
UNDERSTANDING EXTERNAL THREATS TO AN ORGANISATION

An analysis of the interconnected nature of
geopolitical risks and how they can be managed

GEOPOLITICS



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Foreword

There could not be a more important time to focus on geopolitical risk, the number one global corporate risk. Pervasive and impacting on all other risks, it is at the heart of most significant threats and opportunities to business. It sets the scene and conditions for how

and where we work. Put simply, geopolitics is about how your business sits within the economy, policy and geography, and the impact that events and incidents have on this relationship with you.

Today's businesses operate in a world where geopolitical risk is no longer limited to violence or disruption – or isolated to just a few

regional hotspots. Areas that were once regarded as predictable and stable have become volatile. And economic, policy and environmental changes bring any number of new uncertainties.

In our globalised and interconnected world, the ripples of natural, man-made and political upheaval spread far and wide, and morph rapidly. Increasingly, no company is immune from the impact of geopolitical risks.

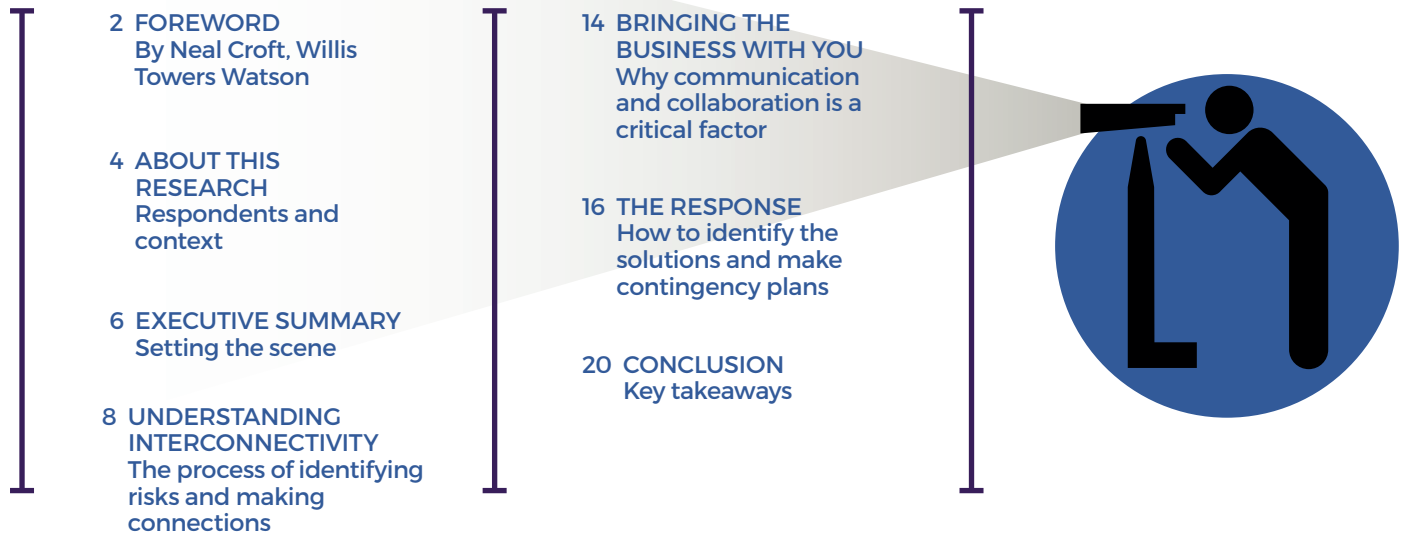
Whether your organisation is small, medium-sized or large, operating locally or globally, geopolitical circumstances demand a high degree of engagement and understanding. Risk managers need to be able to identify and understand geopolitical risks, their drivers and the connections between them, so they can mitigate the risks and seize new opportunities.

Different functions within businesses also need to look at these connected risks collectively and manage them using an integrated approach. You need credible and up to date information and relevant risk insight and analytics to see the potential impacts to your business. Risk leaders need to speak to their CEOs and boards about geopolitical risk.

