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Agility and Adaptability

Airmic Annual Survey 2021
subreport



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“Being able to quickly think, understand and react to changing market conditions was make or break for many companies over the course of the pandemic. With uncertainty set to continue, becoming more nimble should be on every business’s priority list.”

Matt Lacy, Interim Executive Director, UK Insurance, QBE.

Foreword

Businesses have shown incredible resilience in adapting to the coronavirus pandemic, with many coming up with inventive ways to stay afloat. Covid was an unprecedented shock to the global economy in 2020/21, but uncertainty isn't new. Before the pandemic, we were already in the middle of a period of heightened uncertainty and the issues that were driving it have not gone away. We've just been driven by something more prolific.

If there is one positive to be had from Covid, it is that Airmic members now consider their organisations to be more agile and adaptable than they were before. This is important as planning and executing in uncertainty is no longer the exception, and operating flexible and adaptable business models is critical to success.

The risk management profession has been under immense pressure in recent times and has responded admirably as the impact of change after change has been laid at its door.

Whether it is the lasting impacts of Covid, the impacts of Brexit, wider geopolitical uncertainty or the responses to climate change, there will continue to be uncertainties that businesses need to consider as we chart the path out of the pandemic. Preparing for shocks is no longer just the preserve of risk managers, but instead needs to be part of board-level debate, with the time spent discussing risks and mitigation strategies commensurate with the potential impact of that risk.

Matt Lacy
Interim Executive Director, UK Insurance, QBE



Executive summary

Organisations were disincentivised from investing more in pandemic preparedness, because pandemics are a low-frequency, high-impact risk. At the same time, there is increasing unpredictability around the world.

Organisations therefore need to be more agile and adaptable. Risk professionals have an integral role to play. They need better alignment with business priorities, more flexible deployment of resources, enhanced analytical skills and methodologies, and greater dynamism in their engagement with stakeholders.

The ability of organisations in periods of significant uncertainty to plan, and to adapt operations and execute change, has improved appreciably over the course of the pandemic. Those in the hospitality and travel industry are overwhelmingly positive about their organisations' ability to plan and adapt after their experiences since early 2020.

The experience of the pandemic has distilled the essence of what makes a resilient business tick – the resilience of its supply chains, sales and trade credit, and the resilience of the organisation itself in terms of its culture and how it performs.

Within their arsenal of tools and techniques, risk professionals have largely used scenario planning to help them plan and execute in periods of uncertainty. There is an opportunity for them to make greater use of non-linear modelling, given the drawn-out nature of the pandemic with its many twists and turns.

Building the right organisational culture is an important first step to enable greater agility and adaptability. There are four basics to keep in mind:

1. Lead, don't micro-manage
2. Keep everyone up to date, all the time
3. Don't get distracted
4. Avoid blame.

About this research

This study is part of a wider research around the 2021 Airmic annual survey. This is one of five thematic subreports, while the main survey report summarises the full findings of the survey.

Survey & research methodology

The report, produced by Airmic in collaboration with QBE, is based on 226 responses gathered in a survey from 21 July to 2 September 2021. Subsequently, roundtables with Airmic members were held to gather qualitative responses. Full details on the survey and research methodology can be found in the main report of the 2021 Airmic annual survey.

Introduction

Pandemics are a low-frequency, high-impact risk. This disincentivised organisations from investing more in preparing for an eventuality such as Covid-19, yet when it hit, its effect was calamitous for many. What's more, the pandemic struck at a time of increasing unpredictability, as QBE's research around the Unpredictability Index has shown.

All of this calls for organisations to be more agile and adaptable, and this is where risk professionals have an integral role to play. Organisational resilience was identified as the leading concern of risk professionals out of all the resilience-related concerns listed in the Airmic annual survey this year, and it ranked ninth on the general list of 28 concerns.



