



# CAPITAL RISKS



Asia's Political Risk Broker of the Year





# OVERVIEW

The world today is full of uncertainties, especially from an economic and political risk perspective. Addressing the issue of credit and political risks has become an increasingly important part of all multinational corporation and financial institution risk management strategies. The risks faced from credit and political exposures, especially in emerging markets, look set to continue to grow due to a combination of factors and companies should be prepared to fully consider how to manage, and where appropriate, mitigate the effects of such risks.

Minimising the impact of these risks involves a number of crucial steps – the accurate assessment, identification, management and when required, mitigation.

Credit and Political Risks essentially comprise the following:

- Political Risks and Country Economic Risks
- Credit (Counterparty) Risks – particularly in developing markets
- Terrorism, Political Violence and War related risks

Credit and Political Risks insurance can be an effective risk mitigation tool used to support project, structured finance and trade in commodity finance, direct investments, receivables and portfolio management in foreign territories.

JLT are recognised leaders in Credit and Political Risk insurance consultancy and broking, with a global team of specialist consultants, political risk analysts and brokers.

The JLT Group has expertise in credit risks, political risks, and terrorism located in Singapore, Hong Kong, Beijing, Bangkok, Tokyo, London and Stockholm, with affiliates in Paris and broker parties in the US.

# PRODUCTS

Due to the variety and number of different products available and their bespoke nature, it would be impractical to provide a description for each of our various products, each of which cater to specific risk exposures within Credit & Political Risks. However, the risks and the products can be broadly classified into the following areas:

- A** Permanent investments (e.g. local manufacturing operations)
- B** Locally held assets (e.g. construction equipment, stocks of commodities)
- C** Credit (Counterparty) and Country Risk facing companies and commodity traders
- D** Credit (Counterparty) and Country Risk facing banks and financial institutions



# A

## PERMANENT INVESTMENTS

<b>Typical Eligible Investments</b>	Subsidiaries, joint ventures, associate and special purpose companies located in emerging markets where the assured has an equity interest.
<b>Scope of Cover</b>	<p><b>Expropriation</b> Confiscation, expropriation, nationalisation, requisition and sequestration of the foreign enterprise by the government of the host country; also, selective and discriminatory acts against the foreign enterprise</p> <p><b>Breach of Contract</b> Breach (or unilateral renegotiation) of concessions, licence agreements, power purchase agreements and the like, entered into by the host government which governs the operations of the foreign enterprise and which are fundamental to successful operations</p> <p><b>Currency Inconvertibility/Non Transfer</b> Inability to convert local currency (e.g. for dividends, licence fees and royalties) into policy currency or transfer policy currency out of the host country</p> <p><b>Political Violence</b> War on land, strikes, riots, civil commotion, terrorism, coup d'état and rebellion</p> <p><b>Forced Divestiture</b> Forced divestiture due to pressure from your own government</p> <p><b>Forced Abandonment</b> Forced abandonment due to political violence</p> <p><b>Terrorism</b></p> <ul style="list-style-type: none"> <li>• Physical loss as a direct result of terrorism</li> <li>• Emergency repatriation as a direct result of terrorism</li> <li>• Delay in start up as a direct result of terrorism</li> <li>• Business interruption as a direct result of terrorism</li> <li>• Third party liability as a direct result of terrorism</li> <li>• Use of chemical, nuclear or biological weapons (by special negotiation)</li> </ul>

# B

## INSURANCE FOR LOCALLY HELD ASSETS

<b>Typical Eligible Investments</b>	Any type of asset located in an overseas location such as stocks of commodities, construction equipment, oil drilling/pipeline laying equipment, etc.
<b>Scope of Cover</b>	<p><b>Expropriatory Acts</b> Confiscation, expropriation, nationalisation, requisition and sequestration of the assets</p> <p><b>Deprivation</b> The inability to export assets from the host country</p> <p><b>Forced Abandonment</b> Forced abandonment of your assets due to political violence</p> <p><b>Political Violence</b> War on land, strikes, riots and civil commotions</p> <p><b>Terrorism</b></p> <ul style="list-style-type: none"> <li>• Physical loss as a direct result of terrorism</li> <li>• Delay in start up as a direct result of terrorism</li> <li>• Business interruption as a direct result of terrorism</li> <li>• Third party liability as a direct result of terrorism</li> <li>• Use of chemical, nuclear or biological weapons (by special negotiation)</li> </ul>