Neal Croft
Global Client Relationship
Director, Willis Towers Watson



Inside...



About this research



This study is part of a research project discussing the future of the risk and insurance management professions, entitled, *Risk Management: Vision 2020*.

While the main report summarises the full findings of the research project, this is one of five deep dives into the core themes within *Risk Management: Vision 2020*.

The five reports are:

Assessing risk, realising opportunity and taking reward.

Examining the techniques available to risk and security professionals.

Understanding external threats to an organisation. An analysis of the interconnected nature of geopolitical risks and how they can be managed.

The value of boardroom engagement. Aligning an organisation's risk profile with governance and liability awareness among directors and officers.

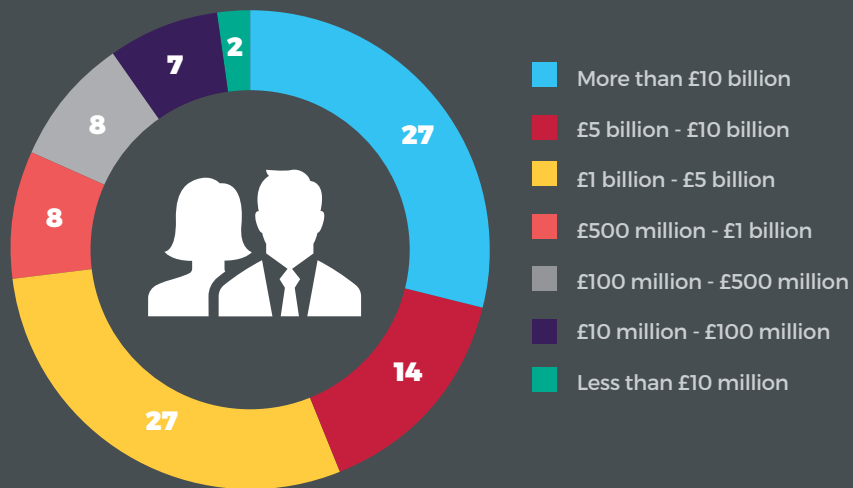
Turning data into information. Assessing the current and future role of data analytics in managing risk and insurance.

Transforming insurance for tomorrow's risks. Encouraging collaboration between customer, broker and insurer to move risk forward.

About the respondents

This report, produced by Airmic in collaboration with Longitude, is based on the responses of 157 members. While job roles and sizes of organisations vary, respondents primarily come from risk and insurance management and enterprise risk management at large multinational businesses. Due to rounding, and the use of multiple-choice questions, some figures and charts in this report may not add up to 100%.

Global turnover



Job role



Executive Summary

Political turmoil, arising from increasing domestic and international tensions, has created a volatile, uncertain, complex and ambiguous (VUCA) world for organisations to navigate.

While some geopolitical developments may emerge slowly or fly below the radar, seismic events such as Brexit or the US elections set in motion long-term consequences that are difficult to predict and prepare for. The world is less certain and more complex. Geopolitical risks are no longer restricted to a handful of regional hotspots – they are global and intensifying.

More than any other megatrend, members have identified geopolitical tensions as becoming harder, or significantly harder, to manage over the next three years (Figure 1). Geopolitical risk – risks emanating from the interaction between geography, policy and the economy – are at the forefront of global risks.

