

# Insights

## Managing geopolitical risk

Geopolitical risk has always been high on the risk agenda of international organisations. Mix the uncertainties of the political change and volatility now found in traditionally predictable regions, with both emerging and familiar risks, and it's clear that geopolitical risk now poses an unprecedented risk management challenge.

At our recent event, Willis Towers Watson Geopolitical Risk Consultants hosted a workshop that brought together the expertise of senior business risk leaders, government agencies, academics, and international consultancy and advisory services.

Together, we looked at how all of us concerned with risk can make sure that the senior decision makers in businesses are able to prioritise and manage geopolitical risk, as well as harvest the opportunities they present.

### The four key themes that emerged:



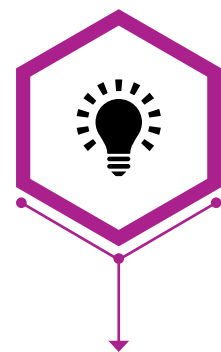
Interrelated risks require an integrated response



Credible information from trusted partners is key



Answer the question: 'should we do the deal?'

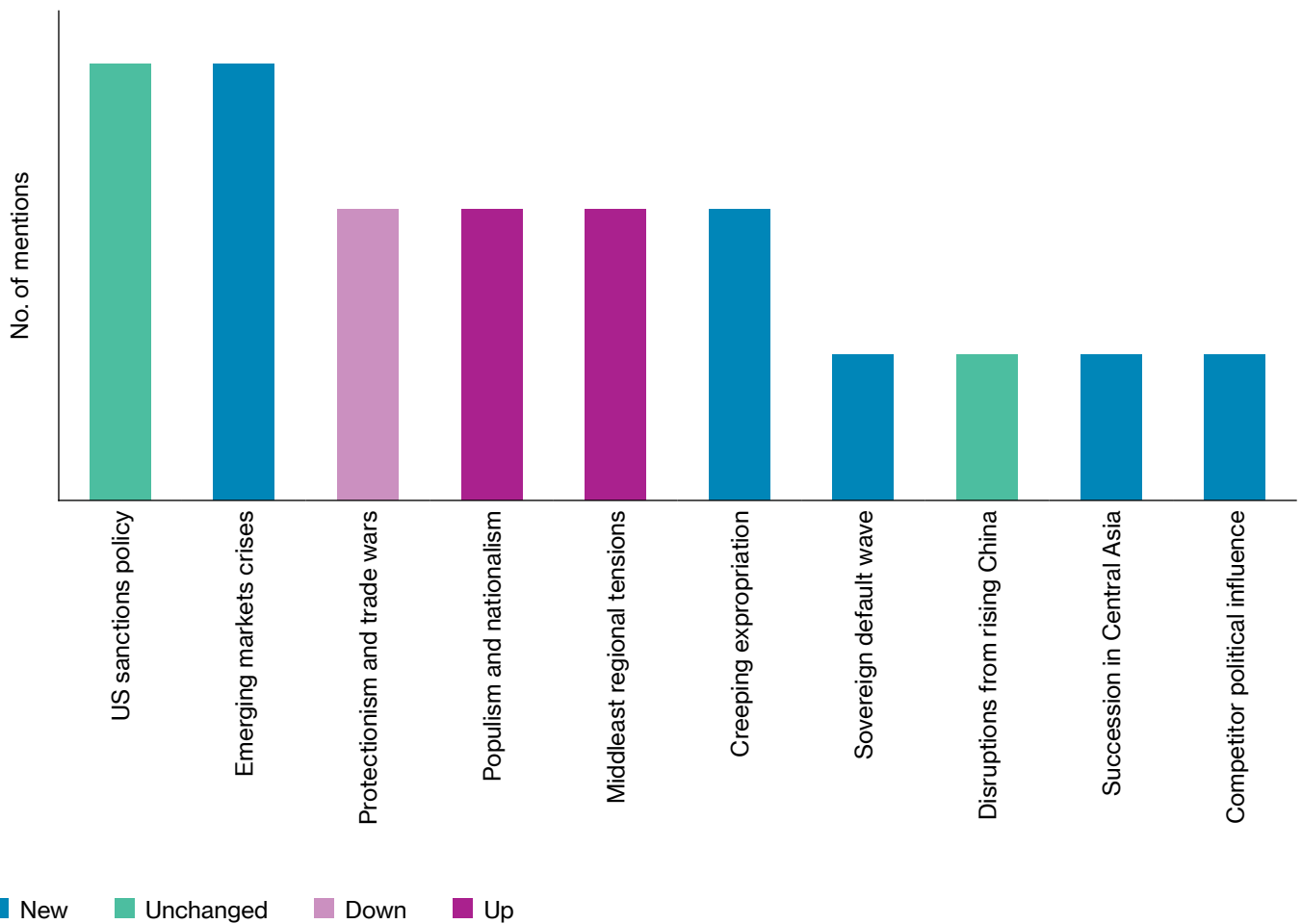


Geopolitical risk management requires innovation



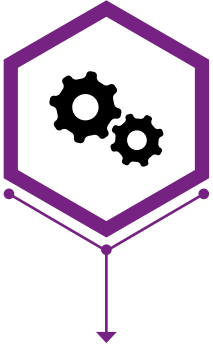
# Today's geopolitical risks

## A view from leading companies



### Risk radar ranked by number of mentions, compared to 2017 survey results.

Source: How are leading companies managing today's geopolitical risks? Oxford Analytica and Willis Towers Watson. September 2018. Research based on a formal survey with 40 leading companies and in-depth follow-up interviews with 10 of the participants.



