

POLITICAL RISKS IN THE GLOBAL VILLAGE



Political risks are plentiful and complex. Destructive riots, government-sanctioned expropriation or discrimination, forced evacuations, currency revaluations, terrorism – all can lead to politically driven losses. Employees, property, commerce and supply chains are all potentially at risk. As a result, many types of coverage can be involved. For those unfamiliar with Political Risk, this coverage may, upon investigation, seem haphazard and confusing.

The reason for the potential confusion is that insurance coverages evolve slowly over time. Losses of one era inspire insurance products that are sold in the next era. The motivating forces may change, but the product lines that develop to serve the original need remain in place. This is especially true of an area like Political Risk, which is usually not considered to be a

primary protection such as Property and Casualty, and for many is an afterthought.

For risk managers realizing the potential for political exposures, the task is two-fold: assess the risks and evaluate the options for mitigating those risks. Some of the risks are obvious, especially if your organization operates facilities where violence is breaking out or ongoing. Some of the risks are indirect; suppliers or suppliers of suppliers may face trouble that can trickle down to your warehouse. As for the protection options, many are available under the broad heading of Political Risk, but risk managers may need to look elsewhere as well. To understand the full picture, insurance advisers should be tapped for the breadth and depth of their knowledge. Here is a start.

5 KEY POINTS FOR POLITICAL RISKS

1) Protection is available, but you may need a global program.

If you have exposures in a war zone, you will have a hard time finding coverage for them. However, carriers are usually willing to insure global portfolios even if pieces of those portfolios are in hot spots. While you may be concerned about one part of the world now, the broad protection would hold you in good stead should instability erupt in unexpected places.

2) Despite apparent exposure to loss, the marketplace is relatively stable.

Historically, buyers consider Political Risk cover in soft market times when they have spare premium budget. As a result, many insureds have gaps in their Political Risk protection. The upside for the buyers is that claims for Political Risks are historically modest and insurers are therefore willing to commit capacity.

3) While Political Risk is often associated with government activity, recent events show that popular uprisings are a major source of risk.

A primary component of Political Risk cover is CEN – Confiscation, Expropriation,

Nationalization. These policies target the risks of governments taking over industries and scooping up foreign operations along the way – without compensation. If CEN is the only Political Risk cover you have, you may be disappointed to find out you are not covered for events like those we have seen in the so-called Arab spring.

4) Political Risk is tiered coverage – additional cover is usually added to CEN Policies.

- Political Violence (PV). Programs are added by most organizations with broad exposures. This cover usually includes Terrorism risk and Strikes, Riots and Civil Commotion cover.
- CEN programs may also include Forced Divestiture, Forced Abandonment, and Selective Discrimination protection.
- Other relevant lines include Business Interruption and Currency Inconvertibility/Exchange Transfer risk.

5) Political upheaval can threaten more than your overseas operations.

- **As we saw recently in Libya, overseas workers can find themselves fleeing dangerous battlegrounds.** Protection may be available through Business Travel policies as well as Kidnap & Ransom programs, which often feature security partnerships that can help out when simple evacuation is not possible.
- **Supply chains may be choked.** Indirect losses like those that result from supply chain interruptions may be covered by Trade Disruption policies or in some cases Marine cargo insurance.

Amidst the drama of the Arab-speaking populations attempting to take control of their political future, those of us in the risk business should seize on this moment to take control of the political risks we face in an increasingly global marketplace.



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