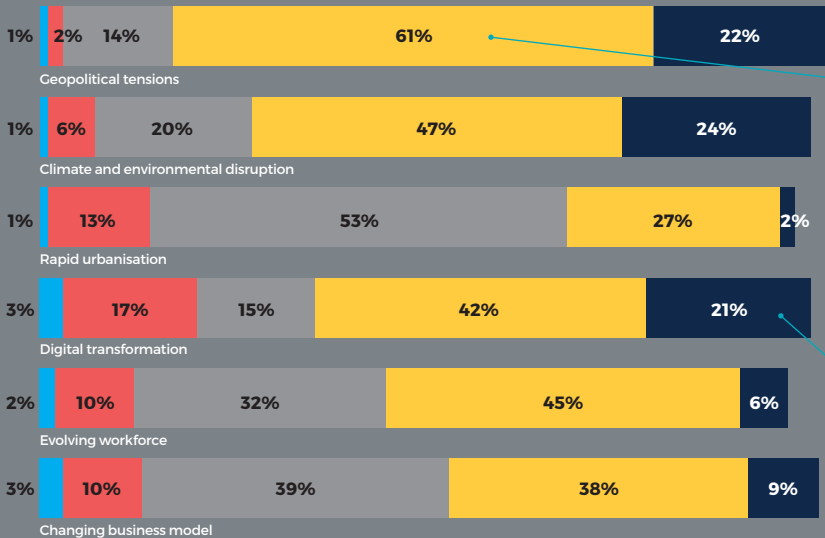
Although risk professionals are aware of, and recognise, the dangers that an unpredictable political environment can pose to their organisation, identifying, quantifying and assessing those risks is the challenge that faces our profession today.

Risk teams are increasingly expected to lead the understanding and communication of relevant geopolitical risks within their organisation. They must also ensure their boardroom and C-suite are engaged with the group of connected risks. It is only with the focus and appreciation of senior leaders that a business can expect to achieve a holistic, group-wide understanding of the risks, their interconnectivity and their relevance.

This report, produced in collaboration with Willis Towers Watson, will help risk professionals begin to break down the risks, understand their interconnectivity, the solutions available and appropriate responses.

Figure 1: Geopolitical risks will be hardest to manage

Q. How would you expect the risks relating to the following megatrends to evolve over the next three years?



61% expect geopolitical tensions to become harder to manage

21% believe digital transformation will become significantly harder to manage

- Significantly easier to manage
- Easier to manage
- Neither harder nor easier to manage
- Harder to manage
- Significantly harder to manage

Results

Understanding interconnectivity

Geopolitical threats manifest in a wide variety of ways, which are often unpredictable. World news headlines are filled with national conflict, domestic unrest and activist disruption, but the challenge is much broader than this emphasis might suggest. A shift in political landscape can alter the business environment that organisations are operating in – new legislation, changing regulations and trade relationships play their part. Translating these developments into tangible indicators for the organisation is not straightforward.

Identifying the exposure of an organisation to geopolitical developments can appear to be a complicated and daunting task. Organisations may be tempted to postpone putting in place the framework to carry out effective analysis because