1

Agility and adaptability: The key to resilience

“Being able to quickly think, understand and react to changing market conditions was make or break for many companies over the course of the pandemic. With uncertainty set to continue, becoming more nimble should be on every business’s priority list,” said Matt Lacy, Interim Executive Director, UK Insurance, QBE.

Even before the first known case of Covid-19 emerged in the city of Wuhan in December 2019, the world had increasingly become a less predictable place for businesses. According to the QBE Unpredictability Index,¹ almost all of the ‘least predictable years’ have occurred in the past two decades, with the majority occurring during the past ten years.

The research also shows that periods of unpredictability come in five-year cycles. There is a logic to this cyclical pattern to unpredictability – it is driven in no small part by macroeconomic measures and electoral cycles. The unexpected results of the 2016 Brexit referendum and the election of Donald Trump as US president later that same year sparked a paradigm shift in politics and policies, with major implications for businesses.

Resilience – The practical steps to take

Airmic’s 2018 report *Roads to Revolution* laid out the Airmic Resilience and Transformation Model, which provides a comprehensive and coherent structure to enable organisations to embrace the digital revolution. The underlying business and organisational dynamics brought about by rapid technological advances are so different to those of past ones that they trigger the need for a major rewiring of risk management. The Resilience and Transformation Model comprises eight principles of resilience, of which the following hold the greatest importance to risk the professionals who participated in our survey this year:

- Rapid response supported by excellent communication within the organisation; and
- Risk radar focused on emerging risks and developments in technology.

What these call for essentially is greater adaptability and agility among organisations. The onset of the global pandemic, and the unprecedented bouts of unpredictability it has wrought on businesses for the medium term, have heightened the urgency for organisations to be more adaptable and agile, while building up their organisational resilience.

There are practical steps for risk professionals to take in this journey towards greater adaptability and agility. First, they need better alignment with business priorities, so as to sharpen their ability to develop valuable insights into emerging concerns and help scope innovative risk mitigation solutions. More flexible deployment of resources is also needed to free up capacity in risk teams for more project-based risk work, as opposed to routine work. There is a role here for enhanced analytical skills and methodologies, including the introduction of new data science and automation techniques. Finally, risk professionals need greater dynamism in their engagement with stakeholders. This will enable risk teams to engage with institutional and individual biases and blind spots, and help build an appreciation of threats for which evidence may be limited or conflicting.

¹ QBE, The Unpredictability Index (report), 18 October 2019. <https://qbeeurope.com/news-and-events/reports/the-unpredictability-index/>



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One year on from the pandemic: The view from the risk profession

A majority of risk professionals are confident that their organisations run an agile and adaptable business now. The ability of organisations in periods of significant uncertainty to plan, and to adapt operations and execute change, has improved appreciably over the course of the pandemic. Those in the hospitality and travel industry are overwhelmingly positive about their organisations' ability to plan and adapt after their experiences since March 2020.

Nevertheless, risk professionals in general are still having to focus most of their time on managing more immediate, tangible risks, rather than helping their organisations manage through uncertainty and assess strategic options. Understandably, these are largely risk professionals in hospitality and travel sectors, which have borne the brunt of the volatile pandemic situation with the frequent changes of travel restrictions, as well as in the entertainment industries and the public sector.

Question	Average score (from 0 to 10)*
Do you feel you are an agile and adaptable business?	6.7
How would you rate your organisation's ability to plan in periods of significant uncertainty at the beginning of the pandemic?	6.5
How would you rate your organisations's ability to plan in periods of significant uncertainty now?	7.3
How would you rate your organisation's ability to adapt operations and execute change during periods of significant uncertainty at the beginning of the pandemic?	6.7
How would you rate your organisation's ability to adapt operations and execute change during periods of significant uncertainty now?	7.6
How much of the time spent in your role is focused on helping manage through uncertainty and assess strategic options, compared to managing more immediate tangible risks?	3.7

*[0 = not at all/very poor; 10 = very much so/all the time/excellent]

Source: Airmic survey 2021

2

3

Four areas of resilience for businesses in 2021

The experience of the pandemic has distilled the essence of what makes a resilient business tick – the resilience of its supply chains, sales and trade credit, and the resilience of the organisation itself in terms of its culture and how it performs.

