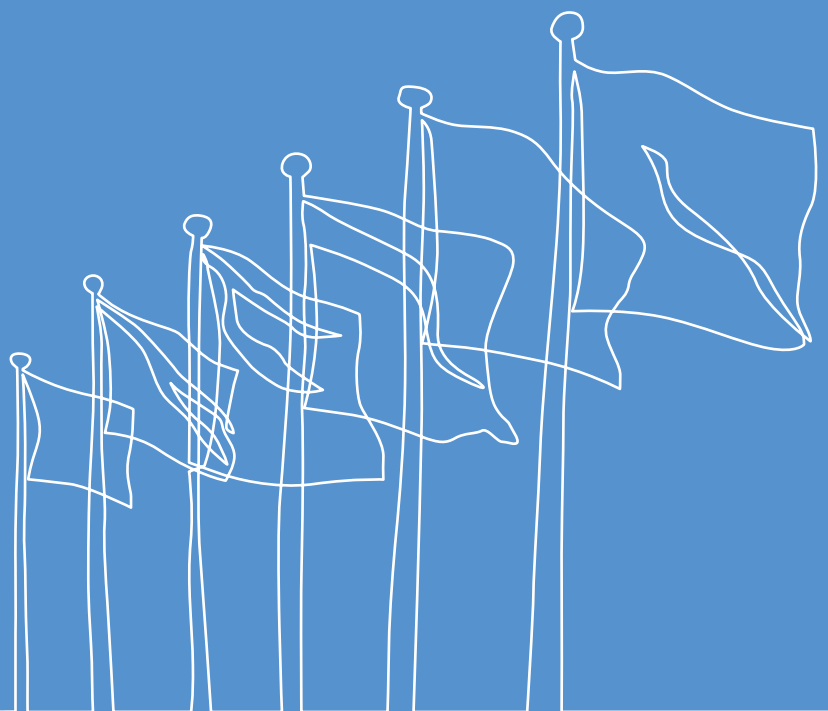


Risk & Resilience

Spotlight on  
Geopolitical risk

beazley



# Introduction from the author

There has rarely been a time when geopolitical risk has been so prominent in public consciousness. Although Beazley's Risk & Resilience research was concluded immediately before the outbreak of war in Ukraine, when even the most knowledgeable pundits were still skeptical about Russia's full intent, the mood of business leaders had already shifted to a heightened awareness of the threat that geopolitical risk poses.

Across the UK and US, fewer business leaders feel well prepared to manage geopolitical risks. Concerns about the possible consequences of war – notably, war and terrorism risks and economic unrest – are off the scale compared with the prior year, and inflation is a dominating concern.

A little over 21% of businesses across the UK and US listed war and terror as their number one concern, compared with nearly 15% in 2021 an increase of around 46%. The number of UK and US businesses citing economic uncertainty as their primary concern increased from 21% to over 27% from 2021 to 2022, a 31% increase. Meanwhile, 27% of UK and US business leaders put inflation at the top of their risk list.

Against this backdrop, business strategies are now at a point of inflection. Even those territories far removed from the theatre of war in Eastern Europe are feeling the impact of global sanctions and commodity shortages across the board - from supply chain, to the cyber threat, through to political risk and trade credit.

The impact of these secondary effects of the war is likely to be particularly serious in countries like Turkey and Egypt, which are highly dependent on energy and food imports from Russia and Ukraine. Experience suggests that the resulting economic pressure from severe economic hardship is likely to drive up political tensions.

The speed at which civil unrest can escalate on the back of economic crisis can be clearly seen from the recent rioting in Sri Lanka<sup>1</sup>, which has resulted in a number of deaths, hundreds of injuries, widespread property damage and the resignation of Prime Minister Mahinda Rajapaksa.

While it is encouraging to see that US businesses leaders remain more optimistic about the challenge of political risk, they cannot remain above the fray forever as the domestic threat environment is almost as challenging as overseas. As my colleague Chris Parker explains as part of our reporting for this research, increasing prevention, and post event support in the event of a deadly weapons incident is spiking up the agenda for US risk managers. The past two years have been the deadliest on record for gun violence, with more than 1,300 mass shootings across the United States<sup>2</sup>, statistics that have been brought into sharp relief by the recent tragic incidents in Texas and New York State.