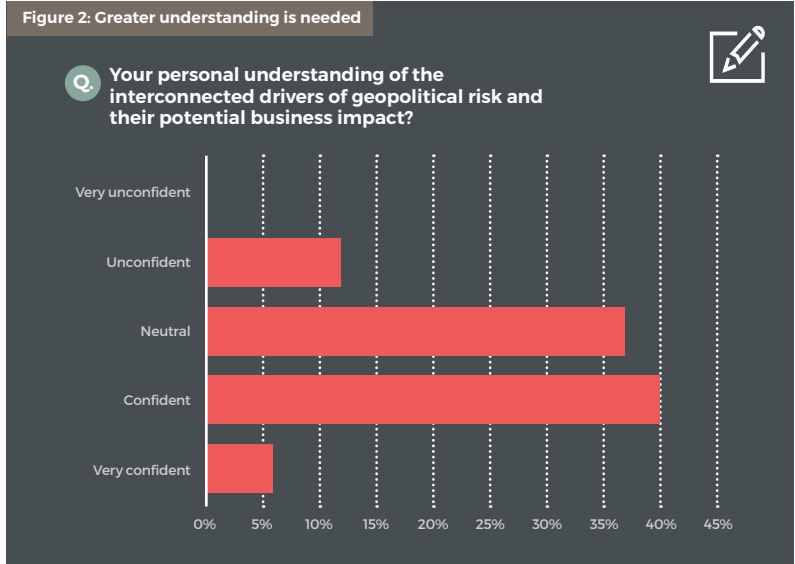
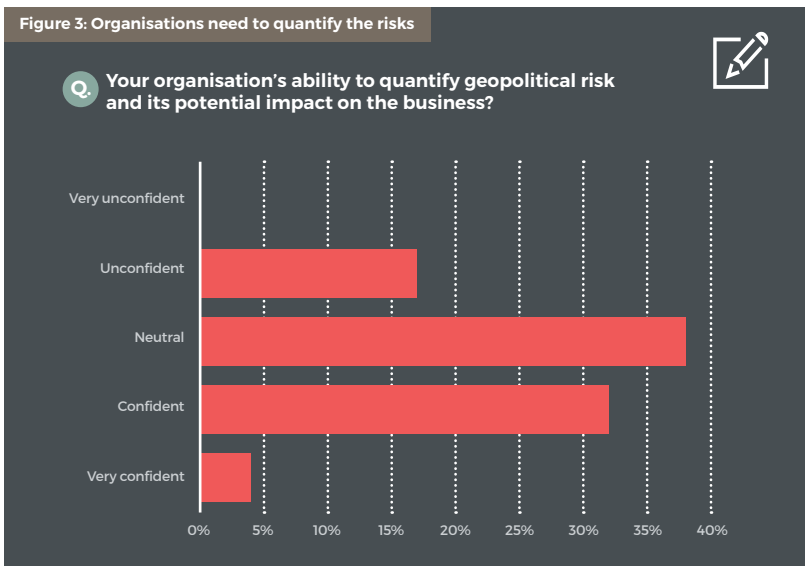


Figure 3: Organisations need to quantify the risks



the political landscape is evolving quickly and the process appears too complicated.

For those with a multinational footprint, the task will be far broader, with a long list of risks that need to be considered; while small to medium-sized enterprises may need to think more imaginatively about the touchpoints at which their organisation is exposed, for example, to changes in regulation, trade relationships, and environmental and local demographic make-up. Less than half of respondents expressed confidence in their own understanding of interconnected geopolitical risks and the potential impact these can have on their business (Figure 2), while fewer are confident in their organisation's ability to quantify these risks (Figure 3).

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- > Analysing the geopolitical risks through 'six lenses' and their drivers is a framework approach that will help organisations begin to understand their exposure from a 360° perspective and the interconnected nature of the challenge in front of them.

Considering the **climate and environment** lens, key drivers relevant to an organisation may come from the increased physical impact of climate-related disasters (acute risks) or chronic risks (for example, increasing average temperatures), but also from new environmental legislation and pollution. Climate change is increasing in people's consciousness, which can have an impact on reputation and accelerate the need for transitioning to a low-carbon economy. These drivers could result in an increased risk of reputation or physical damage, while falling foul of new regulations or bearing the rising cost of compliance must also be considered.

Looking through the **investment and return** lens, sovereign default and a

sudden change in trade and economic policies may lead to exchange transfer losses, rising interest rates and confiscation or nationalisation.

On politically motivated **cyber** threats, drivers such as conflict and unrest and government interference could result in the reputational damage that comes with a significant data breach as well as network downtime and data compromise.

Business resilience is almost omnipresent given the range and variety of adverse events that can impact on a company's operations. Examples include the risks mentioned above and, notably, threats such as supply chain failure and corporate reputation impact.

