

Distinctive. Choice.



Capital Risks

Risk and Insurance Services

Overview

As the fall out from the credit crisis continues, multinational corporations and banks are facing an increasing number of risks when conducting business in overseas environments or with new counterparties.

Credit and Political risks are expected to pose a considerably greater threat to trade and investment over the next five years than in the recent past, particularly as commodity prices and operating environments remain volatile and the credit crisis continues to unravel. This is particularly true in emerging markets where these risks can often be seen as an investment constraint.

Minimising the impact of these risks involves a number of crucial steps – the accurate assessment, identification, management and as 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 insurance solutions we develop relate to a wide variety of transactions brought about by our diverse client base. We serve some of the largest banks, commodity traders and corporations worldwide in all sectors, and specifically in:

- Banking
- Defence
- Engineering
- Mining
- Manufacturing
- Oil & Gas
- Chemicals / Pharmaceuticals
- Power
- Telecommunications
- Transportation
- Water

Risk mapping provides an avenue for the identification and management of both clinical and non-clinical sources of risks.



Products

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:

- Permanent investments (eg. local manufacturing operations)
- Locally held assets (eg. construction equipment, stocks of commodities)
- Credit (Counterparty) and Country Risk facing companies and commodity traders
- Credit (Counterparty) and Country Risk facing banks and financial institutions

A. Insurance for Permanent Investments

Typical Eligible Investments	Subsidiaries, joint ventures and associated and special purpose companies located in emerging markets where the assured has an equity interest.
Scope of Cover	<p>Expropriation 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>Breach of Contract 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>Currency Inconvertibility/Non Transfer 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>Political Violence War on land, strikes, riots, civil commotions, terrorism, coup d'états, and rebellions</p> <p>Forced Divestiture Forced divestiture due to pressure from the assured's government</p> <p>Forced Abandonment Forced abandonment due to political violence</p> <p>Terrorism</p> <ul style="list-style-type: none"> • Physical loss as a direct result of terrorism • Emergency repatriation as a direct result of terrorism • Delay in start up as a direct result of terrorism • Business interruption as a direct result of terrorism • Third party liability as a direct result of terrorism • Use of chemical, nuclear or biological weapons (by special negotiation)

B. Insurance for Locally Held Assets

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

C. Insurance for Credit (Counterparty) Default Risk (including political Force Majeure risk) for Companies and Traders

Typical Eligible Investments	<ol style="list-style-type: none"> 1. Payment obligations by customers for goods or services supplied by the assured 2. Performance obligations of counterparties where the assured has pre-paid for goods, services, or commodities to be delivered/provided at some future date 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 assured's customer <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>
Scope of Cover	<p>Payment Defaults Default by the counterparty of its payment obligations to the assured (i.e. failure to pay amounts due)</p> <p>Performance Default</p> <ol style="list-style-type: none"> 1. Default by the counterparty of its performance and delivery obligations to the assured (i.e. failure to deliver products or services) 2. The failure of the counterparty to perform its obligations under the contract, thereby making it commercially impractical for the assured to perform the contract <p>Political Force Majeure The occurrence of defined "political" events that prevent either the assured or the Counterparty from performing their obligations under the contract (eg. wars, civil wars, embargoes, license cancellations, currency inconvertibility or law-order-decrees by the Government)</p>

D. Insurance for Credit (Counterparty) Default Risk (including political Force Majeure risk) for Banks and Financial Institutions

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

Why buy this type of insurance?

The Benefits of Credit & Political Risk 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:

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

Our unique approach offers key decision makers a systematic and quantitative methodology for identifying, prioritising and minimising exposures arising from political and credit risk.

Customised coverage

Off-the-shelf products often provide a disservice to clients, and are self-defeating in their implementations. At JLT, we have a dedicated consultancy team comprising risk management and insurance experts who provide our clients with bespoke solutions, based on each individual circumstance and risks. Our skills and services include:

1) Assessment of your firm's unique risk profile

The World Risk Review is a proprietary country ratings model to help us identify and assess specific vulnerabilities to political violence and the trading and investment environments. This is a key strategic tool to help us rate the risks that companies face, according to the unique circumstances and environments they operate in.

