

# Geopolitical Risk

An integrated approach

Neal Croft, Geopolitical Risk Initiative Director

15 April 2019



# What is Geopolitical Risk?

Why is it relevant to you?

- Geopolitical Risk is more than violence and disruption – it is complex and global
- Increasing volatility driven by changing dynamics in economy, policy and geography
- Increasingly interconnected world

Risk Managers need to be able to identify and understand your Geopolitical risks and their connections

Different functions within your business need to look at these risks collectively

Credible information and insights are key to understand these interconnected risks and potential opportunities

This is the number one global corporate risk

## A board level view

### KPMG's CEO says:

*"In a geopolitically volatile, uncertain, complex and ambiguous (VUCA) world, the business environment that global companies operate in is defined by constant disruption and business leaders need to be confident with making strategic choices in the midst of uncertainty.*

*Geopolitics is at the heart of some of our clients' biggest concerns, and adding clarity to these enable businesses to respond to today's geopolitical landscape.*

***CEOs must recognise that a different approach is required, to elevate politics in the boardroom and put it on a par with other strategic challenges. CEOs must personally play the role of Chief Geopolitical Officer (CGO), using specialized insights and stress-testing tools to focus the company's attention on managing an increasingly uncertain environment."***

# The headlines

**US-China Trade War: Making Up Is Hard to Do**

Geopolitical Monitor, 2/1/2019

**75% of UK company Directors point to growing economic and geopolitical risks impacting their firms**

WTW/ Allen and Overy LLP's D&O Liability Survey, November 2018

**Brexit: 'An unprecedented geopolitical shift'**

**Global political risks becoming increasingly volatile**

Aon, April 2018

**World's worst climate change-induced disasters cost countries £50bn in 2018**

The Independent, 27/12/18

**UK military chief warns "global tensions are like those seen before First World War"**

General Sir Nick Carter, 11/12/18

**Russia cyber-plots: US, UK and Netherlands allege hacking**

BBC News, 4/10/18

**"Uncertainty around NAFTA and Brexit is a major concern for CEOs."**

Bill Thomas, KPMG International Chairman, 2018

**The "root cause" of Monarch's reduction in revenue was terror attacks in Egypt and Tunisia and the "decimation" of Turkey**

Andrew Swaffield, CEO, Monarch Airline, 2017

# The impact of Geopolitical events

**\$40bn**

Trade war between US and China has cost the US an estimated \$40bn in lost exports (Bloomberg)

**\$106bn**

Value of US/EU sanctions placed on Russia after Crimea estimated \$106bn by CNN (Money.CNN.com)

**10,000**

There are + 10,000 Chinese-owned firms operating in Africa (Mckinsey & Company)



Pakistan is an important corridor for planes flying between Asia, Europe and the Middle East, so closure of its air space affects hundreds of flights (CNBC)

**16%**

Industrial robots could be 16% less costly than humans by 2025 (Boston Consulting Group)

**\$600bn**

Close to \$600 billion, nearly 1% of global GDP, is lost to cybercrime each year (Mcafee)

**€€€**

Damage caused by the 'yellow vest' protests in France has resulted in "several tens of millions of Euros" in damage (thelocal.fr)

**78%**

Energy-related emissions are expected to grow by 78% by 2050 from 2005 levels if no further action is taken (OECD.org)

# What risk managers need to consider

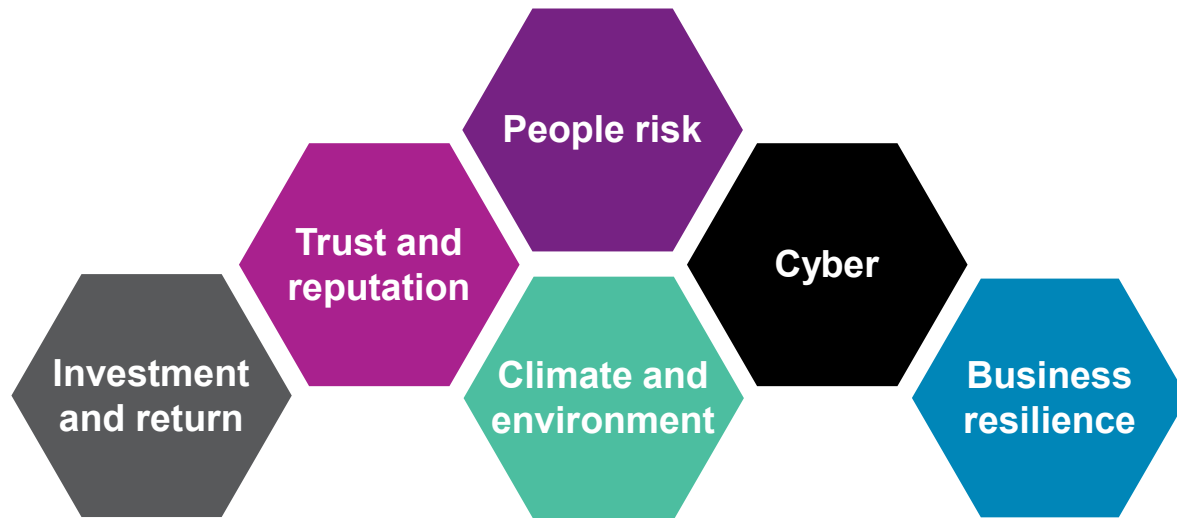
There are Geopolitical *drivers* that create risks (and opportunities)