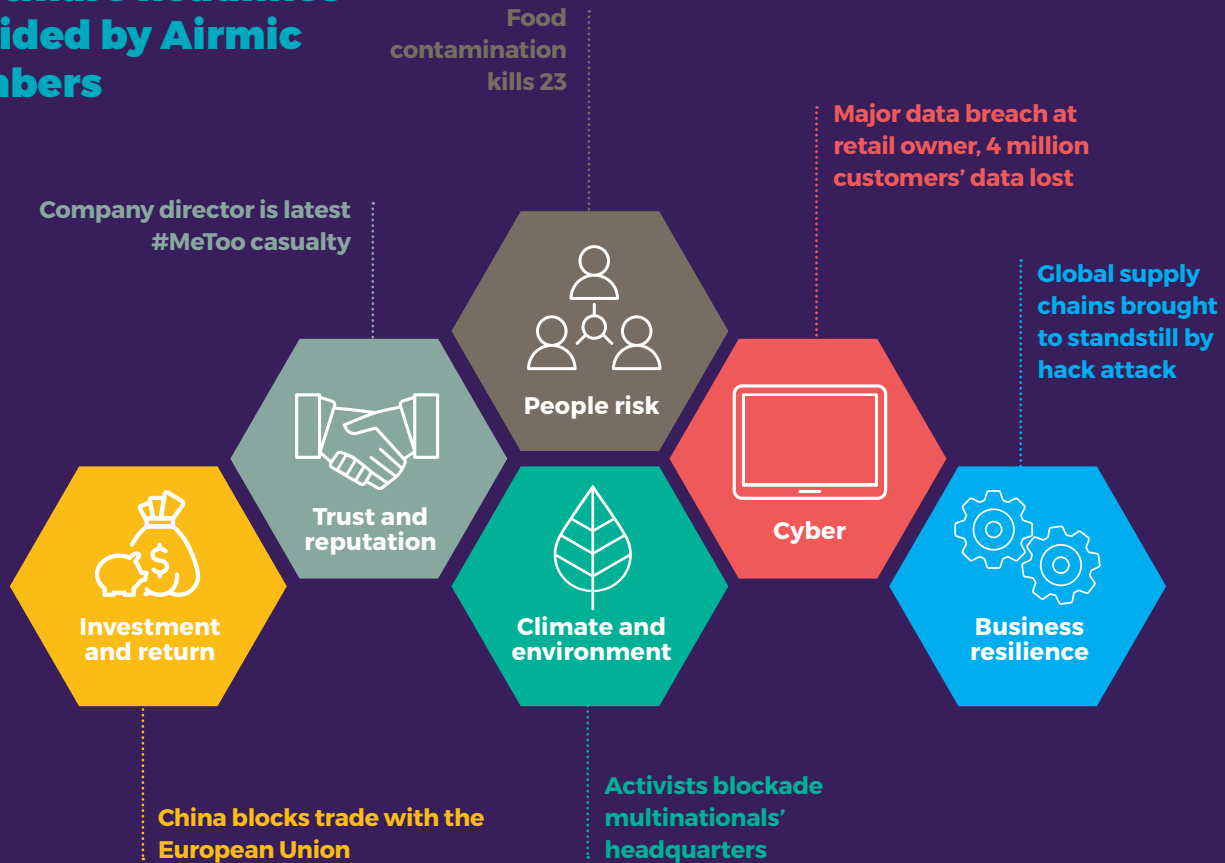
Despite the revolutionary digital transformation that society and our economies are going through, **people** and their behaviour remain at the heart of organisations and their success. Organisations can see through this lens by considering the risks to their

people (such as mental and physical health, workplace safety) and the risks caused by their people (such as poor performance, corruption, whistleblowing) as they look to attract and retain talent, and build a culture that encourages productivity and ethical behaviour.

Reputation is an amorphous subject that means a variety of things to different stakeholders. Viewed as a major intangible asset, it has grown to comprise a significant proportion of market capitalisation. The forces that affect reputation are ever-changing and have evolved drastically over the last decade. Changing demographic habits, falling public trust, rising state and non-state manipulation of public opinion, and the exponential rise in both the quality and quantity of data are all factors driving a new reputational paradigm for companies to navigate. From cyber attacks and customer abuse to terrorist incidents, the risk factors affecting reputation and brand resilience are growing.