In our survey this year, 'organisational resilience' emerged as the top issue of concern to risk professionals within the topic of Agility and Adaptability, with resilience in the other three areas emanating from this.

Ranking	Topic	Sub-area	Average score (out of 5)
1	Agility & Adaptability	Organisational resilience	3.6
2	Agility & Adaptability	Supply chain resilience	3.4
3	Agility & Adaptability	Sales resilience	3.1
4	Agility & Adaptability	Trade credit resilience	2.6

Source: Airmic survey 2021

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1 Organisational resilience – the leading concern

62%

of Airmic members are highly or very highly concerned about organisational resilience in the short to medium term

Unsurprisingly, given the challenges businesses have grappled with during the pandemic, almost two-thirds of our survey respondents are highly or very highly concerned about the resilience of their organisation over the next three years. One of the biggest lessons from Covid-19 has been the importance of agility and adaptability, and being able to quickly think, understand and react to changing market conditions was critical for many companies during the pandemic. This was reflected in the research findings, with 28% choosing 'rapid response' and 'excellent communication' as the most important of the Airmic eight principles of resilience.

A high degree of organisational agility helps a company process new information and react successfully to changes in customer behaviours, manufacturing and/or operating capabilities, and supply chain availability. "Within the business, it's about how quickly you, your people and processes can adapt, while externally it's about how flexibly you can interact with the wider market," commented Matt Lacy, Interim Executive Director, UK Insurance, QBE.

Your processes and systems should support – or at the very least not hinder – rapidly adapting priorities to changing conditions. Critical to making this happen is building a more continuous monitoring and decision-making process.

Three things that matter:

- 1 Understanding your market** – What processes do you have in place that monitor changing market dynamics? Is your business consistently using customer feedback to test or revise decisions?

- 2 Understanding your business** – What financial and non-financial feedback mechanisms does your organisation use to track the impact of any changes put in place?

- 3 Who makes the decisions?** – Where possible, decisions should be made by the teams or people closest to the impacted customers or operations. If this isn't possible, decisions should be made when changes in circumstances dictate, as opposed to when planning cycles allow.



2 Supply chain resilience remains a priority

49%

of Airmic members say they are highly or very highly concerned about the resilience of their supply chain over the next three years

The global web of tightly connected supply chains has changed global industry dramatically, but the recent crisis has exposed several risks such a tightly connected network presents. While the Covid-19 crisis has been the largest shock in recent memory, it is far from the only one we have encountered.

Research from QBE has shown that firms can expect to encounter a significant supply chain shock once every four years on average. These shocks can take many forms and can vary in both the severity and global reach of the event. The bottom-line impact can also be dramatic, with the average firm losing over half a year's net profit during significant shocks.²

"While most large organisations will have systems in place to address the more common shocks, the pandemic has taught us that preparing for tail events isn't only prudent but, in many cases, vital," commented Chris Killourhy, Chief Financial Officer, QBE International.

What to watch for

Supplier / distributor structure and concentration: Limiting the list of suppliers can help make networks easier to manage and more cost-effective, but it also exposes the network to risk. This is also true of the structure of the supply chain, how connected it is and how reliant on other inputs it might be. Understanding your supplier and distributor concentration and the structure of your supply chain is critical to preparing alternatives and contingency plans.