- ▶ Geopolitical Risks and their drivers can be articulated, quantified and actively **managed**
- ▶ Managing Geopolitical Risk requires **multi-functional** activity, so working across the business is a critical success factor
- ▶ Taking an **integrated** and structured approach is key. Understanding the complex **interaction** of Geopolitical Risks and alignment with business strategy is critical
- ▶ An integrated approach of **Understand, Prevent/Protect** and **Respond** enables organisations to address Geopolitical issues. Insurance solutions are only one part of this

## So what can you do...?

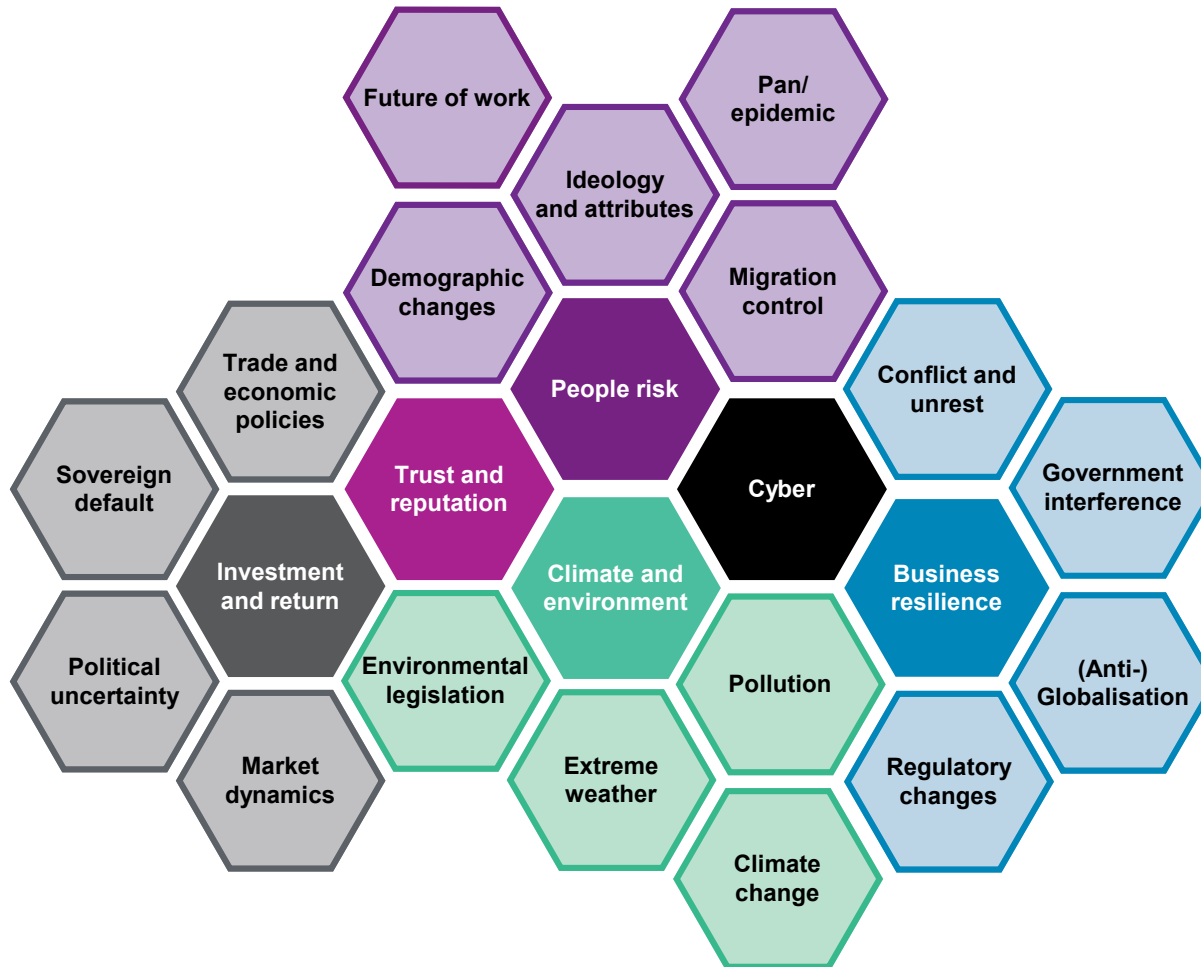
## Taking a 360° perspective...