Businesses need to know that as we face a moment of geopolitical change, which is fraught with unpredictability, they can protect overseas physical assets and their human capital both at home and abroad, by actively investing in a mixture of risk management and effective insurance cover. And there are choices to be made. Should cover to protect overseas assets be cancellable or not? And will an investment in insurance help reduce the threat from or mitigate the impact of a deadly weapons event?

As insurers it is our duty to explore the complex world in which our clients operate and create innovative solutions to help them build future business success in a geopolitical environment that has never been more challenging.








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<sup>1</sup> Sri Lankan troops ordered to open fire on looters and vandals as protests continue - BBC News

<sup>2</sup> Gunviolencearchive.org

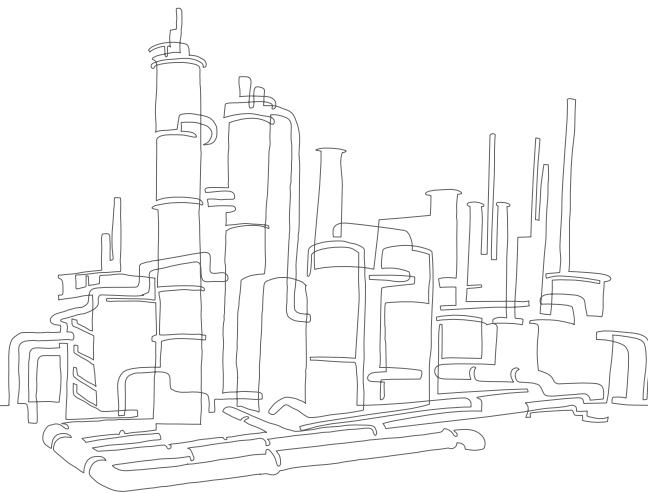
## Key takeaways

-  **Building business resilience** in the face of geopolitical turmoil is now urgent. The survey results paint a troubling picture with a high proportion of geopolitical risks sitting in high risk/ low resilience quadrant of the Risk & Resilience matrix.
-  **Inflation** is a dominant threat with 55% of business leaders believing they lack the necessary resilience to deal with it, which rises to 65% in the United States. **Economic uncertainty** remains a high risk for business generally through to the end of the year, and businesses will need to consider the likely heightened need for additional insurance cover such as D&O and trade credit.
-  **Civil unrest** is now a real possibility. General inflation and rising prices of food and fuel in particular could leave countries such as Turkey and Egypt, vulnerable, and business needs to actively prepare for this threat now.
-  **Can US business maintain its resilience** to geopolitical risk or will it be forced to address the threat both at home and abroad as it confronts rising domestic gun violence, a significant shift in its relationship with Russia and strains in its dealings with China?
-  The insurance industry needs to put **supporting clients** at the forefront as it assesses the availability and cost of cover in exposed lines, such as war and terror and trade credit and manages the challenges of an inflationary and an uncertain economic environment.

# Geopolitical risk spikes

The well-worn cliché that a week is a long time in politics gained new currency in the last days of February as the massing of Russian troops and weaponry on Ukraine's border plunged international relations into turmoil and rapidly disrupted global trade in key commodities like grain, oil and gas.

Coming hot on the heels of two years of COVID-19 restrictions, it is clear that the conflict in Ukraine has drastically altered business leaders' perceptions of the risks faced by their companies and their resilience to those risks.



## 46%

The proportion of business leaders ranking **war and terror** is up 46% on last year.

