HOGGETT BOWERS

Black Swans, Grey Rhinos and Silver Linings – building geopolitical resilience to navigate a complex world.

We were delighted to host an incredible group of leaders at our recent Geopolitical breakfast roundtable, which focused on **'how business leaders can manage acute challenges and develop geopolitical resilience'.**

This was brought to life through our outstanding key speakers:

David Landsman: a former Ambassador and executive who is now a Senior Adviser at Strategy International, which includes the British Foreign Policy Group. He also advises leaders on how to approach the geopolitical dimension of corporate strategy.

Derek Leatherdale: is the Founder and Managing Director of GRI Strategies, working with companies to improve the management of geopolitical risk exposures. He established HSBC geopolitical risk function and formerly worked in national security.

A distillation of their presentation:

David has worked with both governments and businesses on geopolitical risk issues focuses on "interpreting" between the languages of politics and business. The Russian attack on Ukraine has shown that geopolitics can no longer be ignored. It impacts all sorts of specific risks including supply chains, operations, finance, the cost of living and the political upheavals which can all effect the bottom line. Cyber Security Risk, behind which state actors often stand, is also now at the forefront of government and business concerns.

Geopolitical risk should therefore be treated as an upstream risk geopolitical events like the war in Ukraine. Identifying the risk is one thing but the question is what do you do about it?

The first step is of course to take expert advice! But that's not enough: Boards don't need to be geopolitical experts themselves, but they should ensure they are "intelligent clients" of their expert advisers. An analogy would be in finance where the CEO doesn't need to be an accountant but needs to be able to interpret advice and read the balance sheet.

Today **we live in a multipolar world.** This is like the increasingly complex environment businesses operate in with multiple disruptive competitors, and where today's partner can be tomorrow's competitor. The global landscape is changing for example, the US is arguably less active in MENA due to less reliance on their energy resources. As a result, China has been able to raise its profile, for example presiding over a deal between Saudi Arabia and Iran. China's "belt and road" project has expanded their reach, addressing both political and supply chain objective, including through the acquisition of the port of Piraeus amongst many others. CEOs and the Board must think through the potential implications of de-globalisation and decoupling. How far will the US decouple from China? Where is resource dependency driving foreign policy?

Supply chains have come into sharp focus over the last few years due to COVID, Brexit and US/China tensions, leading increasingly to just in time versus just in case questions for Boards. It was PPE and vaccines a few years ago and now it's energy!

The growth of technology further complicates geopolitical analysis. For example, India's economic and geopolitical strength is in part a consequence of its power in the globalised IT sector, while its ongoing need for oil imports influences its nuanced approach to Russia.

The multilateral systems at the UN, WHO and WTO depend for their effectiveness on the readiness of major powers to cooperate in recent years, all have been to some extent paralysed by differences between the West, Russia and China, with much of the developing world reluctant to take sides. Business needs to respond to these changing dynamics and take a realist approach to relationships.

In summary, it is important to look behind the headlines to spot the longer-term trends. When dealing with countries (or businesses!) don't conclude that the other guy is mad or bad until you have tried everything else first. What are they trying to achieve Does your analysis make sense in their terms? Try to distinguish between tactics and strategy and where the real interests lie.

Derek wanted to present the corporate experience of managing the risks that flow from geopolitics. Political risk has evolved from post-cold war where the risk was seen as effecting a small number of emerging markets to now where geography is no longer the sole determinant of geopolitical risk exposure. In other words, it effects both emerging and developed markets. There is contagion risk: for example, the war in Ukraine continues to radiate direct and indirect macroeconomic and market impacts around the global economy.

It is hard to define geopolitical risk to fit into a standard risk taxonomy. Geopolitics affects firms differently. Geopolitical risk is often seen as synonymous with supply chain risk. In FS, some link it to sanctions risk. It's certainly both of these things, but more besides. There are second and third order impacts from geopolitical risk that span strategy, financial performance, operational performance and reputation.

There is an increasingly complex linkage between geopolitics and ESG, which can cut across corporate decision-making on sustainability. Geopolitical and climate change are intimately linked. Reducing carbon emissions has for example affected global relationships particularly between China and the US.

In conclusion, a systematic approach to incorporating geopolitical expertise into corporate decision-making and risk management activities can help businesses. Optimising risk management frameworks and approaches to geopolitical risk as well as deploying specialist analytical techniques and tools that can help organisations draw and anticipate some of the impacts from these issues.

Please click HERE to view the presentation slides to see more detail.

This was then followed by a Q&A session:

1. **Geopolitical Risks are hard to forecast accurately. Three years ago, who was planning and mitigating the risk of a major war in Europe? Isn't it a case of planning for the effects rather than a specific event?**

Yes, that's correct. With Ukraine, intelligence warnings were coming out of Washington and London from mid-November 2021. But the consensus view you'd read in the press was that Putin would be mad to do it, so most Boards thought he probably wouldn't. It's increasingly important that organisations develop more sophisticated 'radar' capability to anticipate geopolitical issues that could affect their business. Understanding the geopolitical risk language, knowing where to look for the intelligence and how to interpret it.

