

# Credit & Political Risk Insurance Keeping The Wheels Of Global Trade and Investment Turning

25 October 2011

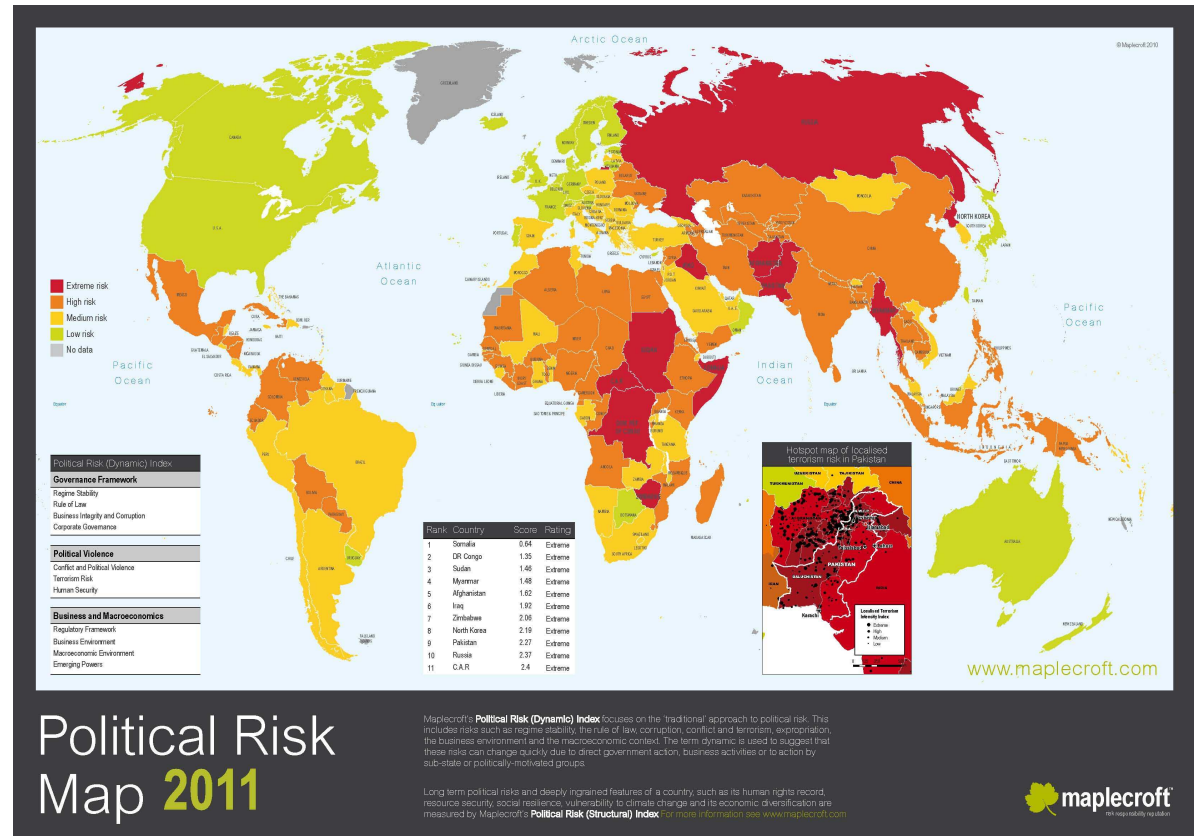


**Martin Phelan**  
Managing Principal, Political Risk & Structured Credit

AUS - Melbourne

# Agenda

- Context
  - Global Trade & Foreign Investment
  - Current Events, Trends
  - Country Case Studies
- Credit and Political Risk Insurance
  - Foreign investments
  - Contract risks
  - Buyers and applications
- Historical claims
- Market participants