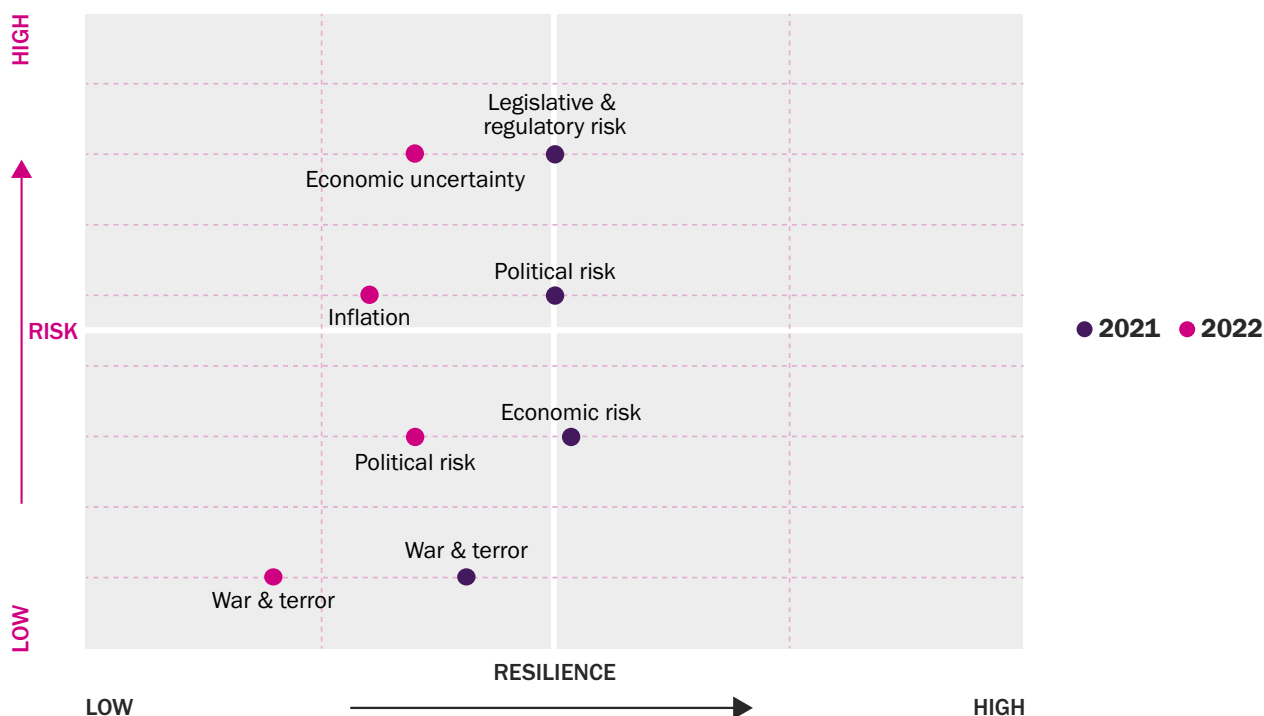
## 31%

**Economic uncertainty** is up 31%, compared to last year.

## Resilience falls

At the same time, perceived resilience has fallen back markedly, with 10% fewer businesses feeling 'very prepared' for war and terror, and 8% fewer for economic risks.

### Shifting perceptions of geopolitical risks



Changes in risk and resilience from 2021-2022 (% of UK and US business leaders listing these risks as their top concern)

# US and UK perception of risk and resilience diverges

In the US, the biggest change in risk perception was for economic uncertainty, with an 8-point rise in the percentage of businesses listing it as their number one risk since a year ago. For the UK, war and terrorism dominated, up 7 percentage points on last year.

As these risks have grown in significance, so resilience in both territories has fallen, with UK companies in particular reporting the biggest drops compared with 2021.

The number of US firms concerned about political risk fell by nearly 7 percentage points, compared with only a 1-point change in the UK, perhaps reflecting the fact that the US is a market in itself, and is consequently less vulnerable to world events that impact other global markets. This is in direct contrast to the UK which, post-Brexit, is still heavily dependent on foreign trade.