Geopolitical Risks are possible to forecast but not with 100% accuracy. To quote Eisenhower – "Plans are useless, but planning is essential".

2. **Are you seeing compounding risks around the Board table?**

Yes, up to a point. It quickly becomes a complex discussion when identifying the drivers between different kinds of risk. In the Financial sector, the maturity on Financial and Operational Risks capabilities are highly advanced, adopting an approach of optimisation of Geopolitics against this backdrop.

Identifying Climate as an upstream risk is driving fiscal and transition risks, and through a series on transmission channels is generating a range of other consequences. This conceptual framework can cross-over nicely to Geopolitical Risk.

3. **Can you provide examples of companies having a proactive geopolitical risk stance?**

HSBC's approach to geopolitical risk management as they set out in their annual reports is a very good example of what good governance and risk management on geopolitics can look like.

BP was the first major firm to announce its exit from Russia in the aftermath of the invasion with the Ukraine. BP has a Geopolitical Advisory Committee which reports to the main Board and consists of former luminaries from the Foreign Office providing advice and initiating contingency planning. This is probably why they were first out of the blocks.

Organisations have varying degrees of risk appetite, and it's often a judgement call for the Board, considering long and short-term cost/benefit analysis and associated consequences.

4. **Incorporating Geopolitical Risk into an Enterprise Risk Management (ERM) framework to such an extent without knowing the proximity and velocity, you are investing heavily. Would it be better to invest in the outcome and effect, and then monitor the proximity and velocity when deciding to act on Geopolitical Risk?**

It's increasingly clear that geopolitics is behind some of the major operational risks affecting business. Geopolitics comes up at as fast: by looking for the signs, we can get ahead of the curve.

Geopolitical Risk is perceived as ubiquitous which can lead to a temptation you have to monitor the entire world all the time. This is biting off more than you can chew. Identifying the priority Geopolitical issues within the ERM framework which potentially having the most strategic consequence if left to manifest in your business, are the ones that need to be fully understood.

5. **How effective is Insurance as a mitigant for Geopolitical Risk?**

Willis Towers Watson recently produced a paper tracking the use of Geopolitical Risk insurance across 50 firms, highlight the uptake in usage. It certainly has a place.

You can insure different adverse political risk outcomes, but you can't insure to cover across all scenarios. The insurance offering hasn't matured to reflect the complexities of Geopolitical Risk. Insurance is otherwise one of several tools for mitigating the financial impacts of geopolitical instability. There are others too, including portfolio diversification, adjusting portfolio limits, hedging and financial viability modelling

Acknowledgements:

Hoggett Bowers are very grateful to all our guests and a special thank you to:

Alberto Verga	COO	MS Amlin
Alice Avis MBE	Chair, NED, Investor	Empiric Student Property plc, BGF, The Erdington Group
Alistair Buchanan	Chair	Electricity North West
Andrew Cunningham	Corporate Governance, Risk & Regulation	Darien Analytics
Briony Horvath	CRO	The AA
Charles Rendall	Group Head of Strategic Risk	Pepper Financial Services Group
Dave Lees	CEO	Bristol Airport
David Fletcher	CRO	BUPA

David Pester	Partner, Head of Strategic Growth	TLT LLP
Eric Bensaude	Former MD	Cheniere Marketing
Garry Dryburgh	Former Transformation Director	Capita
Henry Cubbon	Former Managing Director, Energy	DCC plc
Iain Percival	Former Managing Director	Essentra
Ian Bull	SID	Domino’s
Jon Cooper	CFO	Longboat Energy
Kirsty Leece	Group CRO	Vitality
Len Sinclair	NED	Fondsdepot Bank, FNZ EU DAC
Malcom McCaig	NED	Hampden Agencies, QBE, Masthaven Bank, United Response
Mark Mugge	CFO	Lucida Group
Maxine Gee	CRO	London Stock Exchange Group
Mike Clasper	Chairman	SSP Group plc/Bioss
Mike Maudsley	CEO	enfinium
Neeta Aulak	Director of Risk and Compliance	Watson Farley & Williams
Patrick Butcher	Group CFO	Headlam Group plc
Paul Spence	Director of Strategy & Corporate Affairs	EDF
Robert Wall	MD	Lazard
Simon Pringle	Honorary Professor	University of Edinburgh Business School
Tim Ingram	Chair	QBE
Tom Harris	Head of Commercial Management Liability	BH Specialty Insurance
Tony Cocker	Chair	Infinis/Future Biogas

Hoggett Bowers

Hoggett Bowers is all about making a real difference to our clients and their businesses. We are passionate about recruitment, and we are proud to represent those Clients we partner with.

Working in specialist practices, we are in a league of our own – large enough to have the knowledge, resources, and wide-ranging expertise to operate globally but not so large we have lost the flexibility and the individual care our Candidates and Clients warrant in order to help shape their futures.

London

+44 207 964 9100

Manchester

+44 161 234 0400