

XVIII CONGRESO ESPAÑOL DE GERENCIA DE RIESGOS Y SEGUROS

Agravación de los Riesgos Políticos: Opciones del Mercado Asegurador Inglés

Madrid, 6 de Junio 2007

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Underwriter - Financial & Political Risks
Atrium Syndicate 609



LLOYD'S

Political Risk



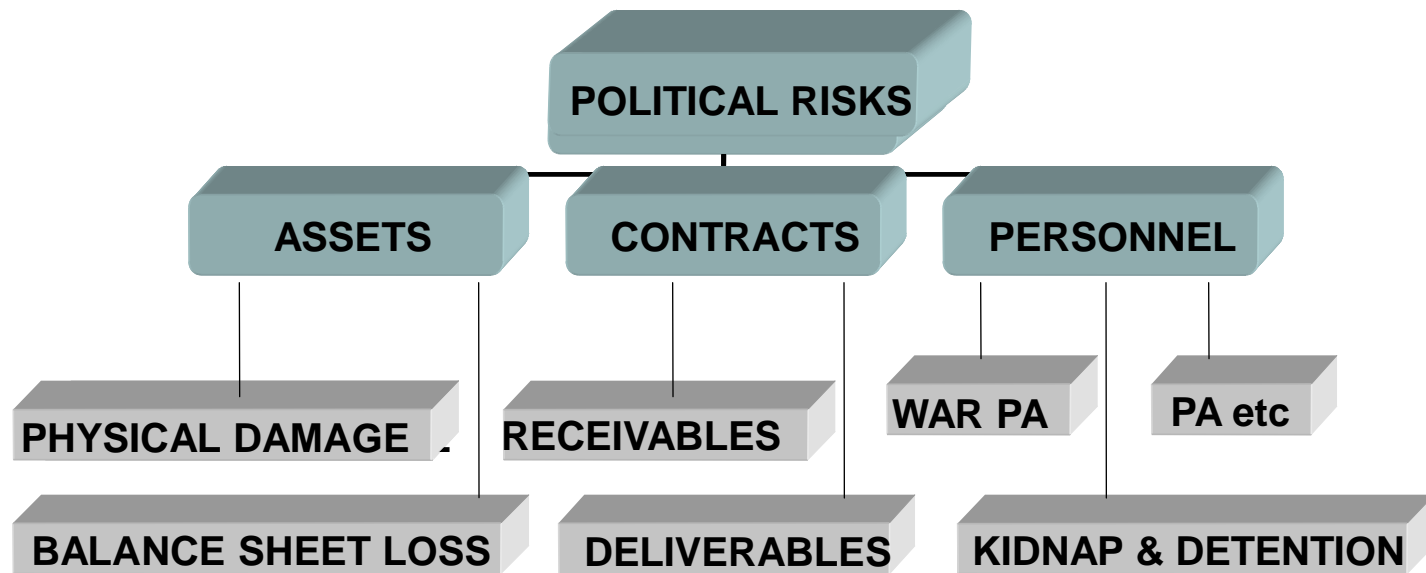
A Definition of Political Risk

- > A political risk is an action or inaction, or a consequence or reaction to such an action or inaction (“action or inaction”),
- > caused or permitted by a de jure or de facto host country government, or by any department, agency, central regional or local authority, or any other duly authorised body of such a government or of a body purporting to act in the name or under the authority of such a government,
- > or
- > caused by any individual, faction, group, or other organised body acting in opposition to such a government,
- > which action or inaction has the effect of damaging, threatening or endangering foreign (or privately held domestic) interests in the host country, be they physical assets, financial interests, receivables (whether monetary or goods/services), personnel, or contractual rights.

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What the Markets Cover



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Commonly used terms

- > **Contract Frustration** = default under a sale to (or purchase from) a government owned entity
- > **Credit Insurance** = default or insolvency under a sale to (or purchase from) a private (&/or quoted) entity
- > **Confiscation & Political Force Majeure** = (broadly) host government interference causing financial loss (incl preventing use of asset and incl due to war, civil war & the like)
- > **Political Violence** = physical loss or damage due to war on land and terrorism



Who are the markets?

- > Banks: traditional project, export, trade & investment finance as well as non-traditional (hedge funds, derivatives, options, credit swaps etc)
- > “Official” Export Credit Agencies
- > Multilaterals
- > Private market insurers



Political Risks Insurance – Standard Perils

- Confiscation;
- Expropriation (sometimes including ‘creeping expropriation’ though often undefined, and wordings often restrict it);
- Nationalisation;
- Forced abandonment/withdrawal;
- Forced divestiture;
- Deprivation of rights/asset use;
- Selective discrimination;
- Cancellation of operating licence/concession agreement;
- Restriction on remittances;
- Physical damage due to terrorism, political violence, war-on-land.