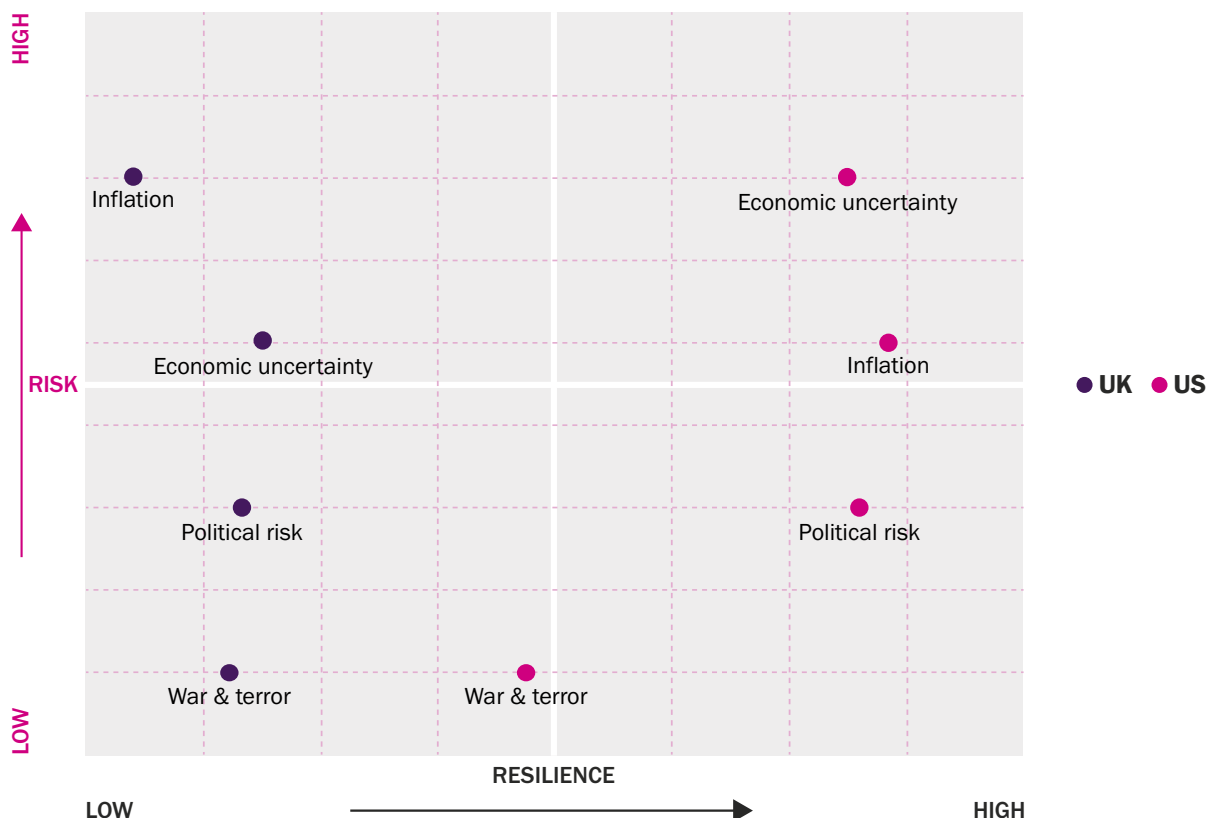
Why isn't US business more worried about the political angle of geopolitical risk?

There could be a geographical element, the US is further away from the current theatre of war, but these perceptions can change dramatically and quite quickly and it will be interesting to see if that has changed when we do the survey again, post what now starts to potentially feel like a US 'hot' rather than a 'cold' war with Russia.



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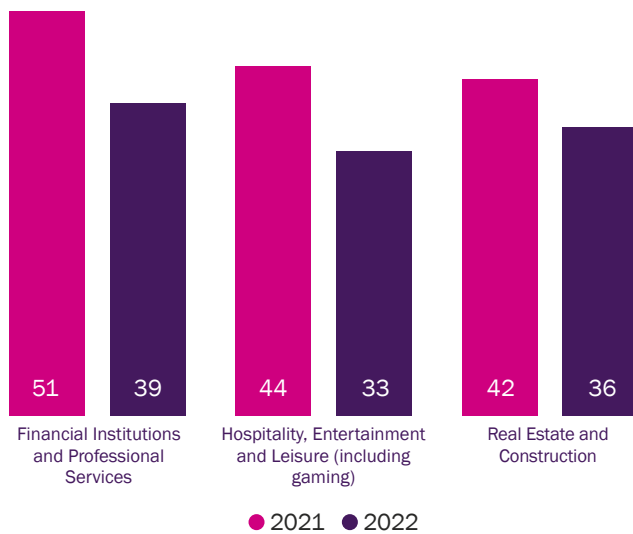
## Stark differences in perception to Risk & Resilience between US and UK businesses



## Sector impacts diverge as resilience falls away?

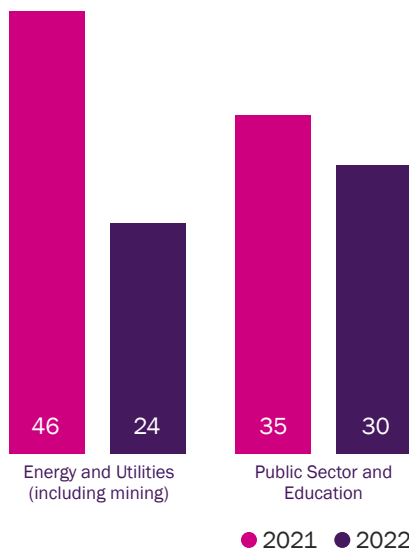
In terms of sector impact, it is notable that financial institutions and the hospitality sector are feeling the least resilient to the risk of economic uncertainty as spending power and investor confidence fall away.