Nightmare headlines provided by Airmic members





**Nightmare headlines
should align with the
organisation's risk register
and board priorities**

**Julia Graham, Deputy CEO and
Technical Director, Airmic**

Bringing the business with you

The risk professional will need to work across, as well as up and down, their organisation's business units and departments to identify the threats and understand how they are connected. A multidisciplinary, integrated approach, achieving engagement with all parts of the organisation, is a critical success factor. The methodology and process by which geopolitical risks are approached should be discussed and debated across the organisation from the start, rather than prescribed by the risk department or any other function. Achieving buy-in from all relevant business units and functions at the beginning will ensure that the process is understood and that the identification and monitoring activity is on the organisation's radar for all of its constituent parts.

Having identified the relevant drivers and interconnected nature of political risks and how they may materialise into tangible threats to operations and revenue, risk professionals should be well positioned to begin quantifying these and prioritising their mitigation, transfer and response measures. Should an event occur, how will it:

- Impact current assets and revenue?
- Interrupt productivity?
- Threaten health and safety?
- Impact brand and damage both reputation and trust?
- Increase the legal exposure of people and the organisation?
- Reflect upon supply chain/stakeholder relationships?
- Impact viability of the business in the future?

Half of respondents are confident that boards are considering geopolitical risk when they are making strategic decisions. Taking a systematic approach to identify and quantify the relevant risks should provide the risk professional with the confidence to talk to the board about the exposures their organisation faces. It will also identify triggers that are required to protect and respond. If the risk professional is confident in the processes in place to understand the risks – through identification and quantification – it will provide them with a strong platform to interact at a more senior level and communicate the exposures and the ‘so what?’ in a language the board will understand and respond to.

Communicating the financial and operational impacts of the identified geopolitical drivers and related risks should produce more confident and informed decision-making as well as identify business opportunities and, ultimately, reduce the risk profile by encouraging changes in behaviour.

With geopolitical uncertainty dominating news headlines around the world on a daily

basis and the expectation that things will only get worse before they get better, it is a top issue in the boardroom. Now is the time for risk professionals to take the lead within their organisations and demonstrate to the senior leaders that they can truly manage the risks they face.

Figure 4: Geopolitics is influencing strategic management decisions



The response

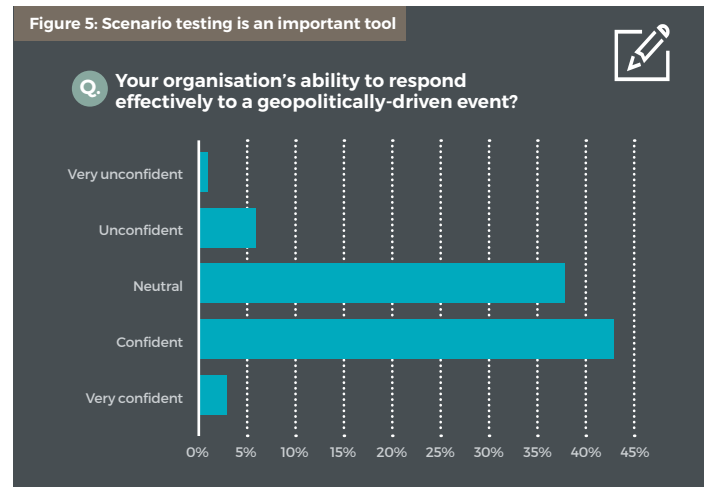
Responding to a geopolitical event will usually focus on protecting people, assets, revenue and reputation. Having understood and identified the risks in advance, prioritised them and analysed their linkages, organisations should be better prepared with response plans, including contingency and crisis management plans. A physical threat, resulting from political violence or terrorism may necessitate evacuation or heightened security procedures, while a dramatic shift in economic or political climate in a particular region may demand greater business resilience planning.

If a production site is hit by a sudden export ban, does the organisation have the ability to move production and people or contain costs while the site is out of action? The work the risk management team has done strategically in advance in identifying these exposures will help them to prioritise where specific contingency plans affecting the whole business need to be drawn up and workshopped.