Forced Abandonment/Withdrawal

The insured's abandonment of the assets in the country of risk due to an increased threat of violence or war.

Typically, the clause trigger will be either:

- Advice from the insured's government to vacate the country of risk; or
- Following actual physical damage to the asset in question.

The actual act of forced abandonment must:

- Commence after policy inception and continue throughout the waiting period.

Selective Discrimination – General Concepts

The deliberate act of discrimination committed by the government of the host country against the assets or interest of the foreign investor in the country of risk, which prevents the investor from operating the asset or enjoying the benefits generated by the asset.

Selective discrimination must:

- Occur within the policy period;
- Typically carry the force of law in the country of risk;
- Be imposed specifically against the foreign investor/enterprise/its sector;
- Permanently deprive the investor of continuing to operate the enterprise or enjoy the corresponding benefits (though this may also be broadened, by time period).

Forced Divestiture – General Concepts

Where the asset owner/investor (as the insured) is forced to divest itself of the asset or the benefits of the asset, due to either the unfair imposition of a law/regulation by the government or unwarranted pressure from the insured's own government.

The action must occur during the policy period, be applied selectively against the insured, and the resulting effect must entail the permanent and total cessation of the asset's operation, regardless of the insured's shareholding percentage.

Example of Forced Divestiture wording

“The term Forced Divestiture wherever used herein shall mean the imposition of any law, order, decree, regulation or restriction within the Policy Period, by the Government of the Assured's country which is applied against the Assured and which

(a) requires the Assured permanently to divest itself of all or part of its ownership interest in the Foreign Office(s)

