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1st February 2022

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Dear Reader,

RE: From one crisis to another, building resilience to withstand heightened geopolitical risks

I am writing to you as a risk management specialist, not to sell services but with a genuine desire to support the actions taken by firms to prepare to withstand the potential impacts resulting from the heightened state of geopolitical risks.

We live in an era of increasingly frequent external shocks that individually test the strategic, financial, operational, and reputational resilience of firms across industries. The severe - and in some cases fatal - impacts these shocks present to firms of all sizes underscores the growing role of risk management as an important strategic and commercial tool, aiding the preparedness and ability of firms to respond to and recover from disruptions when internal or external circumstances change (whether unforeseen or not). For some firms, the test of their resilience could be called upon once again in the near future by the continuing escalation of geopolitical risks, such as the potential for military conflict between the likes of Russia and Ukraine, China and Taiwan.

You will have observed in recent years the accelerating transition of political, economic, and social influence to the East, combined with progressive economic decoupling by Russia and China from international markets and established systems promoting global integration and shared values. These events, taken together, suggest a more permanent shift in geopolitics that could lead to greater levels of uncertainty for board members and executives in the future.

I suspect you and your colleagues will have already begun to assess the potential consequences to your firm's strategy and operations resulting from an unfortunate materialisation of current geopolitical risks¹. Assessing these impacts will require continuous oversight by the board and executive management to ensure risk assessments and subsequent remedial plans remain adaptable to changing circumstances and provide confidence in the ability to protect the interests of customers, employees, investors, and other firm-wide stakeholders.

Be prepared

Geopolitical risks are notoriously difficult to prepare for given the unpredictable nature of how circumstances can evolve. Scenario analysis is one-way firms can articulate anticipated risks and assess related impacts, providing a basis in which to test the level of preparedness and prioritise any necessary pre-emptive management actions. It is recommended to consider an appropriate mix of actions that together balance the firm's ability to detect changes in applied risk scenario(s), whilst preventing, mitigating, and correcting the most harmful impacts. Identifying critical controls linked to each risk scenario will help identify control gaps, measure potential consequences against the firm's risk appetite framework and determine where pre-emptive control enhancements are required.

¹ When evaluating the impacts resulting from the current heightened geopolitical risks, firms should consider (amongst others) acts of war, cyber-attacks, economic and political sanctions, social unrest, supply shortages, transportation disruptions, and changes in social behaviours.

Given the severity of current geopolitical risks, applying good practices of risk management, such as the suggested items below, will help prepare your firm for what could be the next crisis.

- a. Identify a shortlist of geopolitical risk scenarios designed around current affairs with consideration given to both probable and extreme but plausible scenarios².
- b. Undertake a structured risk assessment of each scenario, considering attributes such as risk likelihood, impact severity and importantly - the speed of onset (e.g., the speed at which the peak of the risk could surface). The speed of onset is an important attribute to consider given the lightning speed at which events could unfold, such as political and consumer expectations for firms to rapidly adopt countermeasures or secondary risks that are backed by political motivations e.g., sudden suspension of material shipments.
- c. Assess the business strategy and plan to identify strategic investments and initiatives most vulnerable to impact, including underlying assumptions and interdependencies within the business plan.
- d. Segregate each risk into logical buckets, such as "prevent", "reduce", "transfer" or "monitor". A similar activity could be undertaken for strategic investments and initiatives, such as "stop", "pivot", and "continue".
- e. For the highest rated risks, identify, document, and evaluate current controls to determine the adequacy and effectiveness of the control environment to achieving the desired objective as stated in item d) above³.
- f. Assess whether identified control gaps warrant allocation of capital and/or resources relative to the risk assessment of each scenario and performance of the firm within risk appetite limits.
- g. Set expectations to monitor and report changes in the definition and risk profile of each scenario. This may lead to changes in current risk appetite thresholds or enhanced articulation of communication, escalation, and reporting requirements.
- h. Evaluate the effectiveness of your firm's crisis management response by running a scenario test to prepare board members, executives, and other key staff⁴.

A common pitfall when considering geopolitical risk scenarios is to take a narrow view of the secondary risks, such as the risk of supply disruptions caused by political bargaining or sudden changes in shipping routes to avoid conflict zones. Applying a measured approach to assessing the risks of each scenario should encourage a more comprehensive assessment of the primary and secondary risks, equipping you with complete visibility to what could happen and how it could impact your business.

I hope you find the advice and recommendations in this letter informative. If you would like to discuss the content of this letter further, please do not hesitate to contact me by emailing cthackray@riskpanorama.com or calling +44(0)-7444-788-545.

Yours sincerely

C. Thackray

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² Defining scenarios requires one to imagine situations that have perhaps not yet occurred but might occur in the future. It is important to be aware of bias toward historical experience that can lead to the risk of ignoring plausible but harmful scenarios which have not yet happened in history.

³ The evaluation of controls should consider various parameters, such as the control scope, owner, type, frequency and any audit or assurance results from recent controls testing.

⁴ Scenario tests should be designed to cover roles and responsibilities, situational awareness, organisational interdependencies, internal and external communications, information needs (including physical or virtual war rooms), and pre-determined decisions such as travel bans, staff repatriation, activating contingency supply arrangements, capital preservation, etc.

Professional Biography

About me

Christopher Thackray is an established risk management advisor, author, and practitioner with over 20 years of industry and consulting experience. Chris combines his deep risk management expertise with an advanced understanding of how risk management trends impact businesses in the current and evolving commercial climate. Chris's practical experience combined with his deep subject knowledge and forward-thinking mindset underpin his agility and creativity in providing businesses with tailored solutions to some of their toughest risk management problems.

Chris's experience of assisting and advising firms include global brands such as the General Electric Company, International Hotels Group, New York Power Authority, Rolls Royce, Southern California Edison, the Bank of New York Mellon, Visa Inc., Prudential plc and M&G plc.

To see Chris's full professional profile, please visit: www.linkedin.com/in/christopherthackray.

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