While less than half of respondents are confident in their organisation's ability to respond effectively to a geopolitically

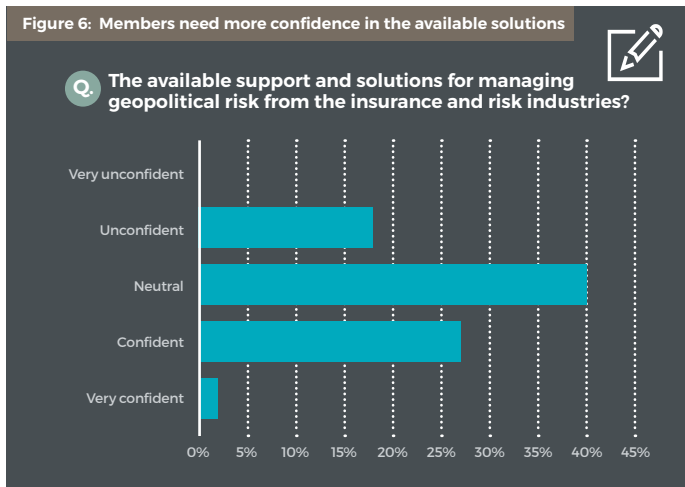
driven event, less than 10% are not confident. This suggests a fair degree of uncertainty (Figure 5). Risk professionals have the opportunity to take ownership of this topic and, in collaboration with their business peers, provide valued leadership and input into their organisation's resilience and future viability.

Figure 5: Scenario testing is an important tool





A dramatic shift in economic or political climate may demand greater business resilience planning



There is less confidence in, or at least awareness of, the available support and solutions being provided by the insurance and risk industries (Figure 6). The solutions available are broad and varied, but there is no off-the-shelf, one-size-fits-all approach that will identify, mitigate and finance an organisation's entire exposures.

Understanding the interrelated nature of the geopolitical risks and aligning internally to mitigate, protect against and respond to them will help organisations identify the right insurable and non-insurable solutions and ask the right questions of their risk and insurance partners.

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Geopolitical risk prevention/mitigation solutions include:



Crisis management planning and training



Risk prevention training



Risk and safety culture consultancy



Organisation design



Enterprise risk management framework



Business continuity planning



Talent, resource and reward programmes and management



Future of work strategy



Leadership assessment



Climate impact assessment to support investment in resilient assets

Insurance products and value added solutions that can contribute to effective financing of geopolitical risks include:



Political risk/
violence
insurance



Reputational
risk insurance



Terrorism
insurance



Active
assailant
insurance



Cyber
insurance



Captive
reserve
funding
solutions



Facultative
and treaty
reinsurance
solutions



Alternative
risk transfer



Credit risk
insurance



Loss of
attraction
insurance



Personal insurance
tailored for
business travellers
in high-risk regions



Environmental
insurance



Kidnap and
ransom
insurance



Non-damage
business
interruption

Source: Willis Towers Watson

Conclusion

The world we live in today is fraught with geopolitical uncertainty and can appear daunting and outside the control of the risk professional. However, the way these external events come into contact with your business and the impact they have can be effectively managed with the right strategic approach.

To put in place an effective management framework for these risks, requires a diligent and ambitious risk manager who is able to take the rest of their organisation with them to identify and understand the exposures they face. Elevating this understanding to the boardroom and C-suite will help the organisation determine its risk appetite, invest in mitigation solutions and procure the appropriate insurance and value added solutions.



Risk managers should speak to their CEOs and boards about geopolitical risk because it is reported as a top concern

**Neal Croft,
Global Client Relationship Director
Willis Towers Watson**

Key takeaways



Collaborate across the organisation from the start



Continuously identify, assess, quantify and connect your geopolitical risks



Design an agile response plan for high priority and exposed areas of the organisation



Understand and monitor the geopolitical environment of the New World



Explore the New Solutions being developed by risk and insurance partners





About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at

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