Technical Background

Risk categories and impact channels

GRM Group offers analysis and forecasting that includes various global risks and threats.

Risk categories

We categorise and assess risks across a broad spectrum, providing insights into how these risks might impact economic and political stability worldwide. While we do not publish a standardised "list" in the public domain as frequently as some other organisations might, they do focus on several key types of risks in their reports and tools:

1. **Political Risks**
   These include risks from political instability, governance issues, electoral uncertainty, and conflicts that can affect national and regional stability.
2. **Economic Risks**
   These encompass threats such as financial crises, inflation, currency volatility, and other macroeconomic factors that can impact economies.
3. **Security Risks**
   Focused on both national security issues and broader regional or global conflicts, these risks assess the potential for violence and its impacts on stability and safety.
4. **Environmental Risks**
   This includes climate change, natural disasters, and environmental degradation that can influence economic and human activities.
5. **Societal Risks**
   Risks such as social unrest, demographic shifts, and public health crises (like pandemics) that can significantly impact societies.
6. **Technological Risks**
   These are risks related to technological advancements and disruptions, including cybersecurity attacks and the impact of new technologies on existing industries and economies.
7. **Regulatory and Legal Risks**
   Involving changes in regulations, legal environments, and compliance requirements that could impact businesses and economies.

At the end of the work, we consolidate these into the three main risk categories.

Impact channels

We use the concept of "impact channels" to analyse and quantify the potential impacts of various global risks. These impact channels are pathways through which risks can affect the economic and political environment. As of the latest information available, the most important impact channels used by the GRM Group:

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1. **Macroeconomic Impact**
   Assessing how risks affect the overall economic growth, inflation, exchange rates, and other macroeconomic indicators.

2. **Trade and Investment Flows**
   Evaluating how risks impact international trade and investment, including trade barriers, changes in foreign direct investment, and shifts in supply chains.

3. **Political Stability**
   Analysing the impact on political stability, including the risk of conflict, governance issues, and changes in regulatory environments.

4. **Financial Markets**
   Gauging the effect on financial markets, such as stock markets, bond markets, and overall financial stability.

5. **Commodity Prices**
   Considering the impact on prices of key commodities like oil, gas, metals, and agricultural products.

6. **Business Environment**
   Examining how risks influence the business environment, including regulatory changes, legal uncertainties, and operational risks.

7. **Socioeconomic Impact**
   Looking at how risks affect socioeconomic conditions, including employment, poverty levels, and health outcomes.

8. **Technological Change**
   Exploring the implications for technological advancements and disruptions, cyber risks, and digital transformation.

9. **Environmental and Climate Change**
   Assessing the effects of environmental factors and climate change, including natural disasters, resource scarcity, and environmental regulations.

10. **Public Policy and Infrastructure**
    Analysing impacts on public policy, infrastructure development, and public sector investment.

These impact channels help GRM Group understand the broad and interlinked effects of global risks on economies and political systems, enabling better-informed decisions and strategies.

Risk and impact channels are sometimes the same

It is not uncommon for similar factors to appear as both "impact channels" and "risk categories" in the frameworks used by organizations like the Economist Intelligence Unit (EIU) to assess global risks. Here's why this overlap occurs:

1. **Conceptual Overlap**
   Risk categories are broad areas where risks originate or are categorized (e.g., economic, political, technological). Impact channels, on the other hand, are the pathways or mechanisms through which these risks manifest their effects on economies, societies, or specific sectors. For example, "economic risks" as a category might include threats like inflation or recession, while an "economic impact" channel describes how these risks affect overall economic performance, investment levels, or consumer spending.

2. **Interconnectedness of Risks**
   In a more precise definition, this concept refers to the way different risk categories can influence each other, affecting the likelihood or severity of risks across multiple channels. For instance, political instability (a risk driver) can lead to disruptions in trade and investment flows, impact financial markets, and alter public policy and infrastructure (impact channels).

   2.1 Causal Relationships
   One risk category can indeed trigger or exacerbate risks in another category. For example, economic instability might lead to political unrest, or severe political conflicts might disrupt economic performance.

   2.2 Feedback Loops
   Risks in different categories can create feedback loops where the occurrence of one risk intensifies the effects of another, thereby increasing the probability of further risks. An example is how technological disruptions might lead to economic shifts, which then require regulatory changes, potentially causing more disruptions.

   2.3 Risk Amplification
   The presence of a risk in one category can amplify the impact of a risk in another category. For instance, environmental risks such as climate change can exacerbate economic risks by damaging infrastructure or reducing resource availability, thereby also increasing political and social risks due to heightened competition for resources.

   2.4 Systemic Risks
   These arise when related risks across multiple categories lead to vulnerabilities that affect the entire system. The global financial crisis of 2008 is a prime example where risks in the financial sector had widespread impacts on global economies, politics, and society**.**

3. **Dual Utility of Terms**
   In analytical frameworks, the same terms can serve dual roles. For example, "technology" can be a risk category when considering the threats from cyber-attacks or technological obsolescence. Simultaneously, technological advancements can be an impact channel, influencing areas like business operations, regulatory compliance, and market competitiveness.

4. **Comprehensive Analysis**
   Using these terms in both contexts allows organizations to provide a comprehensive analysis that covers both the origins of risks and their potential impacts. This approach

helps stakeholders understand not just what the risks are but also how they might affect different aspects of economies and societies.

5. **Strategic Planning**
   By identifying how risk categories translate into impact channels, organizations can better strategize their responses and mitigation efforts. It provides a clearer picture of potential vulnerabilities and helps in crafting targeted interventions to manage those risks effectively.

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