Consider viewing Geopolitical Risk drivers and associated risks through 6 lenses



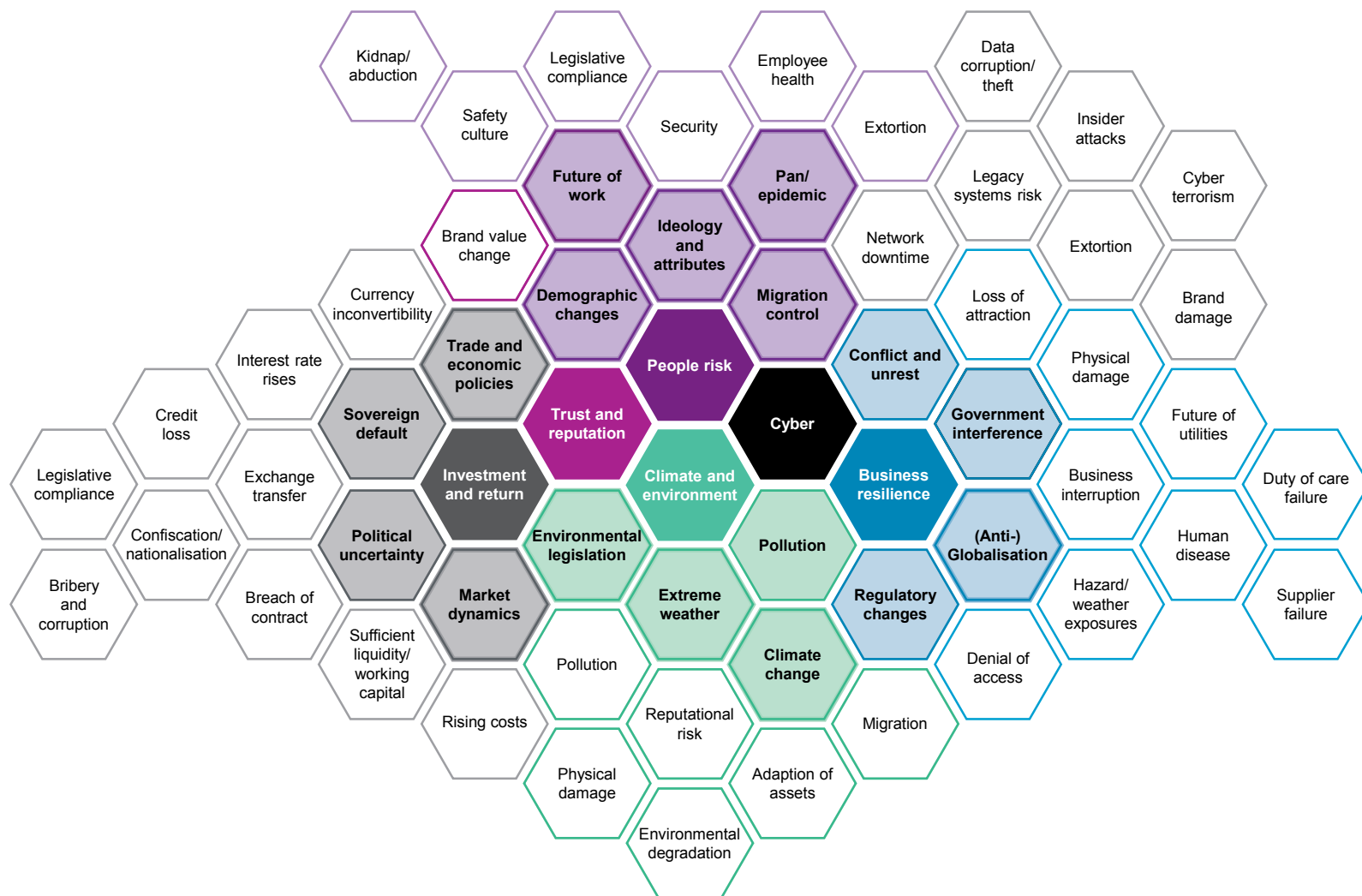
# Taking a 360° perspective...

