



NAVIGATING PERMACRISIS

The Critical Role of ERM

Risk managers in the insurance industry are no strangers to uncertainty. However, our current reality seems different than anything we've seen before – the number and complexity of the challenges the world is facing today suggests a different risk environment, best captured by the term “permacrisis.”

Permacrisis refers to a prolonged period of instability and uncertainty characterized by a series of interconnected crises. Unlike traditional crises with defined beginnings and ends, permacrisis is a sustained state of disruption where one crisis overlaps and intensifies the impact of another. Whether it's economic downturns, extreme weather events, or even social unrest, these factors mutually reinforce and exacerbate each other. In all, the cumulative effect of these overlapping crises often surpasses the sum of their individual impacts.

Permaccrisis presents a formidable challenge for organizations, forcing them to navigate a complex landscape that demands constant vigilance and adaptation. However, by embracing a proactive approach to enterprise risk management (ERM), organizations can not only survive but also thrive in this era of uncertainty. Through careful identification, assessment, and mitigation of potential threats – coupled with the building of organizational resilience and agility – it is possible to transform permaccrisis from a daunting obstacle into an opportunity for growth and innovation.

The terms **polycrisis** and **permaccrisis** are both used to describe complex, interconnected challenges. However, the key difference is in their emphasis:

- **Polycrisis** emphasizes the **simultaneity** and **interconnectedness** of these crises.
- **Permaccrisis** highlights the **prolonged nature** of the overall state of crisis, often involving **multiple interconnected challenges**.

Permaccrisis: A Lens for Insurance Risk Managers

The concept of permaccrisis has emerged as a direct response to the increasing complexity and interconnectedness of global risks. While the term

is relatively new, the underlying conditions have been evolving for decades.

Key Drivers of Permaccrisis:

- **Global Interconnectedness:** The increasing reliance of economies on global supply chains has amplified the impact of localized disruptions. Events like the 2008 financial crisis and the 2020 chip shortage demonstrate how a crisis in one region can quickly become a global problem.
- **Economic Volatility:** Fluctuating markets, inflation, and recessionary pressures, coupled with geopolitical tensions and technological disruptions, have created a volatile economic landscape. This volatility increases the frequency and severity of economic losses, posing significant risks to insurance portfolios.
- **Geopolitical Tensions:** International conflicts and shifting power dynamics can lead to increased volatility in financial markets, trade disruptions, and heightened security risks. These factors can have a direct impact on insurance claims, particularly in areas like property and casualty insurance.
- **Climate Change:** The increasing frequency and severity of climate-related disasters, such as hurricanes, wildfires, and floods, poses significant risks to insurers. Climate change also drives economic and social disruptions, including supply chain issues and resource scarcity, which can indirectly impact insurance claims.

- **Social and Political Unrest:** Civil disturbances, protests, and political polarization provide significant challenges to the insurance industry by increasing claims, making underwriting more challenging, disrupting operations, damaging reputations, attracting regulatory scrutiny, and leading to investment losses and supply chain disruptions.

The cumulative effect of these factors has created an environment characterized by persistent uncertainty and the potential for cascading risks. Insurance risk managers must adapt to this new reality by developing robust risk assessment and mitigation strategies, including scenario planning, stress testing, and climate risk modeling.

Building Resilience in a Permaccrisis World

In today's environment, the traditional risk management playbook, focused on isolated threats, is no longer sufficient. In a permaccrisis, risks are interconnected, evolving rapidly, and often unpredictable. Cascading effects can disrupt business operations and magnify losses.

To navigate this complex landscape, insurers must cultivate a culture of resilience. ERM becomes the cornerstone of this transformation. By proactively identifying, assessing, and mitigating a wider range of risks – from operational disruptions to reputational damage – insurers can enhance their ability to withstand shocks.

But resilience is more than just risk mitigation. It's also about embracing uncertainty as an opportunity for innovation. By fostering a mindset of agility and adaptability, insurers can capitalize on emerging trends and develop new products and services.

While permaccrisis presents significant challenges, it also offers opportunities for those who are prepared. Transforming ERM into a strategic resilience process can allow insurers to not just weather the storm but emerge stronger. By shifting from a reactive to a proactive stance, organizations can embrace the chaos and turn it into a catalyst for growth.

Transforming ERM for Resilience

Permaccrisis demands a rethinking of ERM. It's no longer sufficient to merely identify and mitigate risks; instead, insurers must proactively build resilience into the core of their operations. This requires a strategic approach that goes beyond compliance and focuses on transforming ERM into a catalyst for organizational strength. By integrating scenario planning, fostering a robust risk culture, and leveraging technology, insurers can enhance their ability to adapt to change and emerge stronger from the challenges of permaccrisis.

Scenario Planning for Permaccrisis

Traditional scenario planning often focuses on isolated events or risks. In a permaccrisis, however, risks are interconnected and build on each other, leading to unforeseen consequences. To address this challenge, insurers need to take a few key steps:

- Develop a **wider range of scenarios** that encompass various **combinations of interconnected crises**, such as a global pandemic coinciding with an economic recession. These scenarios should consider economic downturns, geopolitical tensions, climate change events, social unrest, and other potential threats.
- Conduct **stress testing** to identify vulnerabilities and test the organization's response capabilities under various crisis scenarios.
- Regularly **update scenarios** to reflect the evolving risk landscape and emerging threats.



Building a Strong Risk Culture

A strong risk culture is essential for effective ERM. It fosters a shared understanding of risk across the organization and empowers employees to identify, report, and manage risks proactively. Here are a few of the ways that organizations can build a strong risk culture in the context of permacrisis:

- Encourage **open communication** and **information-sharing** about risks at all levels of the organization.
- Implement **clear and accessible channels** for employees to report risks without fear of reprisal.
- Provide **training programs** to equip employees with the skills and knowledge to identify, assess, and manage risks.
- Integrate risk management into **performance evaluations** and **reward systems** to incentivize proactive risk management.

Leveraging Technology for ERM

Technology can be a powerful tool for enhancing ERM capabilities in a permacrisis environment. Here's how insurers can leverage technology to build resilience:

- Utilize **data analytics** to identify patterns, trends, and emerging risks from various sources of data.
- Employ **AI and machine learning** to enhance risk modeling and scenario planning, enabling more accurate predictions and proactive risk mitigation.
- Invest in robust **cybersecurity** measures to protect sensitive data and systems from cyberattacks, which can be especially disruptive in a permacrisis.
- Implement **digital tools** for **real-time** risk monitoring, communication, and collaboration across the organization.



Conclusion

Permaccrisis demands a fundamental shift in how insurers approach risk management. Traditional ERM frameworks are no longer sufficient to navigate the complex and interconnected challenges of today's world. However, by elevating ERM to a strategic resilience process, insurers can position themselves for long-term success.

The journey to becoming a permaccrisis-resilient organization requires continuous adaptation, innovation, and a steadfast commitment to building a stronger, more resilient future.

Insurers that successfully integrate these elements into their ERM framework will not only survive the permaccrisis but thrive in its aftermath. By building resilience into the core of their operations, they can protect their bottom line and enhance their reputation as trusted partners in an increasingly uncertain world.

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