Geographic concentration and reliance: Many sector supply chains hold significant geographic concentrations, often without this being immediately

visible. While final assembly and distribution may be regional, looking further up the value chain can highlight significant issues. For instance, in the pharmaceuticals industry, while manufacturing of end products often happens regionally, 50% of all active pharmaceutical ingredients used in production in Europe are produced in India or China.³

Inventory levels: Historically, 'just-in-time' inventory concepts have focused on improving the efficiency and cost-effectiveness of the extended supply chain. More recently, firms have realised that this efficiency can come at a cost that far outweighs the benefits when exposed to even minor disruption. Understanding the likelihood, and impact, of disruptions in your supply chain is a key input to determining optimal inventory levels. This includes both major components and raw materials, as well as any tools or other minor inputs.

Inherent vulnerabilities in your supply chain: Every sector will have supply chain risks inherent to the type of good or service it produces. This could be anything from spoilage in the food and agriculture sectors to raw material concentration risks in mobile communication technologies. While these risks will likely be front of mind for supply chain managers, it is also important to understand the inherent risks to upstream and connected suppliers.

Supplier financial position: With most of the focus on physical threats to the supply chain, the importance of the financial health of the network should not be forgotten. With today's interconnected supply chains, the failure of one participant can have a dramatic impact on everyone else, both up and down stream.

² QBE Research, Hesmur Research.

³ Charles River Associates.

3 Getting to grips with the financial security of your supply chain

59%

of Airmic members had some concern about trade credit resilience

Keeping a close eye on the solvency of your customers is key to avoiding unexpected loss from non-payment. However, assessing solvency and liquidity is no easy task and gaining access to the right information to make this assessment can be even more challenging. Below are some key warning signs of potential declining solvency and/or liquidity that you can look out for with your customers:

- Defaulting or slowing payments
- Requests to extend or reschedule payments term (often with urgency)
- Requests to increase credit lines substantially (especially over a short period of time)
- Sudden increases (or even decreases) in trade levels
- Long periods of time between orders or quickly escalating frequency of orders.

“Any departure from the ‘norm’ could be a sign of distress, so enter regular dialogue with your clients and seek to understand what is driving any change in their normal trading behaviour,” commented Tom Hunt, QBE Underwriting Manager, Credit & Surety.

Having a good understanding of your clients’ current working capital requirements and liquid resources available is key. Changes in these levels either way can be an indication that a frank conversation is needed to ensure losses are mitigated and/or avoided.

In recent years, assessing a firm’s true working capital/debt position has been made more difficult by supply chain finance (SCF), which enables suppliers to receive payment early and buyers to pay later.

In the main, SCF greatly benefits supply chain liquidity, but in some instances, it can create unexpected liquidity crises and a false sense of normality in terms of the timing of payments.

In severe circumstances, firms can go from a picture of health, as measured by traditional ratios, to insolvent virtually overnight when a SCF facility is withdrawn. Lack of disclosure in audited accounts often makes SCF facilities very difficult to identify.

As with other supply chain risks, regularly updating your assessment of your stakeholders is the best preparation for potential shocks. This begins with thorough credit evaluation and continues with regular dialogue and monitoring – all of which a good credit insurer can undertake for you.

Supply chain finance greatly benefits supply chain liquidity, but it can create unexpected liquidity crises and a false sense of normality in terms of the timing of payments.

4 Is your organisation meeting customer needs?

74%

of Airmic members had some concern about the resilience of their sales operation

For many businesses, if the pandemic was about being as agile, resilient and focused as possible, then what remains of 2021 and beyond is about planning for the future. Continuing to drive sales activity in periods of change is critical to both the survival and the long-term health of a business.

In good times, few pay attention to how sales are happening if targets are being met. The pandemic brought several existing issues in many sales infrastructures into sharp focus and presented several new ones for good measure.

“At its core, sales is about people, the customers you are selling to and the sales teams that connect with those customers. Ensuring your sales teams have the right skills and capabilities, and access to the appropriate tools to deal with changing environments is critical,” commented Matt Lacy, Interim Executive Director, UK Insurance, QBE.

While many view sales as a ‘dark art’, the crisis has underlined the importance of rigorous process management that keeps people focused on the customer, identifying opportunities that will bring the greatest value and executing flawlessly when a sales opportunity does arise.