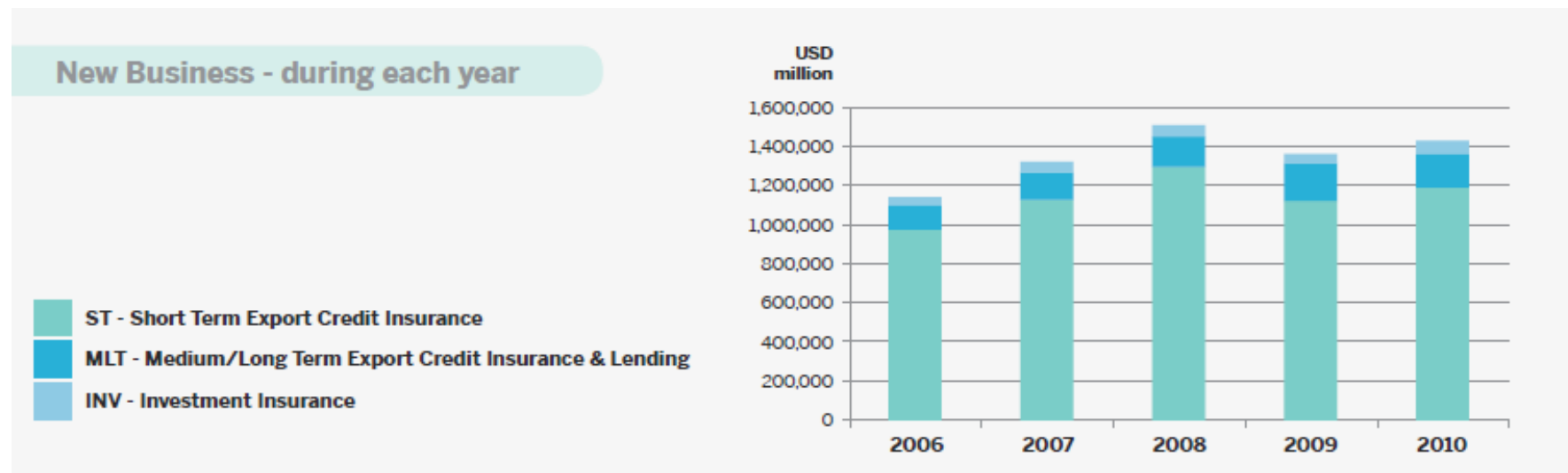
## Context

### Global Trade & Foreign Investment

#### CIA World Factbook estimates:

- 2010 Global Exports – USD 15.18 trillion
- 2010 New Foreign Direct Investment – USD 1 trillion

#### Berne Union\* 2010 Yearbook Statistics:



\* The Berne Union is an international association of credit and investment insurers representing both national government and other public providers and commercial market participants.

## Emerging Trends and Developments

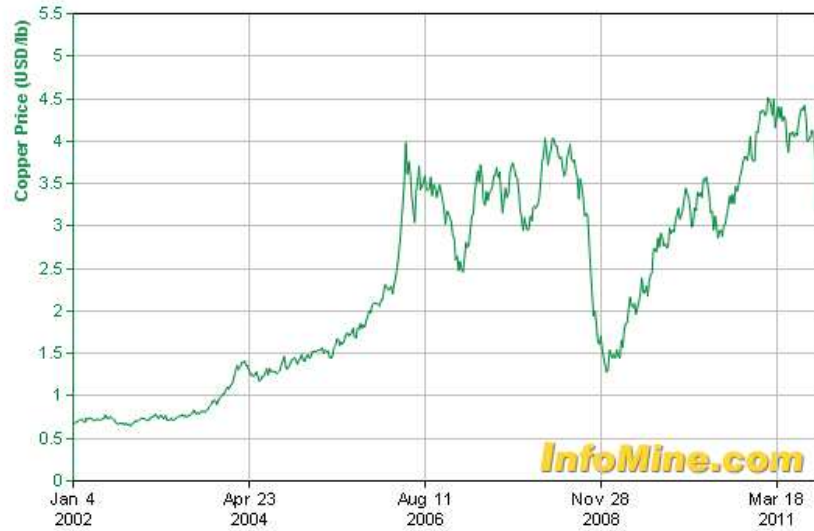
### Global factors, trends and motivations

- Political risk is also cyclical ...*the old becomes new again...*
- Supply/security of resources as a geopolitical issue
- Globalisation – value of and dependence on trade and supply chains
- Commodity prices – now vs. ‘then’, implications & outlook
- Nationalistic/socialistic/populist governments
- BRIC’s – (one ‘i’ or two?) full of opportunities and challenges
- The *Arab Spring* – how quickly ‘political stability’ can turn
- Conflict zones & the ‘*Resource Curse*’
  - DRC and Africa, Philippines, Indonesia, PNG and the Pacific Rim
- **What’s next:** ‘conflict’ (political *and/or* military?) over food, water, etc.?