# C INSURANCE FOR CREDIT (COUNTERPARTY) DEFAULT RISK (INCLUDING POLITICAL FORCE MAJEURE RISK) FOR COMPANIES AND TRADERS

<p><b>Typical Eligible Investments</b></p>	<ol style="list-style-type: none"> <li>1. Payment obligations by customers for goods or services supplied by the insured</li> <li>2. Performance obligations of counterparties where the insured has pre-paid for goods, services, or commodities to be delivered/provided at some future date</li> <li>3. Payment obligations by a bank which has issued a letter of credit to the assured to discharge the payment or performance obligation of the insured's customer</li> </ol> <p>In most cases, cover can be arranged for either public or private entities (although for some transactions a cross border element may be required).</p>
<p><b>Scope of Cover</b></p>	<p><b>Payment Defaults</b> Default by the counterparty of its payment obligations to the assured (i.e. failure to pay amounts due)</p> <p><b>Performance Default</b></p> <ol style="list-style-type: none"> <li>1. Default by the counterparty of its performance and delivery obligations to the insured (i.e. failure to deliver products or services)</li> <li>2. The failure of the counterparty to perform its obligations under the contract, thereby making it commercially impractical for the insured to perform the contract</li> </ol> <p><b>Political Force Majeure</b> The occurrence of defined "political" events that prevent either the insured or the counterparty from performing their obligations under the contract (e.g. wars, civil wars, embargoes, license cancellations, currency inconvertibility or law-order-decrees by the government)</p>