# Interrelated risks require an integrated response

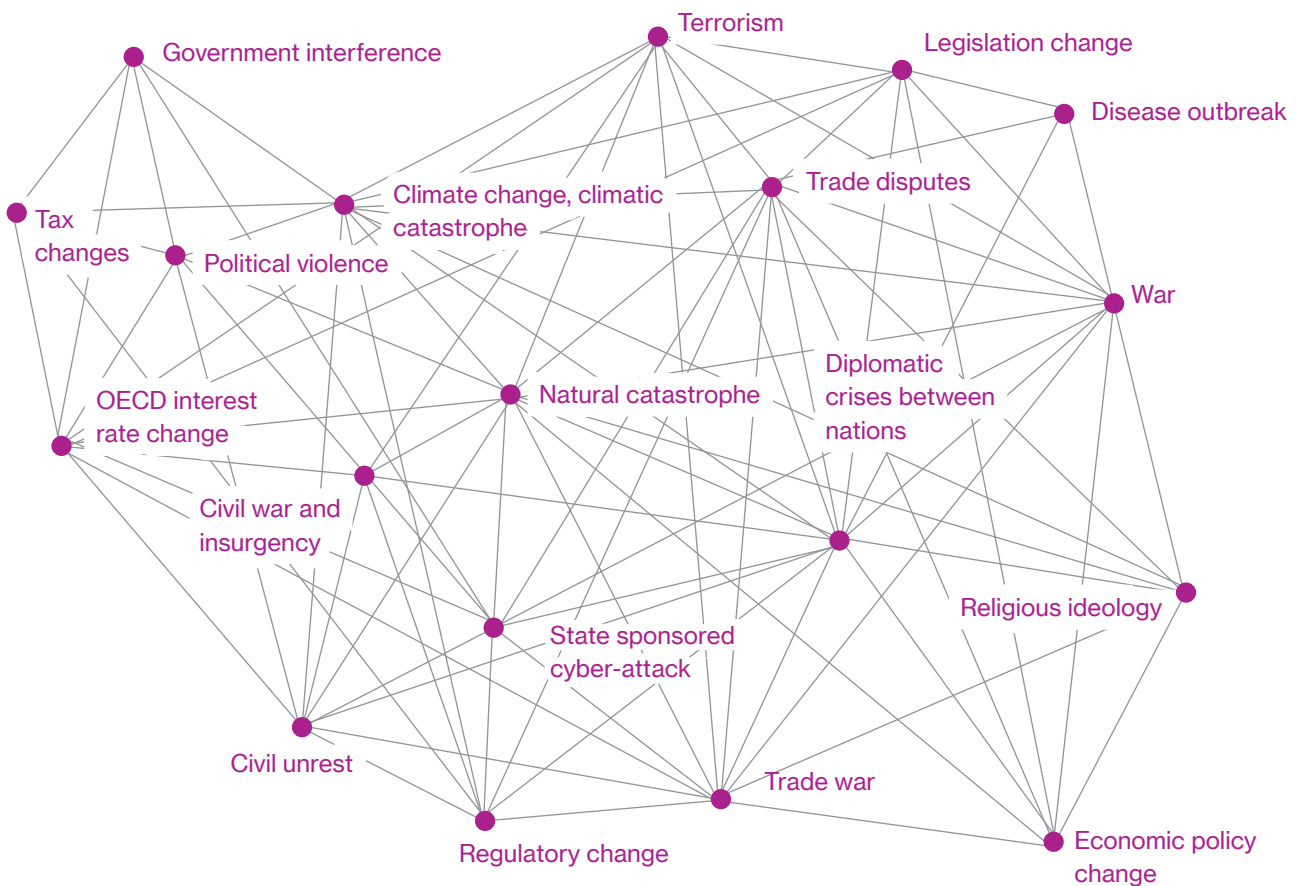
Geopolitical risks are complex, fluid and above all interrelated.

Each component risk needs to be considered holistically in the context of other risks and the wider political landscape. In the words of one delegate “everything needs to be integrated.”

This requires new ways of thinking. For example, most businesses are very aware of the importance of cybersecurity. However, boxing this as a ‘cyber risk’ can be a barrier to considering the wider geopolitical aspects. Is state sponsored hacking a cyber risk or a geopolitical risk when a state chooses to follow that course because of perceived threats to its border or trading arrangements?

Only by considering risks together is it possible to unpick the best ways to manage and mitigate.