# Political Risk – illustrating the diversity in underlying pressures



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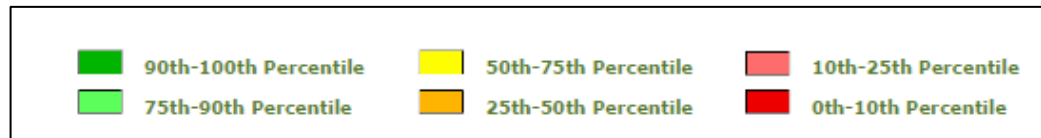
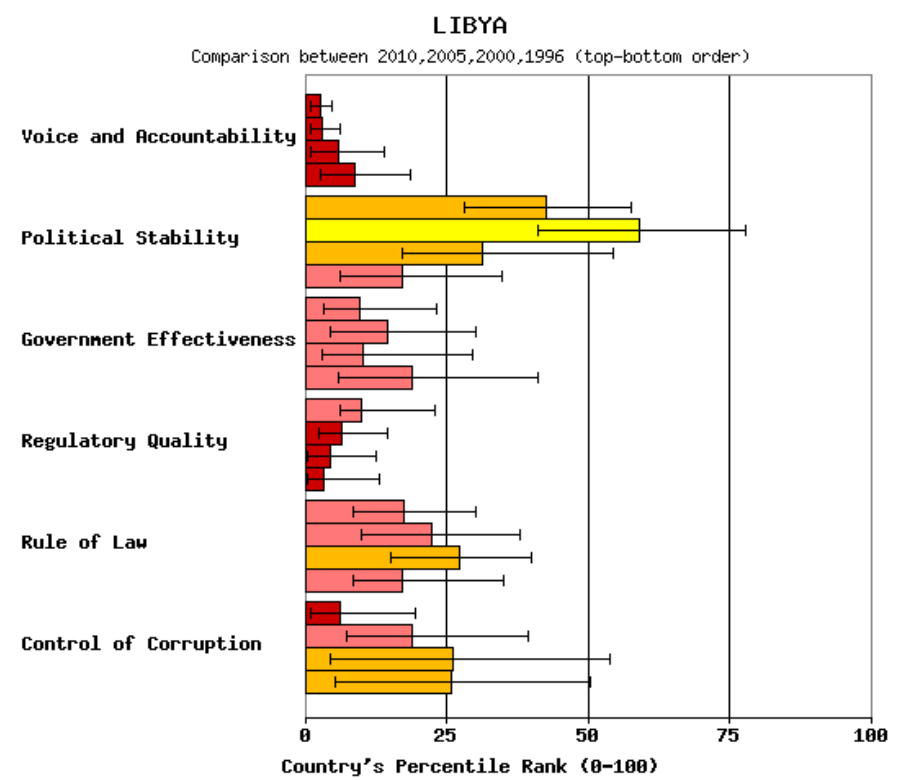
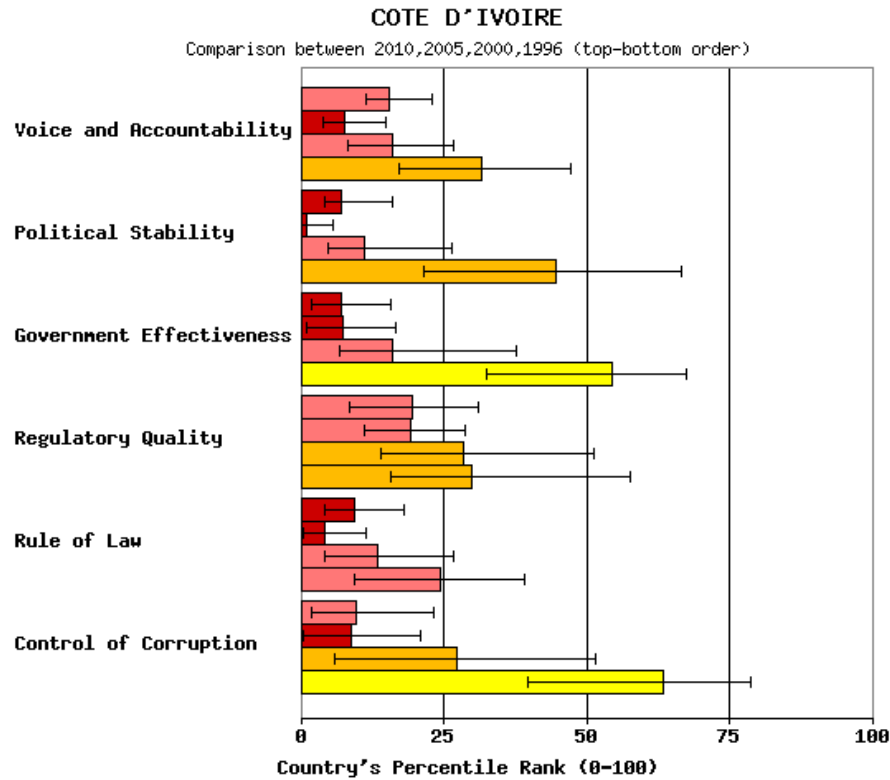


