

## **POINT: Political Risk Must be Folded into ERM**

***To not do so is a dereliction of duty on the part of a business leader.***

Political risk must be analyzed and addressed as part of an enterprise risk management program because to not do so is a dereliction of duty.

Yes, political dangers are complex and evolving as fast as computer network dangers are. But we cannot just throw up our hands at the dangers of political risk just because they are complex, fast moving and difficult to analyze.

An analysis of risk and reward must accompany any business decision. Seasoned leaders know that they are sometimes going to fail in that analysis, and nowhere is that reality more true than in the area of political risk.

Global supply chains can be picked up and tossed like a cotton rug by work stoppages in Taipei or Mumbai.

The crucial drive for raw materials is intertwined with political will.

Look at how failure to extend alternate energy tax credits by the U.S. Congress has dampened the prospects of wind and solar.

Look at how some measure of malleability by nations with connections to the Arctic has led the likes of Royal Dutch Shell to place a major wager on arctic drilling.

The speed at which political upheaval is being driven by social media has toppled governments friendly to the United States and its businesses in a matter of weeks. But the speed and complexity of this reality calls for more risk management engagement, not less.

And there is opportunity in all this creative destruction.

A cogent analysis of political risk, whether it be forecasting the recent failure of the EADS and BAE merger, or gauging the political will in Germany for bailing out debtor nations could create windfalls for companies that place their bets on the right squares on the roulette table.

And let's not make the mistake of viewing the framework of viewing political risk as something that solely involves foreign affairs.

The painful combined ratios that we find in workers' compensation are something very much influenced by the degree to which state governments regulate components -- prescription drugs and the tort environment -- of the line.

It breaks down even further than that. In Pennsylvania, the rights of property owners versus those of gas drillers in the drive to extract Marcellus Shale gas are being regulated now on a township by township basis, regardless of whatever way the governor sees things.

Political risk may be the toughest nut of all to crack: So have at it with gusto.

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**(Read Managing Editor Cyril Tuohy's counterpoint argument, "[Political Risk is a Crude Science.](#)")**

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