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GEOPOLITICAL, ENVIRONMENTAL, AND OTHER LOCATION BASED RISKS

By Atul Vashistha and John Bree

Governments, regulators, and organizations such as the World Economic Forum (WEF) have increasingly recognized environmental and a wide range of additional location-based risks. The COVID-19 pandemic has sharpened this focus. These factors make clear the need for organizations to recalibrate their risk management approach when confronting location-based issues.

COMPANIES MUST WIDEN THEIR RISK APERTURE TO INCLUDE GEOPOLITICAL ISSUES

As we've seen during the past 12 months, environmental risks that once seemed peripheral are increasingly leading to center stage events. Extreme weather events and natural disasters, serious issues on their own, become even more disruptive when combined with other risks such as pandemics. For example, as COVID spread across the globe, many already fragile health, power and communications infrastructures were overwhelmed, leading to significant and costly disruptions.

Actions Boards Should Consider:

- Ensure that risk models account for and monitor environmental risks at all supply chain locations.
- Verify that risk models consider the impact of cascading risks, when different risks interact to create unexpected outcomes. Monitor location-based risks on a continuous basis.
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LOCATION RISKS, ONE LEVEL DOWN

Organizations can't accurately mitigate location risks which they don't completely understand.

Geopolitical risks are a combination of geographical factors, government policy decisions and cultural perceptions.

A truly comprehensive location-based risk framework therefore, should include the following risk components:

- Infrastructure - Power, Communications, Transportation
- Quality of life - Pollution, Climate, Crime & Safety, Health Services
- Legal - Policy, IP, Cybercrime, Privacy, Labor Laws
- Business - Atmosphere, Investors, Trade Relations, Credit
- Financial – Labor costs, Utilities, Taxes, Foreign Investment, Rent
- Macro-Economic - Credit Rating, Inflation, Currency Fluctuations
- Ability for growth - Education, Languages, Talent Pool, Attrition rates

Question Boards Should Consider:

- Are location-based risk monitoring programs properly comprehensive and predictive?
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THE POTENTIAL VALUE OF RISK OPERATIONS CENTERS

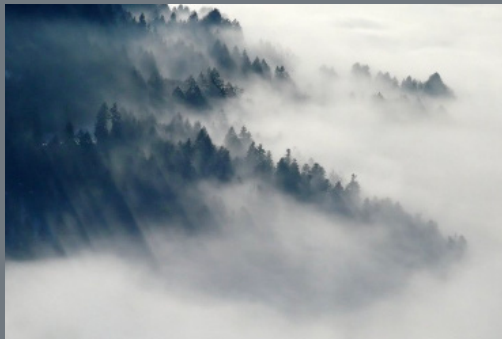
One way to parse the ever increasing variety and volume of operating risk intelligence may be to establish a centralized Risk Operations Center (ROC). Organizations are bringing previously dispersed risk functions together to serve as the continuous listening post for the firms they serve. This approach can help to better recognize and integrate emerging risks across the enterprise. Risk Operations Centers continuously search and receive intelligence and information from both external and internal sources. They validate, assess, and consolidate risk data; share the data with all impacted functions; monitor the response process; and utilize feedback and after-action reports to continually improve the program. ROCs enable enterprises to better avoid costs associated with disruptions, preserve or enhance revenue, and make possible more rapid recovery when issues do occur.

Question Boards Should Consider:

- Are there alternative structures, such as ROCs, that can help to improve enterprise risk management outcomes?
 - Are the right risk management personnel and processes in place to deal with rapidly emerging risks, including those that are location based?
 - Are risk management programs reactive or proactive to emerging risks?
 - How are emerging risks integrated into the overall risk management process?
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ADDITIONAL SOURCES

[COVID Exposed the Dangers of Underinvesting in Risk](#)
[Beyond COVID-19 Risk Management: The Need to be Solid as a ROC \(Risk Operations Center\)](#)
[A New Way Forward with Risk Operation Centers](#)
[The World Economic Forum Global Risks Report 2020](#)
[EBA ESG Discussion Paper 2020](#)



“The world cannot wait for the fog of geopolitical and geo-economic uncertainty to lift. Opting to ride out the current period in the hope that the global system will “snap back” runs the risk of missing crucial windows to address pressing challenges.”

World Economic Forum
The Global Risks Report 2020

ABOUT THE AUTHORS

Atul Vashistha is a leading expert on globalization, governance, and risk. He has authored three best-selling books: *The Offshore Nation*, *Globalization Wisdom* and *Outsourcing Wisdom*. He is also founder and Chairman of Supply Wisdom, the real-time and continuous risk intelligence and monitoring solution.



John Bree is recognized as a global financial industry executive and subject matter expert with a proven track record in developing and managing Vendor & Third Party Sourcing Risk Management. John is Chief Evangelist & Chief Risk Officer with Supply Wisdom.



WHO WE ARE

The Board Risk Committee (BRC) is a non-competitive thought leadership peer forum dedicated to Board Risk Committee members and Chief Risk Officers (CROs). The BRC is a trusted place for the exchange of ideas, best practices, and topics of interest. BRC is affiliated with The Santa Fe Group (SFG). SFG is a strategic advisory company providing unparalleled expertise to leading financial institutions, healthcare payers and providers, law firms, educational institutions, retailers, utilities, and other critical infrastructure organizations.

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