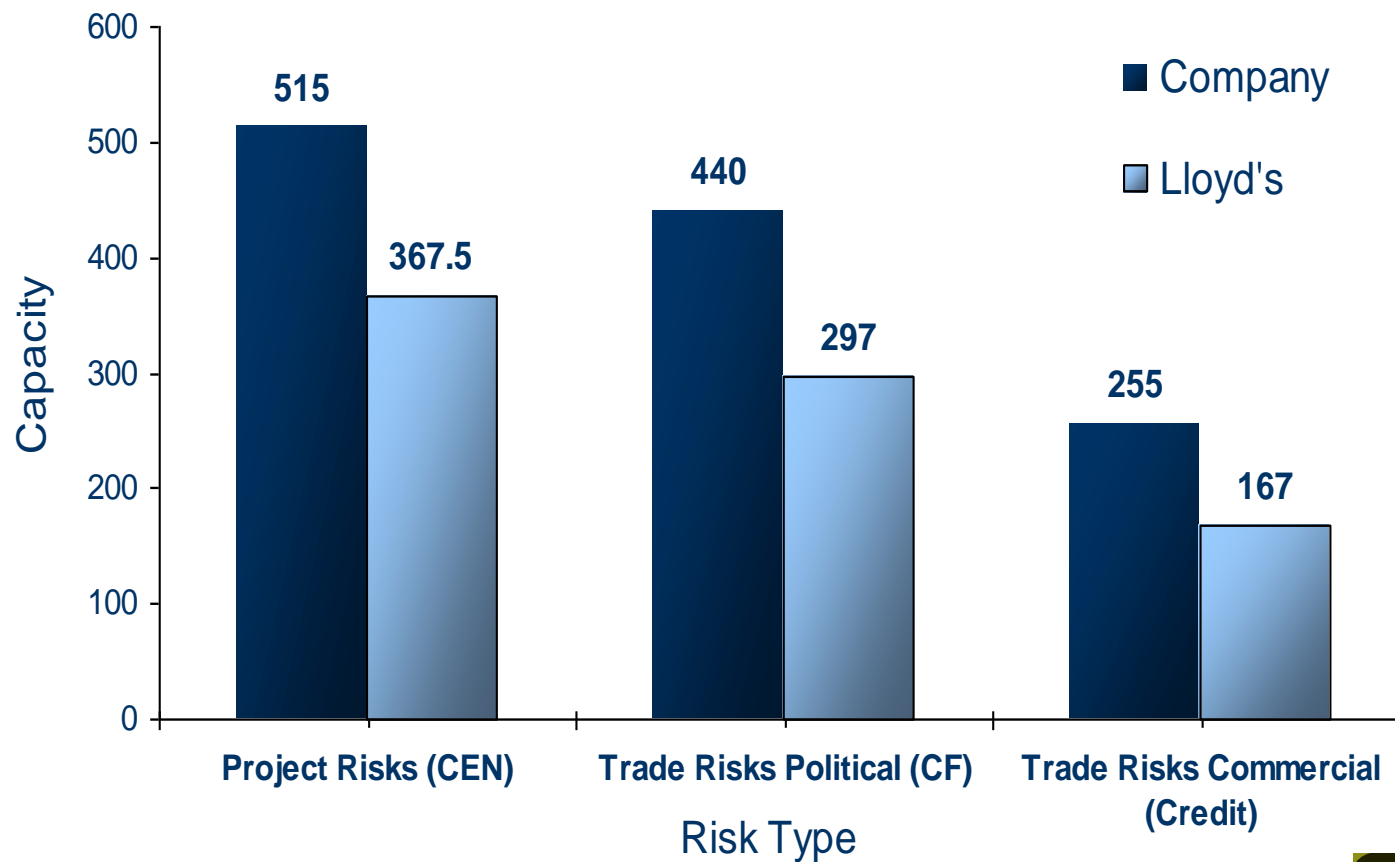
and/or

(b) legally prevents the Assured from participating in the benefits of the Foreign Office.”

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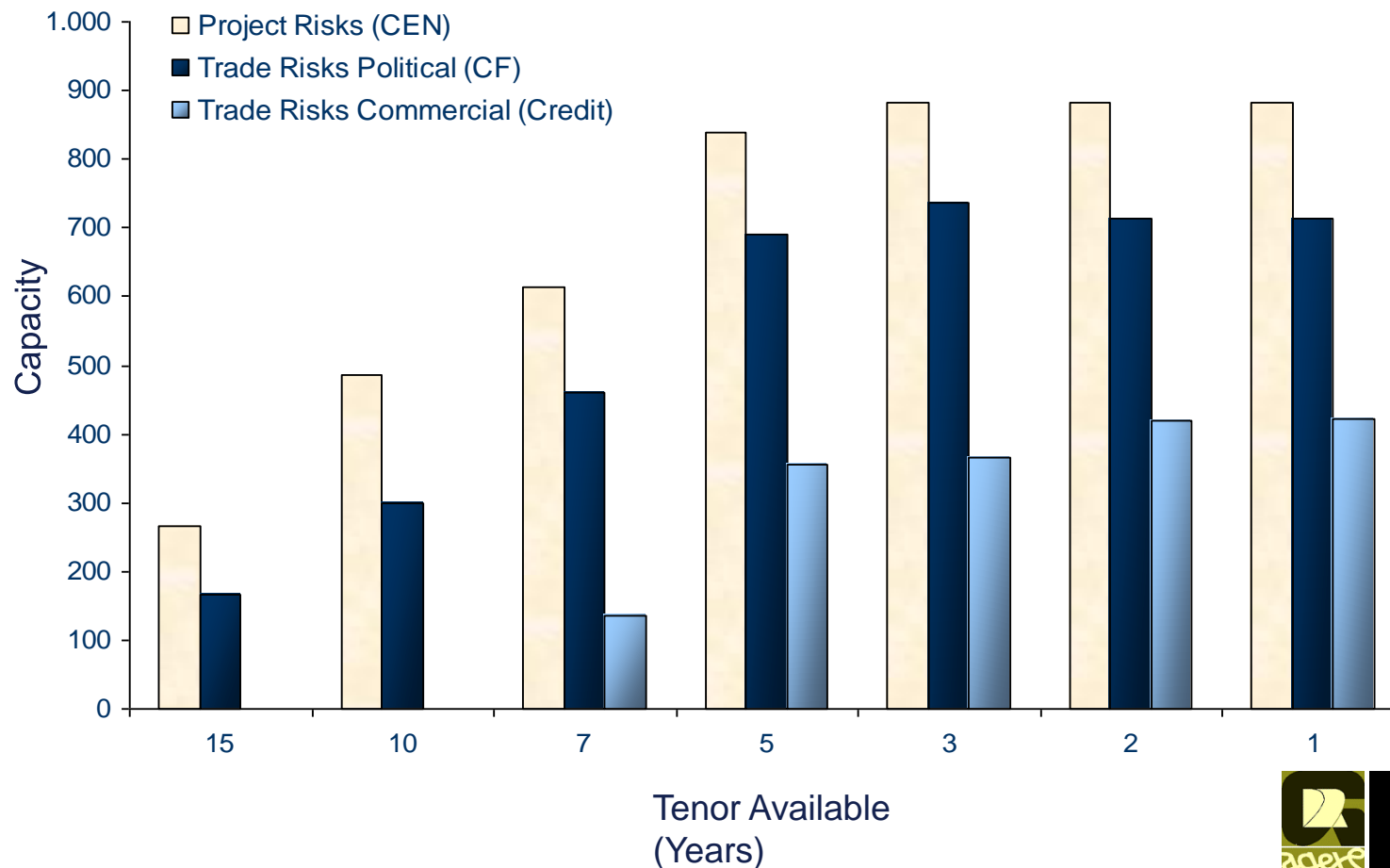
Available Market Capacity January 2007 (source: FirstCity Ins. Brokers)