## Geopolitical drivers of risk and their interconnectivity





## Credible information from trusted partners is key

Credible and accessible risk information is essential in getting the buy-in needed for an effective risk management strategy.

Generalisations won't achieve this. As one delegate put it "Information has to be tailored, relevant, consistent, timely, up to date – and critically, easily digested at board level."

Together, those of us concerned with risk will succeed when we help senior decision makers understand the impact that political, ideologically driven events can have on the strategy and effective operation of their business. "These are the messages that senior stakeholders will respond to."

Identifying geopolitical exposures demands expertise, knowledge and analysis of the geopolitical landscape and the business. That has to be the start point for prioritising the greatest threats and identifying the most appropriate mitigation and management strategies, as well as revealing the opportunities.

Successful approaches will feature:

- Quantification of the exposure and impact to their organisation
- Consistent and credible information
- Joined-up reputable package that reduces risk and drives insurance savings
- Credible and tailored scenarios that are meaningful to the business
- The development of a common geopolitical language that will enable insights to come to life for all stakeholders.

### Credibility matters to carriers too

Credibility is not just important for securing internal stakeholder support. When it comes to looking at protection, credibility matters to carriers too and will help secure cover on viable terms.





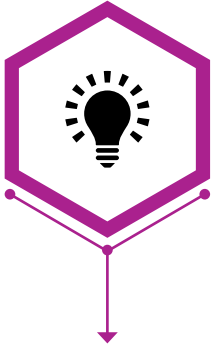
## Answer the question: ‘should we do the deal?’

Decision makers are often surrounded with data that tells them if they can do the deal – for example, information from credit agencies.

But it’s much tougher to answer the question of should we do the deal? Effective geopolitical risk management must help businesses to “move beyond strategy to direction”. Shifting from a three-year plan to a ten-year direction means being able to picture ‘what the world will look like’ in the future.

Businesses also generate a great deal of data for regulatory reporting and it makes sense to use this information to support strategy and direct decision making too. One delegate pointed to the UK Corporate Governance Code risk appetite reporting as an example, saying “let’s make all that work we do useful to our business too.” It makes sense to use information for more than just box-ticking.





## Geopolitical risk management requires innovation

As the geopolitical landscape changes, so must the way in which we respond. Innovation is critical to help prevent and protect against business risk events.

Innovation has to go beyond enhancements to traditional insurance coverage. That means new ways of working, financing, protecting and responding.

State-sponsored cyber disruption is an area where governments can struggle to keep pace with the resources and technologies required to protect infrastructure from attack. One delegate spoke about how “governments don’t have money to keep cyber infrastructure going, so large tech companies are using their own resources to protect their own cyber infrastructure.”

Machine learning, robotics and digital technologies offer new ways to mitigate risk and reveal opportunities. As risk managers, it’s part of our role to find new ways to put these to work.

Geopolitical changes also bring new strategic opportunities. Global climate change will bring change to regional economies, reducing the geographical advantages that have led to the development of industries in some regions and opening up new advantages for other areas, such as changes to traditional shipping lanes.

While innovation is about more than insurance, it’s important that we continue to innovate in protection too. That means new products and a shift from siloed to integrated solutions.

New sources of capacity and finance will also be necessary.





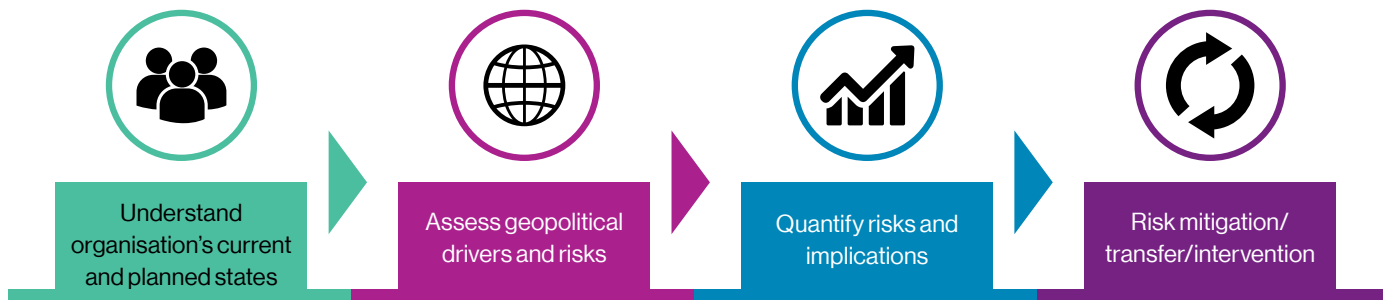
## Conclusion

Shared understanding is key to protecting, preventing and responding.

Look at any representation of geopolitical risk and you see a complex web of interrelated risks and themes.

What's apparent is that the connections – the direct and indirect relationships between events and themes – are as important as the risks themselves.

The view from our workshop was clear: successful organisations will be those that are able to understand, assess and quantify the connected risks, in order to take advantage of opportunities and mitigate or manage the risks of these geopolitical relationships.



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## About Willis Towers Watson

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