# Country Case Studies

## Political Risk can be dynamic

Ivory Coast: once the 'jewel of Africa'

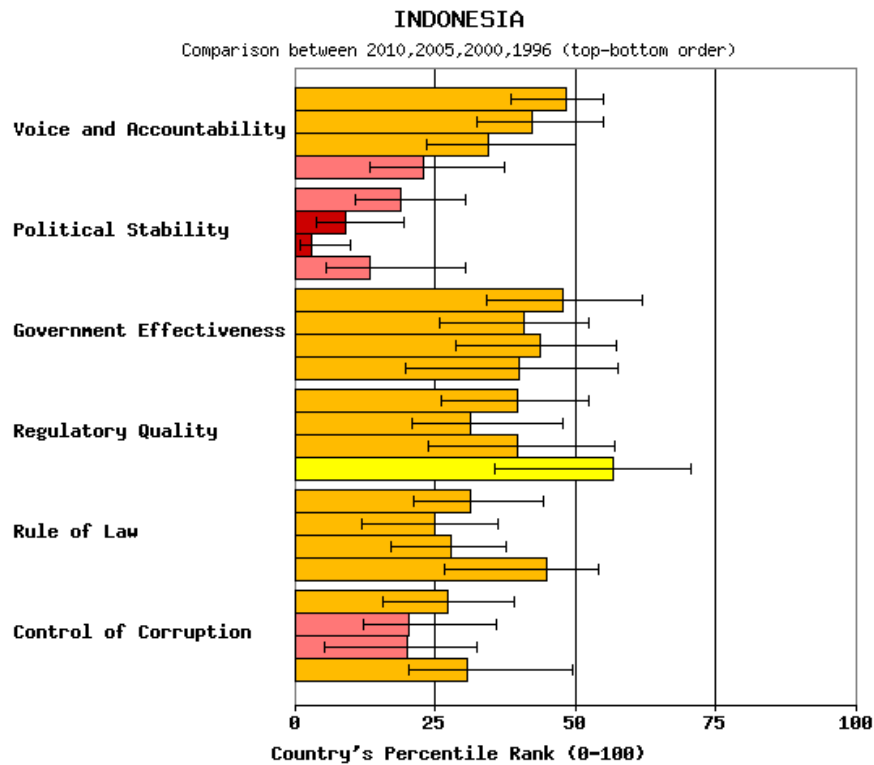
Libya: don't overrate 'political stability'...