(Total possible maximum USD mil per risk)



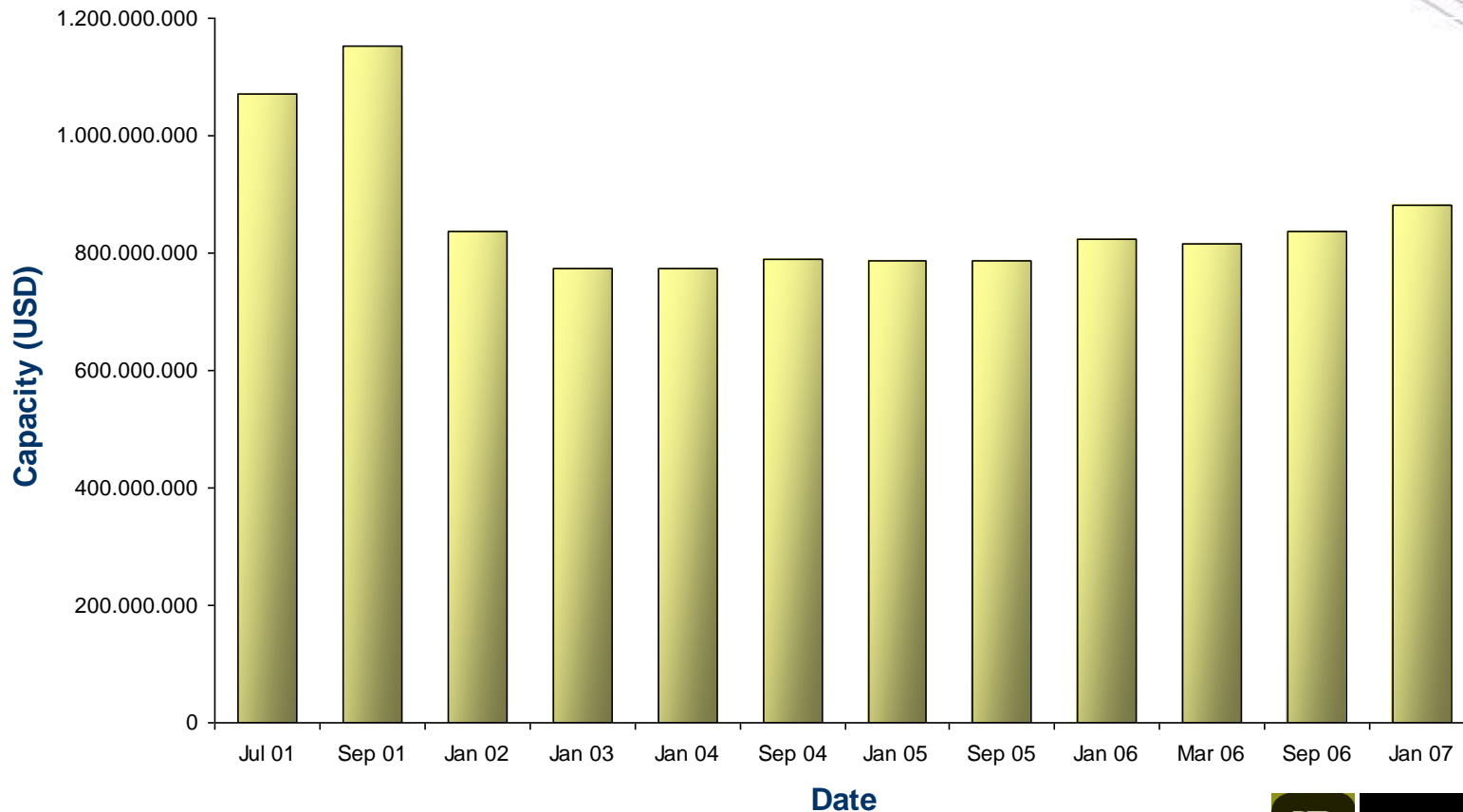
Total Capacity Available by Tenor – January 2007 (source: FirstCity Ins Brokers)

(Total possible maximum USD per risk)



Available Market Capacity Comparison (source: First City)

Project Risks (CEN) Jul 01 to Jan 07



Claims and Recoveries – Lloyd's

>Lloyd's claims paid since 1996 in Credit, Contract Frustration and Political Risk: over **US\$ \$922,600,000**

>Lloyd's recoveries (principally through subrogation) since 1996 in Credit, Contract Frustration and Political Risk: over **US\$ 157,175,000**

>an additional US\$ 100-150 mill expected during the course of the next 12 months