Understand the Geopolitical drivers of risks through the 6 lenses





## Examples of the risks associated with Geopolitical drivers

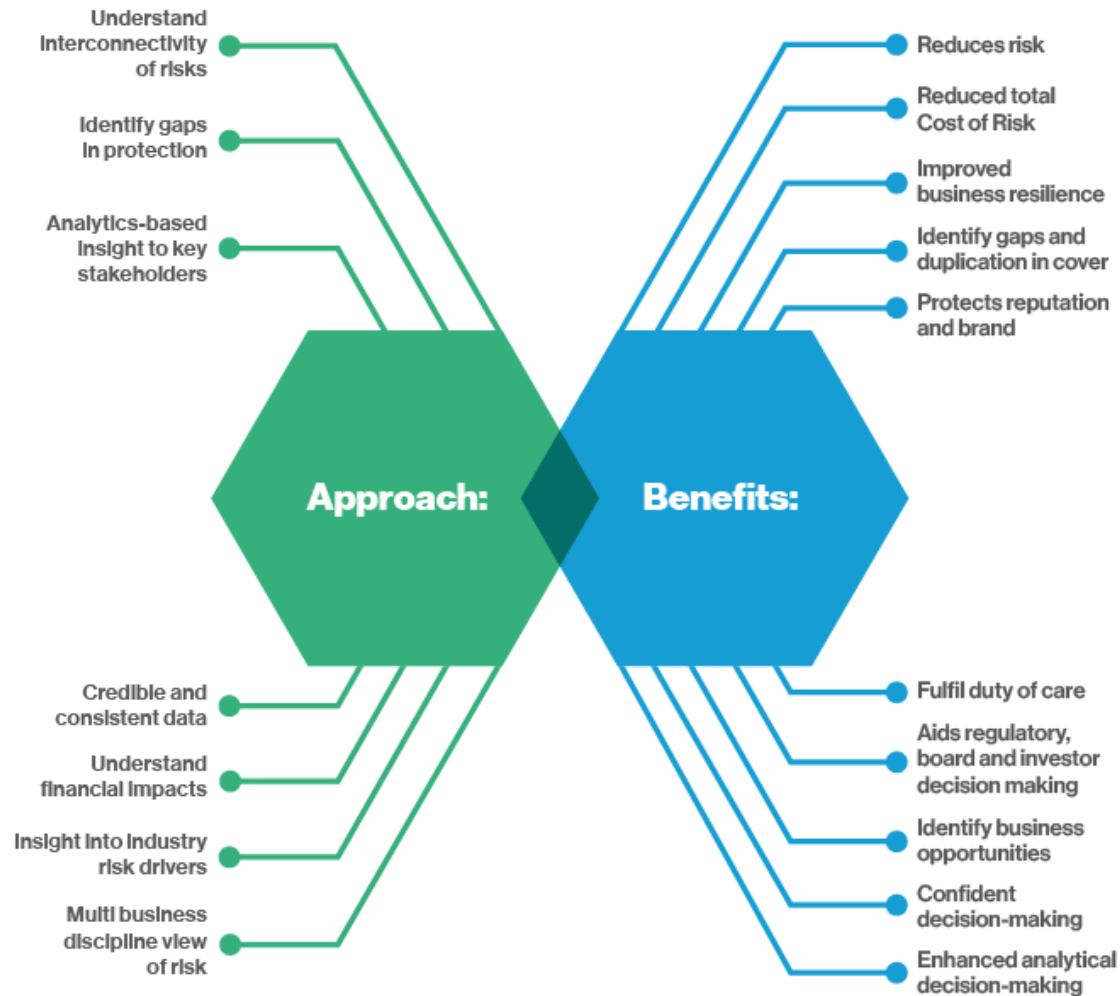


## An integrated approach

This should be embedded within an organisation's existing risk management framework, with collaboration between peer groups



# Benefits of this approach



## To find out more

We would love to see you during the AIRMIC conference



# WTW Geopolitical Risk workshop

**Monday 3 June 2019**  
**2.00 – 3.15pm**