

# Internal Security Threats as a New Security Challenge

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*October 2011*



# Terrorists, traders and hackers

- States and societies increasingly face threats from small, cohesive and specialized groups
- Such groups played key roles (willful or not) in destabilizing events such as 9/11, the 2008-9 financial crisis, and Wikileaks
- Three factors favor small, specialized groups vs. complex societies:
  - Complexity makes developed societies inherently more vulnerable to disruptions
  - Technological advances increasingly empower non-state actors
  - Open, complex societies find it relatively difficult to mobilize against such threats, whether internal or external

# The risk society

- Advances in technology, healthcare and general prosperity have reduced basic dangers, but generate new sets of “derivative” risks
- “Fat tail” events related to terrorism, financial crises, environmental and technological changes (eg. cyber, bio) cannot be eliminated
- To what extent are such threats internal to a state/ society?
- In a globalized world, such risks can only be managed or controlled, leading modern states to increasingly adopt risk management techniques

# Risk management gives rise to other risks

- Financial regulation (eg. Basel I and II) leads to other, unpredictable risks (eg. bank reliance on securitization and short-term borrowing)
- Anti-terrorist surveillance carries heavy economic and social costs
- Pre-emptive measures (eg. military first strikes, environmental rules) are politically divisive

# The 2008-9 financial crisis as a risk management failure

*Financial institutions had extremely sophisticated risk management systems but...*

- Conflicts of interests encouraged (willful) ignorance of risks
- Regulatory failures: hard to manage risks during prosperous times
- Analytic arrogance and overreliance on data: garbage in garbage out.
- “This time is different” – assuming the business cycle has ended
- False sense of safety: risk management tools (eg. complex derivatives) created unknown liabilities
- Common sense and basic analysis were ignored

# Risks in managing risk

## Analytic issues

- Quantifying the unquantifiable: mistaking uncertainty for risks
- Risk overspecialization over common sense
- Analytic biases, fads and lack of historical perspective

## Risk management/ governance issues

- The politics of risk selection, moral panics
- *Trade-offs:*
  - Openness vs. safety
  - Building resilience vs. complexity
- *Who manages the risk managers?*

# Improving risk anticipation and resilience

- Acknowledging uncertainty
- Eclecticism in the use of theory and models
- Having an internal “red team” analytic function
- Can risk managers act as “spoilsports?”
- Communication channels
- Resilience requires building a risk culture