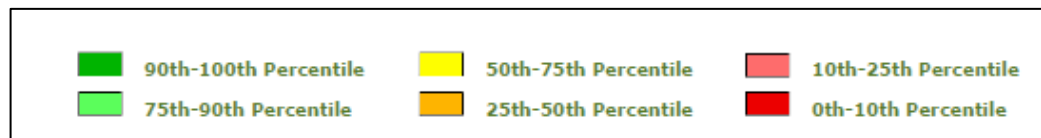
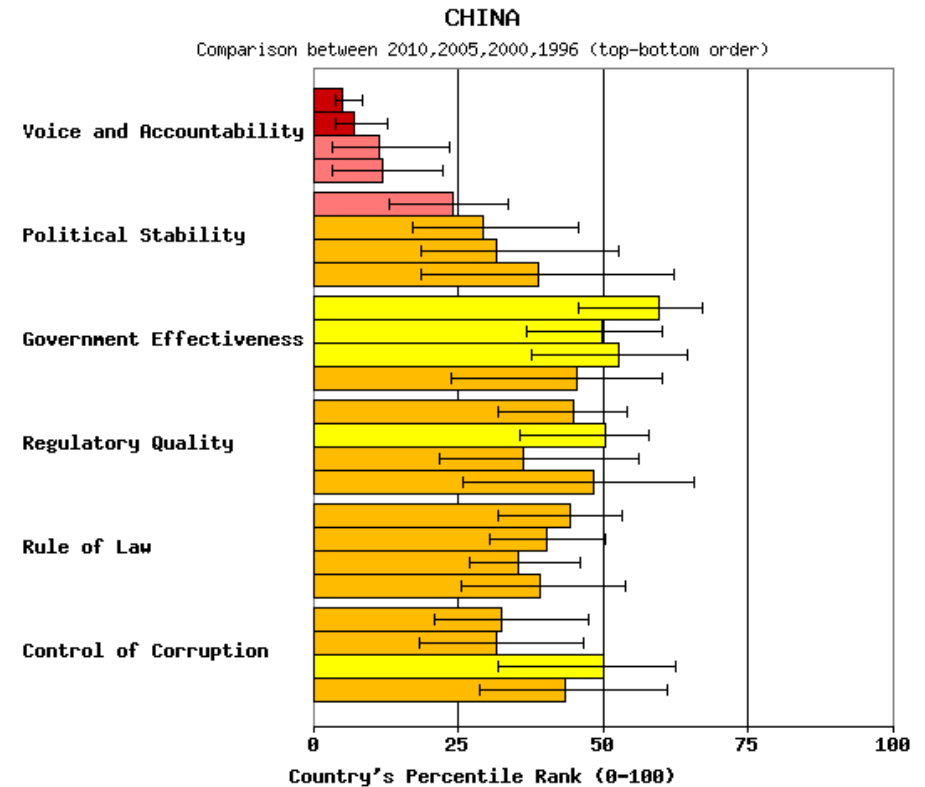
# Country Case Studies

## Some of our regional partners

Indonesia: some positives...



