literature from Leeds University and has been employed as a journalist since graduating in 1995. He has also worked at *gtnews* covering treasury, trade finance and so forth, and on engineering titles at Reed Elsevier, local newspapers, etc. In addition, Ainger has worked on internal publications for BT Global, PwC and Lucent Communications (in New York City), among much else.

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