While technology has gone a long way in enabling and streamlining these processes, it is the focus on these core processes that has enabled firms to continue to serve customers and drive sales activities even in crisis situations.

While it is important for firms to be aware of how shocks will impact their entire sales organisation, many industries will have different ‘hot buttons’, depending on the nature of their sales cycle (e.g. short/transactional vs. long/consultative) and the products and services they offer.

“Hot buttons” and focus areas

	Transactional	Consultative
Product orientation	Maintaining the ability to efficiently transact business regardless of the channel and deliver products to customers. <ul style="list-style-type: none"> • ecommerce capabilities • product delivery / distribution capabilities 	Maintaining a connection with customers and continuing to drive positive engagement and experience through the sales cycle even in periods of disruption. <ul style="list-style-type: none"> • remote engagement capabilities • broader experience and engagement
Service orientation	Maintaining the ability to efficiently sell, schedule and deliver services to customers. <ul style="list-style-type: none"> • ecommerce capabilities • Omni-channel scheduling and booking capabilities 	Maintaining a connection with customers through the sales and on-going service delivery cycle. <ul style="list-style-type: none"> • enhanced remote engagement and service delivery capabilities • broader experience and engagement

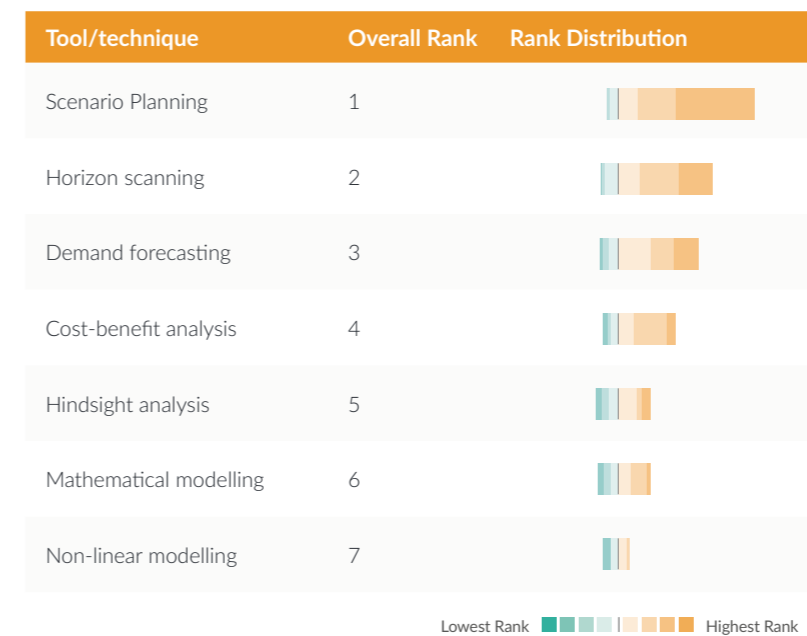


Tools and techniques

Within their arsenal of tools and techniques, risk professionals have largely used scenario planning to help them plan and execute in periods of uncertainty. Demand forecasting, which plays a central role in building sales resilience, is the third most important of the tools and techniques for risk professionals.

Non-linear modelling was ranked the least important, which given the increasingly interconnected world businesses operate in, might be an area worth exploring. The pandemic, for example, continues to be long and drawn out, with many twists and turns, and the benefit of taking a non-linear approach to planning in such uncertain times is that it allows you to take into account seemingly unrelated factors.

What tools or techniques have been most important in helping you plan and execute in periods of uncertainty?



Given the nature of the long-drawn pandemic crisis with its twists and turns, non-linear modelling should be more widely used by risk professionals.