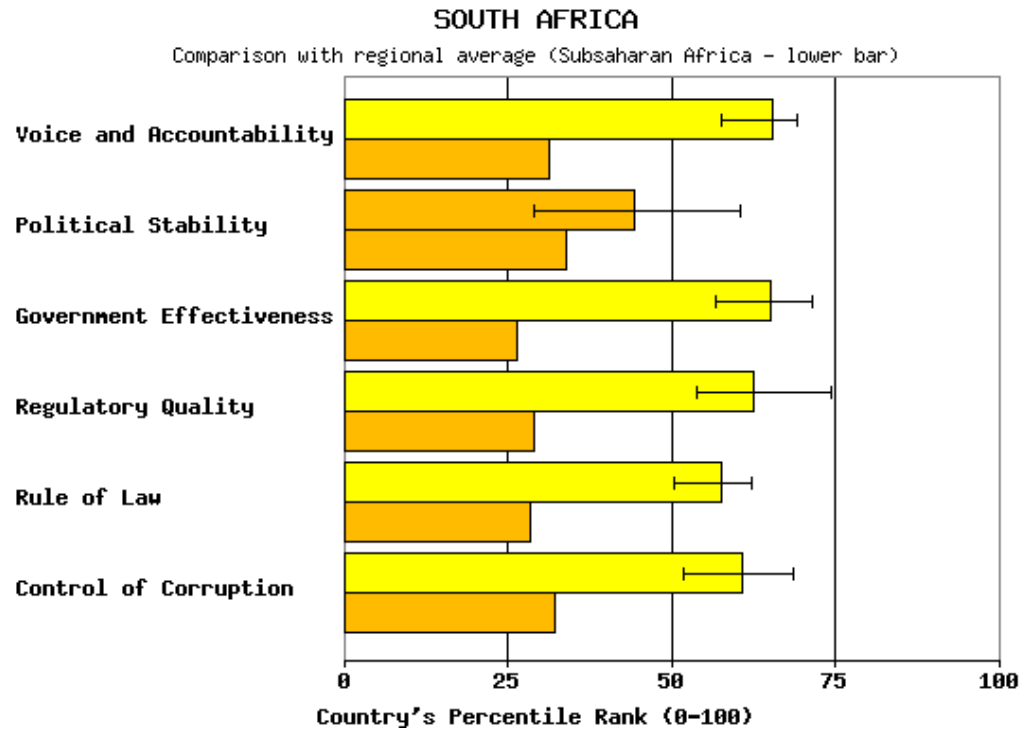
China: in line with perceptions?



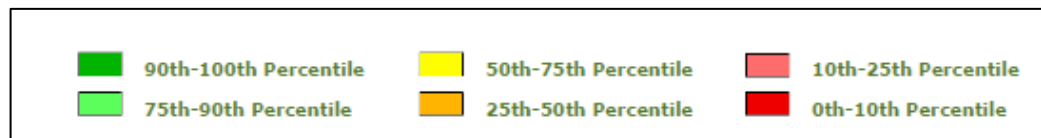
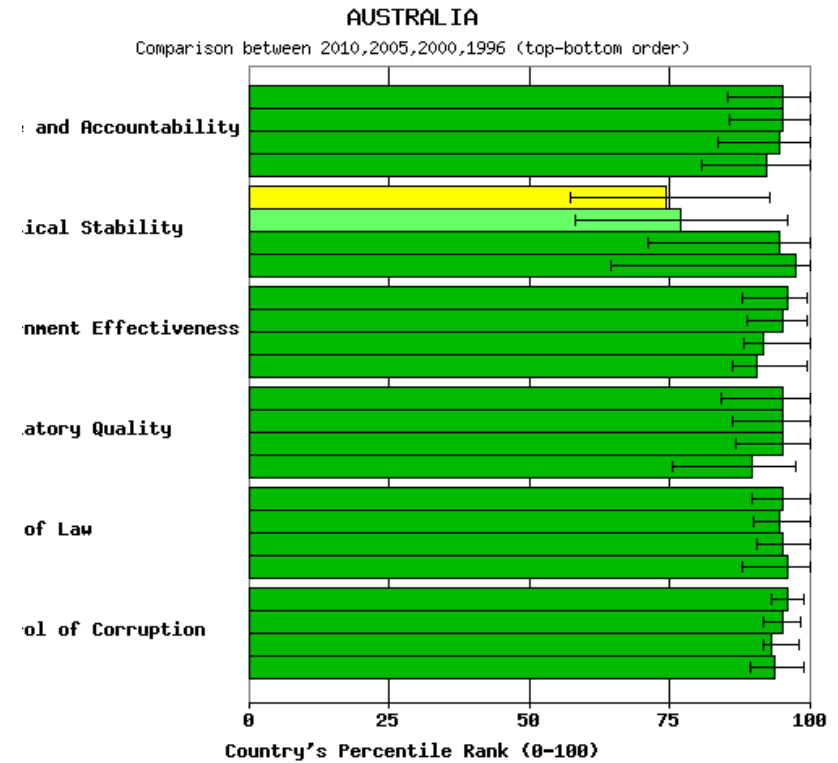
# Country Case Studies