2) Quantify and prioritise your firm's total exposures using maximum probable loss analysis

We apply historical claims data and portfolio value-at-risk analysis to financial exposure information, derived from a detailed review of the company's balance sheet and business activities. This results in a loss model that quantifies the firm's maximum probable loss for specific risks, for individual projects or business activities, and on a country and regional basis.

3) Customised mitigation solutions

After a qualitative analysis, and focusing on your key risks and precise requirements, we will create a client-specific risk mitigation insurance solution. Subsequently, we will create a global marketplace to secure the most appropriate and competitive pricing and terms.

This unique approach offers key decision makers a systematic and quantitative methodology for identifying, prioritising and minimising the exposures due to political and credit risk, thus helping our clients to compete effectively in today's global market.



Why JLT?

JLT is one of the largest advisors and brokers for political risk, employing some 60 full-time credit, political risk and terrorism specialists worldwide.

The global Capital Risks team within JLT handles approximately over US\$45 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.

This is substantiated by our extensive track record in structuring and arranging Credit and Political Risk Insurance (PRI) solutions. This 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 (detailed later), a comprehensive political and economic risk assessment tool available without charge to our clients and prospective clients.



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

Our track record includes:

- Two of the largest global PRI programmes, in excess of US\$1 billion for Oil and Gas companies
- The first ever structured equity value protection programme (normally only "book value" is covered)
- Largest Energy Commodity Finance insurance facility – underwriting up to US\$4 billion at any one time, thereby increasing the lending capacity available to the bank
- Global telecoms facility underwriting portfolio in all regions

In addition to the small selection of transactions described above, JLT have undertaken many successful credit and political risk advisory and insurance arrangement assignments for contracts and projects, in almost every country in the globe.

World Risk Review

JLT's World Risk Review is designed to meet client demands for a more comprehensive risk assessment tool. Nine perils are rated in 197 countries, under the broad categories of Political Violence, the Trading Environment and the Investment Environment.

Diagram 1 shows the risks tracked under each category.

We have used a rating scale of 1 (low) to 10 (high) to represent the level of risk associated with each peril. The ratings are adjusted when a political or economic event affects the risk profile of a country.

Financial and economic indicators, statistical information of events and industry premium rate data provide a quantitative framework for the ratings. This data is modelled in conjunction with forward-looking assessments of political, economic and financial changes drawn from our network of academic, think tank, business and political contacts across the world.

This independently verifiable data comes from 53 international sources, drawn from Europe, North America, Australia, Asia and the Middle East. We have relied upon a diverse and broad scope of data sources to reduce cultural bias, political influence and personal interpretations, contributing significantly to the robustness and integrity of the model. The model recognises that most country risk ratings have traditionally been heavily influenced by western bias, reflecting the historical dominance of western foreign investors and trading businesses.

The World Risk Review provides the basis for JLT's bespoke company ratings which we generate for the benefit of our clients individually.



Diagram 1: The World Risk Review – nine perils falling into three broad categories

For more information about the World Risk Review and to register to receive a copy, please visit: www.jltgroup/worldriskreview

We would be delighted to explore further with you the strategies and programmes you can put in place to manage your exposure to political, country, economic and security risks.

About JLT Asia

Jardine Lloyd Thompson (JLT) Asia is a market leader in insurance and reinsurance broking, risk management consultancy and employee benefits services.

Our operations in Asia date back to 1836. Today, JLT Asia is one of the most experienced brokers in Asia, with over 700 staff in 12 locations - China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Macau, Philippines, Singapore, Taiwan, Thailand and Vietnam.

JLT Asia's technical abilities and expertise span a wide range of specialist areas:

- Affinity
- Aviation
- Captives
- Capital Risks
- Construction
- Employee Benefits
- Energy
- Interactive Technology Solutions
- Major Corporate Risks
- Marine (Cargo and Hull P&I)
- Professional & Executive Risks (ProEx)
- Property
- Reinsurance (Treaty and Facultative)
- Risk Management
- Small & Medium Enterprises (SME)
- Wealth Management

Our specialists are renowned for their innovative approach to developing integrated insurance, reinsurance and alternative risk transfer solutions.

Integrity is a hallmark of the JLT organisation. Our quality and compliance regimes are among the most thorough in the industry.

You can obtain more information about JLT Asia at: www.jltasia.com



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