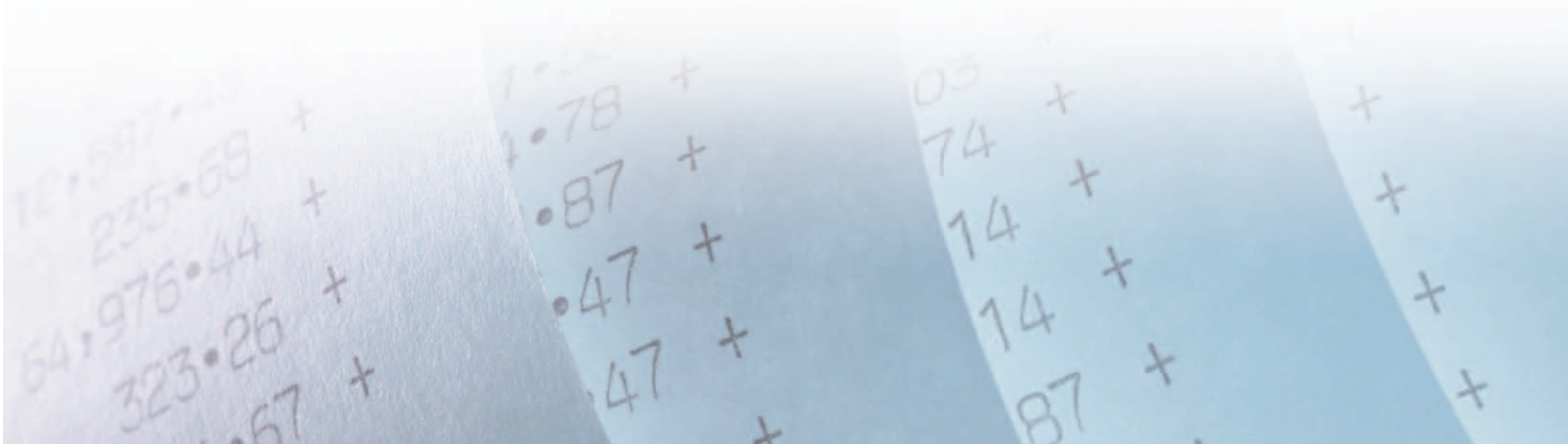


# D POLITICAL FORCE MAJEURE RISK (FOR BANKS AND FINANCIAL INSTITUTIONS)

<p><b>Typical Eligible Investments</b></p>	<p><b>"Trade" Business</b> Letter of credit confirmations, trade finance facilities, structured commodity finance transactions, forfeiting, payment guarantees</p> <p><b>"Non-trade" Business</b> Project Finance loans, general purpose loans, inter-branch lending</p>
<p><b>Scope of Cover</b></p>	<p><b>Default Cover</b> Default by the counterparty (due to either commercial or political force majeure reasons) of its payment or performance obligations to the insured, in respect of a financing which is deemed to be "trade" related. Eligible counterparties may be either public or private entities.</p> <p><b>Lender's Interest</b> Default by a borrower of a payment or performance obligation caused by defined "political" perils such as expropriation, currency inconvertibility, political violence, terrorism, strikes, riots, civil commotions and wars</p> <p><b>Deprivation of Collateral</b> Government action that interferes with the insured's creditor rights or which prevents them from perfecting and enforcing security and collateral such as pledge agreements, liens and mortgages</p>