### Economic Uncertainty - Percentage point Resilience change (2021-2022)



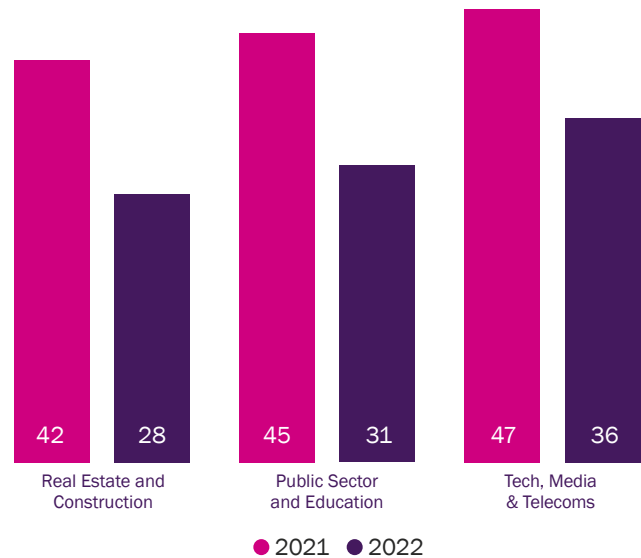
With public policy and trade relationships in turmoil, it is perhaps little surprise that energy & utility companies are particularly troubled by the prospect of political risk during 2022.

### Political Risks - Percentage point Resilience change (2021-2022)



Meanwhile, businesses in real estate & construction and public sector & education are showing significantly reduced resilience to war & terror risks compared with last year. In the US, which has been so devastatingly impacted by deadly weapons attacks in recent years, it is little wonder that resilience has dropped in public sector and education, where the full horror of these events is often felt.

### War & Terror - Percentage point Resilience change (2021-2022)



## What protection can be offered against the scourge of deadly weapons attacks?

All the statistics that we see in the US show that there have been more and more mass shootings over the last four years; we thought the figures couldn't get any worse and as recent events in Texas and Buffalo show every single year it does. It is vital that risk managers are not complacent about this risk, but actively prepare to help prevent and mitigate the impact of these horrendous incidents.



**Chris Parker**  
Head of Terrorism and Kidnap & Ransom

## About our Risk & Resilience research

During January 2022 Beazley commissioned research company Opinion Matters to survey the opinions of over 1,000 business leaders and insurance buyers of businesses based in the UK and US with international operations. With a minimum of 40 respondents per country per industry sector, respondents represented businesses operating in:

- Healthcare & life sciences
- Financial institutions & professional services
- Manufacturing
- Energy and utilities (including mining)
- Retail, wholesale, food & beverage
- Public sector & education
- Real estate and construction
- Tech, media & telecoms
- Hospitality, entertainment & leisure
- Marine & warehousing

Survey participants were asked about their views on four key categories of risk:

- **Digital** – including the threat of disruption, failure to keep pace with changing technology, cyber risk and intellectual property risk.
- **Business** – including supply chain instability, business interruption, boardroom risk, crime, reputational and employer risk.
- **Geopolitical** – including inflation, political risk, economic uncertainty and war & terror.
- **Environmental** – including climate change, environmental damage, pandemic risk, energy transition risk and greenhouse gases.

Of the firms surveyed in both the US and the UK there was an equal split of respondents across company sizes of: \$250,000 - \$1 million, \$1,000,001 - \$10 million, \$10,000,001 - \$100million, \$100,000,001 - \$1 billion, more than \$1 billion.

This research mirrored similar research undertaken in 2021, the 2021 survey covered 1,000 participants from the US and UK, from which the previous years' figures are derived. To access Risk & Resilience 2021 please visit our [research pages](#).

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This is the latest in our series of Risk & Resilience reports, which explore business leaders' attitudes to risk and their perceived resilience to these risks. To view our other Risk & Resilience reports please visit:

[www.beazley.com/risk-resilience](http://www.beazley.com/risk-resilience)

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