



The Risk Coalition

Leading Risk Thinking



Institute
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Geopolitical Risk: Improving oversight and integration with ESG

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Think Ahead



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Hermes**

CSFI
Centre for the Study of
Financial Innovation

CISI
CHARTERED INSTITUTE FOR
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THE
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OPERATIONAL RISK



The Extra G - ESG²

Principles-based guidance for Geopolitical risk oversight and its integration with ESG issues for boards, risk committees and risk functions

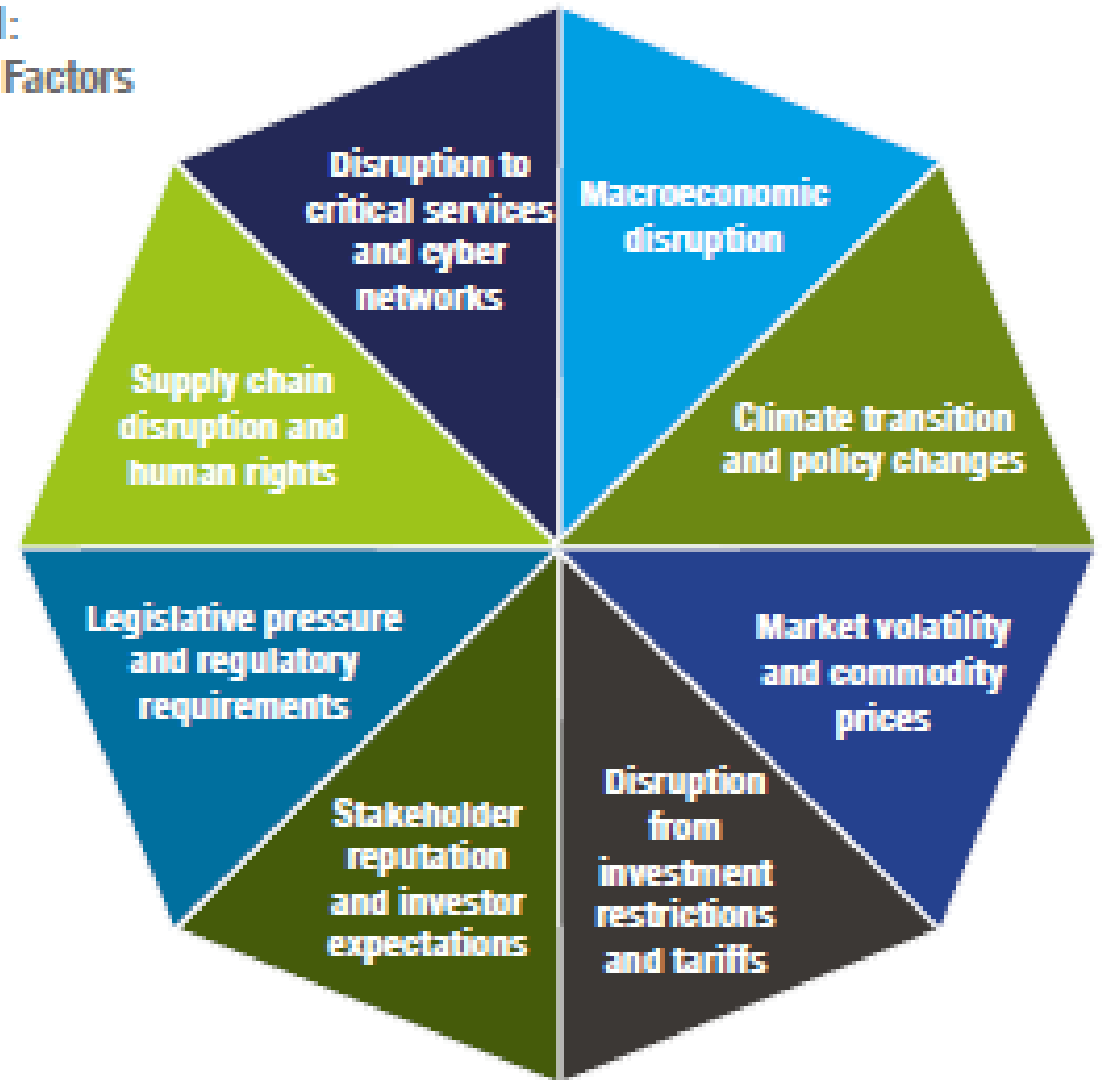


Corporate Impacts

“As geopolitical tensions rise, the compliance by multinational corporations with their legal or regulatory obligations in one jurisdiction may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional reputational and political risks for the Group”