## And for context...

### South Africa vs. Sub-Saharan Average



### Australia: what price minority gov't?





# Political Risk Insurance

## Investments and assets in foreign countries

OTHER ADD-ON COVERAGES

### 3. EXPROPRIATION COVERAGE

INCLUSION OF CONFISCATION, EXPROPRIATION, NATIONALIZATION, REQUISITION AND SEQUESTRATION OF THE INSURED'S "FOREIGN ENTERPRISE" (INCLUDING THE SEIZURE OF ITS ASSETS OR SHARES); ... INCLUDING BREACH / UNILATERAL RENEGOTIATION OF LICENSES OR CONCESSIONS THAT ARE FUNDAMENTAL TO SUCCESSFUL, CONTINUED OPERATIONS OF THE INSURED'S FOREIGN ENTERPRISE.

### 2. FORCED ABANDONMENT COVERAGE

INCLUSION OF ABANDONMENT FOLLOWING PERMANENT / TOTAL CESSATION OF OPERATIONS IN CONSEQUENCE OF A GOVERNMENT ACT OR POLITICAL VIOLENCE

### 1. POLITICAL VIOLENCE COVERAGE

INCLUSION OF WAR, CIVIL WAR, RIOTS, STRIKES AND CIVIL COMMOTION, REBELLION, REVOLUTION, INSURRECTION AND TERRORISM

### BASIC TERRORISM COVERAGE

A COMMON ADD-ON TO PROPERTY INSURANCE

## Political Risk and Structured Credit Contract Risks



- Pre-shipment risks
  - Sovereign Repudiation
  - Embargo
  - Licence Cancellation
  - War
- Post-shipment risks
  - Comprehensive Nonpayment
- On- Demand Bonds
  - Unfair Calls (Sovereign entities)
  - Fair Calls (Political)

# Summary of Insurable Exposures

		Exposure				
		Investment	Mobile Assets	On-Demand Bonds	Contract (Private C'party)	Contract (Public C'party)
Events	Terrorism / Sabotage	✓	✓	✓	✓	✓
	War / Civil War	✓	✓	✓	✓	✓
	Export / Import Embargo	✓	✓	✓	✓	✓
	Expropriation	✓	✓	✓	✓	✓
	Gov't Law, Order or Decree	✓	✓	✓	✓	✓
	Currency Transfer Restriction	✓			✓	✓
	Non Payment / Delivery				✓	✓

## Historical Claims Structured Credit & Political Risk

- Expropriation
  - Venezuela (Steel, Cement, Supermarkets, Oil Rigs)
  - Bolivia (Mining)
  - Argentina (Steel)
  - Peru (Belco Petroleum)
- Political Violence (Damage)
  - Libya (regime change)
  - Thailand (Retail sector)
  - Yemen (Oil, Al Qaeda, Tribal)
  - India (Taj Mumbai)
  - Solomon Islands (Ethnic)
- Currency Transfer
  - Argentina (Pesification)
  - Ukraine (Credit crisis)
  - Brazil, Mexico, Russia
- Licence Cancellation
  - India (Enron/Bechtel)
  - Guinea Conakry (Bauxite mine)
  - DRC (Copper Mine)
- Structured Credit
  - Bahrain (TIBC)
  - Ukraine (Nadra, Ukrgasbank)
  - Kazakhstan (Alliance Bank)
  - Commodities (Egypt, Brazil, Russia)

## Structured Credit & Political Risk Buyers and typical applications

### Political Risk Insurance

- Banks lending internationally:
  - Project finance
  - Export & Commodity finance
  - Performance guarantees
  - Corporate loans
  - Commodity hedging
- Companies (investors) with international operations
  - Operating subsidiaries/projects
  - Large plant & equipment fleets
- Companies trading internationally

### Structured Credit Insurance

- Banks lending for:
  - Trade finance
  - Export & Commodity finance
  - Pre-payment, warehouse & inventory finance
  - Equipment finance
  - Corporate loans, guarantee's and other trading related activity
- Banks managing their exposure to other banks, governments, etc.
- Exporters and traders managing credit and other contractual risks
- Commodity and other traders

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# Political Risk Market

