



Geo-politics and Geo-economics, challenges for the board

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The geo-politic and geo-economic risks faced by banks have evolved since the early 2000s. Banks and their network are operating in a business environment in which emerging geo-economic forces are interacting with shifting geopolitical realities. These risks are a growing concern due to the wide-ranging impacts to the bank's portfolios and business models from increasingly more interconnected and frequent events.

Several factors contribute to the importance of political and geo-economic risks:

First, of course, the fact banks have become more global players. The search for growth and competitiveness has placed them in new cultural and political environments with a mechanistic increase in the level of risk, also linked to rapid developments, the importance of interconnections, and in particular the central place of infrastructures.

Second, after a situation of confluence between those two risks that shaped globalization in the 1990s, the international system has moved to a mismatch between global geo-economics and geo-politics with a growing volatility in the global political environment, which is another factor of increased risk:

- Globalization in the 1990s was essentially mono-centric, based on the post-Cold War with North Atlantic being the geo-economic center of the world in all trade, investment and financial relationships. All international relations were organized around the G7.
- By the end of the 2000s, a divergence emerges between global geo-economics and geo-politics with a more polycentric globalization: the center of geo-economic gravity moved away from the North Atlantic towards Asia, creating multi polarity in which diversity and complexity become the rule. New institutional settings of governance have been established such as the G20 in 2008.

Third, geo-political risks are more and more frequent realities and banks are facing conflicting situations which may be caused by states (wars and other forms of conflict between powers, internal conflicts, regulatory stability problems, expropriation, corruption, extraterritorial sanctions, ...) or non-state entities (social movements, terrorism, cyberattack,...).

These developments and realities have important implications for international business. They cannot be avoided, therefore they should be managed and, of course, this affects corporate governance, the target composition of boards and the way the boards should integrate a degree of geostrategic awareness on international transformations and trends.

These dynamics underscore the need for banks to proactively address strategic opportunities and risks stemming from geo-politic and geo-economic risks/challenges/trends. The new environment exposes banks to new risks to their clients, their supply chain, operational structure, regulatory obligations, and taxes.

Of course, one can say that it is not something new, banks have always faced and managed those risks, and this is why it is important to recognize that geo-politic and geo-economic risks influence more the business environment with stronger potential disruptions.

These risks need to be managed and this is clearly a corporate governance issue and therefore also a board's responsibility.

Boards must ensure:

- that they capture all their operations globally and their possible geopolitical impacts,
- that the bank's financial resilience is able to meet these risks,
- that geo-political and geo-economic risks are taken into account in the bank's strategic vision.

In this respect, boards clearly need to understand how the management is taking into account these dimensions. How are they addressed? Which framework is used to identify these risks? Are there scenarios available? How do we reconcile short and longer "time horizons"? What is the decision making process?

In addition, this may raise questions on how this can affect a global network. What role for subsidiary board will play versus the holding board? Who owns the decision making (centralized/decentralized?) and how effective controls look like?

While geo-politic and geo-economic risks have the potential to disrupt, if well prepared and ready to act, **it can create opportunities**; another reason for the board to be involved and to set the tone.

In this respect, two main topics emerge:

1 – How the board is able to understand/contribute to the management approach for understanding, analyzing and managing geo-politic and geo-economic threats and opportunities? In this respect what are the main questions to be considered?

2 – How the board can cultivate competency and readiness around geo-politics and geo-economics? How this can be linked to the main questions on how to understand/contribute to the management approach?

The board should be in a position to consider several questions:

- Who is in charge in the organization to identify, assess and monitor relevant geo-politic and geo-economic risks?
- Do we have a robust framework?
- How do I make sure that our team is fit for purpose here?
- How do I make sure that the strategic decision making processes across the organization are incorporating both these new risks and opportunities?
- What are the risk appetite frameworks and stress testing around geo-political and geo-economic challenges?
- And do the above cover funding and liquidity interconnections across the Banking group?
- How does this affect the bank's financial model, business model and operating model?
- Does the board have the visibility? Do you have access to the right directors or committees?
- Does the board have the right people around the table?
- Should the shareholder structure be a dimension of analysis when assessing the bank's exposure to geo-political and economic risks?