FTSE 100 Annual Report 2020

Figure 1:
Critical Factors



Internal impacts and Corporate Functions

Examples of business impacts - these are shown in full in The Extra G - ESG²

First order impacts: how geopolitics affects the business environment

- General macroeconomic and trade disruption
- ESG activism
- FX volatility

Second order impacts: transition into risks for business performance

- Balance sheet and liquidity impacts from:
 - macroeconomic and trade disruption
 - FX and commodity price volatility
- ESG and compliance impacts from climate transition and policy changes

Organisational Impacts: business functions with responsibility and accountability

- Strategy
- Finance
- Governance

Some Immediate Questions

- Risk registers - ?relevant/objectives linked
- Financial viability modelling/stress testing
- 2nd/3rd order demand-side impacts
- 2nd/3rd order supply side impacts
- Operational impacts – accountability?
- Internal approaches: Reactive + fragmented vs proactive + comprehensive?
- Longer term considerations: strategy & business model, risk management and ESG planning

POLLING QUESTION 1

Are geopolitical issues and their business impacts routinely addressed by your board and relevant committees?

A Our board does not discuss these issues effectively

B We sometimes discuss these issues, but informally and in response to events

C We discuss these issues frequently but it can be unclear how they affect us

D Our risk oversight committee leads detailed work on these issues

POLLING QUESTION 2

Does your organisation have formal processes for analysing the impacts of geopolitical issues on business performance, including for 2nd/3rd order consequences?

- A Not that I'm aware of/Probably not
- B We rely on individual teams in the business to identify possible impacts
- C Yes, we have organised enterprise workstreams

POLLING QUESTION 3

Does your business fully integrate geopolitical risk governance and management into your enterprise risk management framework?

A I'm not sure/probably not

B Geopolitical issues are in our risk register/Strategic & Emerging Risks framework, but not sure what activity flows off this

C We have dedicated capability within our risk framework to lead work on geopolitical issues



Meet GABI

The Risk Coalition's online
Gap Analysis & Benchmarking Insights tool

GABI-PRIME

GABI-GEO

For Boards, Risk Committees and Risk Functions

www.riskcoalition.org.uk/gabi

Principles-based guidance for Geopolitical risk oversight and integration with ESG issues



Dip Sample of Early Findings – Part A Board Risk Committees



Challenging whether the risk function helps the business to understand the geopolitical environment and manage risks, and any ESG implications, that flow from it – 71%

Reviewing whether there is sufficient emphasis on emerging geopolitical issues in the committee’s terms of reference – 71%

Encouraging management to develop consistent and comprehensive geopolitical horizon-scanning processes that help identify business impacts and opportunities – 58%

Challenging the omission of, or discrepancies between, conclusions on geopolitical and related ESG issues reached by different management teams – 58%

The major benefits that GABI-GEO offers:

- Allows CROs, Heads of Risk and Heads of Internal Audit to measure their Geopolitical Risk Framework
- The Tool also enables C-Suite, NEDS and other senior executives to identify the practical actions that would enhance internal approaches
- This provides an evidence-based roadmap to use with other key stakeholders, including the board, audit and risk oversight committees, legal and finance
- Visualisation of aggregated findings
- Thematic analysis of key areas for focus
- The tool also allows benchmarking of your internal approach against risk functions in peer firms
- Subscription details on application



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www.riskcoalition.org.uk

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The Extra G – ESG² Guidance is available at: www.riskcoalition.org.uk/geopolitical

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