# CERTAINTY OF COVER

Below are eight important guidelines for ensuring certainty of cover

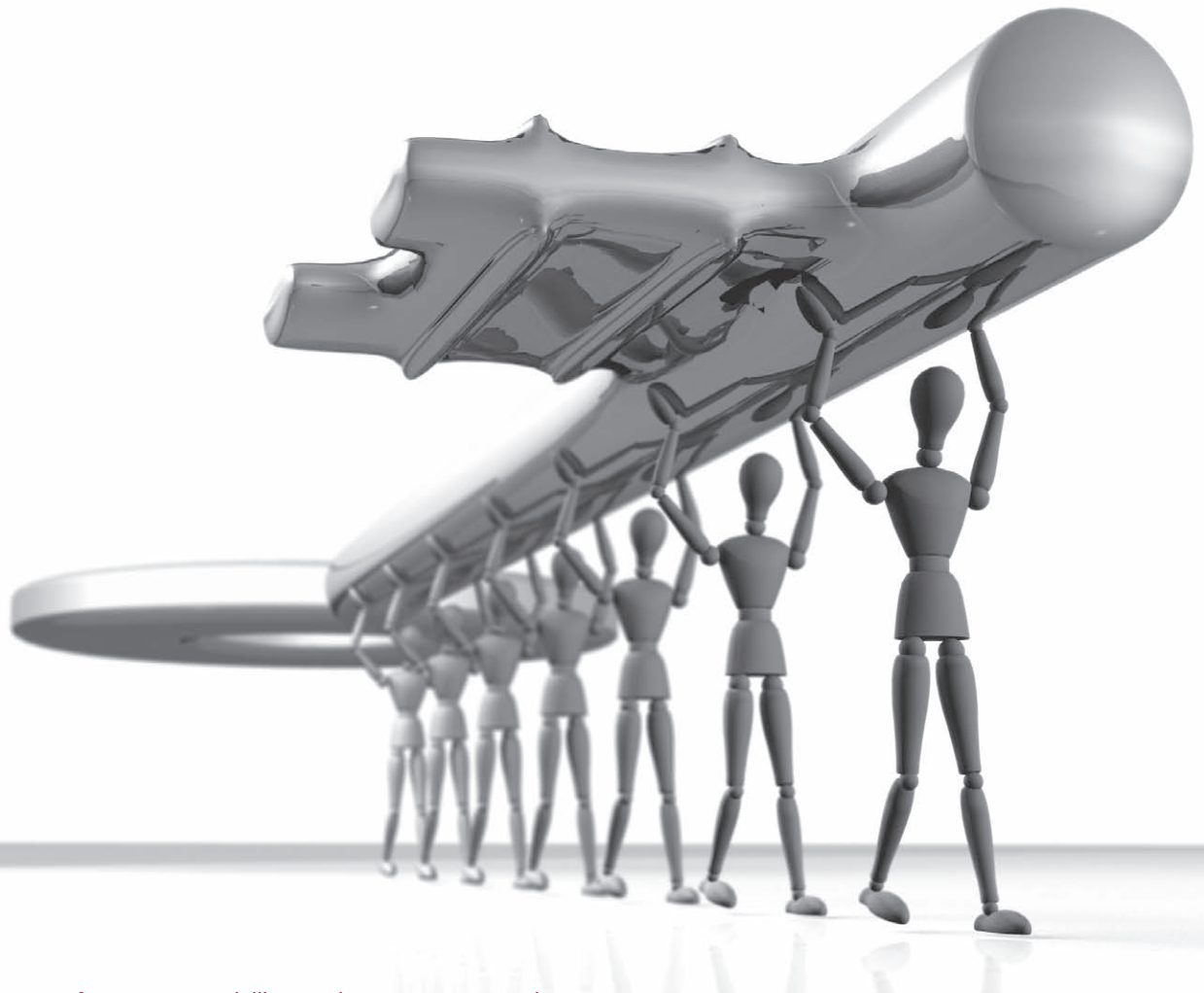




### The Benefits of Credit & Political Risks insurance

The reasons why clients purchase Credit and Political Risks coverage very much depends upon their individual drivers, but there is a multitude of benefits from utilising the products, some of which are detailed below:

1	Mitigate the country risks – against exposure to often catastrophic and unforeseen political events
2	Facilitate the exploration of new markets or the expansion of distribution capabilities
3	Protect the balance sheet/reduce bad debt provisions
4	Reduce cost of capital
5	Increase access to financing at more attractive terms
6	Reduce capital allocation costs, particularly under Basel II
7	Cash Flow Relief – reduce risks of late payment or non-payment by customers
8	Offer clients more attractive financing terms
9	Protect physical assets due to deteriorating security situation and political acts
10	Increase confidence in overseas environments
11	Peace of mind



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We are known for our capability as innovators, and for constantly seeking to improve the products and services that we deliver to our clients.

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## WHY JLT?

**JLT is one of the largest advisors and brokers for credit and political risk in Asia and globally, employing some 50 full-time credit, political risk and terrorism specialists worldwide.**

The global Capital Risks team within JLT handles over US\$50 billion of insurance capacity at any one time. Within Asia we have a strong and experienced team that has been in existence since 1996, well supported by our JLT network in the region. We are the leading broker in the Asia region within this field and recently we received the award of “Best Political Risks Broker in Asia” from GTR magazine.

This is substantiated by our extensive track record in structuring and arranging Credit and Political Risk Insurance (PRI) solutions. Our market position gives us significant leverage in all key credit and PRI markets (in Asia, Europe, Bermuda and the US) and also means that we are in constant contact with these markets at all levels, to meet the requirements of our clients.

We function as risk consultants, assisting our clients firstly to identify and assess their risks, then minimising the impact of these risks through design and management, and lastly, mitigating those risks that cannot be fully managed or removed. This is a key difference as insurance is the last step in the consultative process, as opposed to being the first in the case of some of our competitors. In addition, when we arrive at this stage we actively encourage our clients to adopt the mentality of ‘selling the risk’ rather than ‘buying the insurance’.

Our objective is to provide our clients with the most effective and competitive solutions (including claims support) for their needs. We are known for our capability as innovators, as we constantly seek to improve the products and services that we deliver to our clients, be it breadth of coverage, negotiating bespoke wordings on behalf of our clients, achieving optimum pricing from the insurance market or structuring risk transfer mechanisms that provide the greatest flexibility and responsiveness.

One such example is The World Risk Review, a comprehensive political and economic risk assessment tool available to our clients and prospective clients. Further details can be found at [www.worldriskreview.com](http://www.worldriskreview.com)



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