5

How to build greater agility and adaptability

In a roundtable discussion for this research, Airmic members were unsurprised by the post-Covid increase in agility and adaptability noted by organisations, their view being that these companies have been able to survive the onslaught of the pandemic precisely because of their ability to adapt. Many organisations moved to a completely remote working environment literally overnight or had to work around restrictions imposed by the government for reasons of public health.

“Our business continuity plans worked well,” one Airmic member shared. “But they were flexible, rather than being based on a single scenario. They supported decision-making well.”

Building the right organisational culture is an important first step to enable greater agility and adaptability. There are four basics to keep in mind:⁴

1. Lead, don't micro-manage: This would give your people the flexibility to deliver and perform in a context of major uncertainty. Be clear about the direction in which you want your business to go and the main levers to get there, and put guardrails or boundaries in place that allow your people flexibility in how they deliver your goals.

2. Keep everyone up to date, all the time: It is crucial that leaders regularly communicate with their teams, even when there is no new updates to share, so that their views can be sought frequently enough to identify bottlenecks and barriers quickly.

3. Don't get distracted: A fast-moving crisis such as that brought on by the global pandemic can easily inundate your people with information. This is where the ability to maintain laser-like focus on the tasks at hand would create a much-needed sense of stability.

4. Avoid blame: During a crisis, many things can go wrong and there will always be the temptation to play the blame game. But that will only rob you of precious time that would be better spent on figuring out what is wrong and what needs to be done to fix things.

“Building organisational agility is a long-term process that requires serious leadership commitment and alignment across many parts of a business,” said Matt Lacy, Interim Executive Director, UK Insurance, QBE. That said, there are a number of things you can do now to start the process and feel the benefit:

1. Build a 'skunkworks': When faced with a challenging strategic or operational problem, gather a small group of people, equipped with different skills and backgrounds, but ideally with an ability to think outside of the box, and get them to solve the problem. This allows the team to focus on a single challenging issue, rather than to introduce risk into the rest of your operation.

2. Reduce the noise and improve information: Along with the deluge of information during a crisis is often a deluge of solutions that may not be suitable for the specific context of your organisation. Understanding the metrics that matter helps align focus and provides the guardrails needed in an agile environment.

3. Empower your teams, but give them a safety net: The teams closest to the action should be the ones making the decisions, but they may not be used to this way of operating. This is where building sufficient checks and balances into the process can help ease the transition. Thresholds could be introduced and then gradually eased. Peer review and coaching are also important in this process.

4. Look outside your organisation: As you adapt to the changing environment, your organisation also needs a bird's eye view of your distribution networks, supply chain and manufacturing capabilities, for instance. Building flexibility and resilience into these external areas can help improve your organisation's ability to adapt to changing market conditions.

⁴ QBE, Agility and adaptability – The keys to success, 4 January 2021. <https://qbeurope.com/resilience/agility-and-adaptability-the-keys-to-success/>

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About QBE

QBE is a specialist business insurer and reinsurer. We're big enough to make a difference, small enough to be fleet of foot. We may not be the best known, but a large part of the modern world depends on our cover. We have clients as varied as bus and coach fleet drivers and major international infrastructure consortiums. For them, we're the buffer between the best-laid plans and uncertain reality. People who deal with us find us professional, pragmatic and reliable – this is one of the reasons we're still here after 130 years. Our underwriters are empowered to take decisions that are important to you. (Because we know no computer can replace that human ability.) And we don't just cover your risk. We help you manage it, meaning that you're less likely to have to make a claim in the first place.

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About Airmic

The leading UK association for everyone who has a responsibility for risk management and insurance in their organisation, Airmic has over 450 corporate members and more than 1,500 individual members. Individual members are from all sectors and include company secretaries, finance directors, and internal auditors, as well as risk and insurance professionals. Airmic supports members through learning and research; a diverse programme of events; developing and encouraging good practice; and lobbying on subjects that directly affect our members and their professions. Above all, we provide a platform for professionals to stay in touch, to communicate with each other, and to share ideas and information.

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