

# Political Risk Insurance

Lloyd's Class of business Event  
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**Nicky Ablett**  
Portfolio Manager, Political Risk & Terrorism  
QBE Underwriting Limited



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# Political Risk Insurance

- **What is it?**
- **Why buy it?**
- **How does it work?**
- **How to buy it?**

## Personal Profile – Nicky Ablett

- Joined the Lloyd's market in 1992 as a graduate intern at Talbot Underwriting.
- Achieved Associate of the Insurance Institute (ACII) and Chartered Insurer status in 1995.
- Became a Political Risk Underwriter at Talbot in 1997, being appointed Class Underwriter in 2000.
- In 2005, moved to QBE to start a new portfolio of Political Risk, Political Violence and Terrorism for Lloyd's Syndicate 1036.
- 2007 elected as Chairman of the LMA Terrorism & Political Violence Panel & appointed as a member of the Non Marine Committee of Lloyd's.
- Member of the Lloyd's Market Association (LMA) Political Risk Panel.
- Underwriting business globally in the International Markets Division of QBE Europe for Lloyd's Syndicate 1036, QBE Insurance (Europe) Ltd, and through 20 different QBE offices worldwide.

# The Risks we cover



# Why do businesses need Political Risk?

- Arab Spring leading to revolutions and regime change
- Populist governments in Latin America imposing trade restrictions/ export bans/ confiscating assets
- War, civil war, violence disrupting business flow
- US/ EU imposed embargo preventing trade or sanction forcing divestiture of assets
- Unrest within Ukraine leading to.....?



# Political Risk Insurance

Political Risk Insurance is insurance to protect assets or investments overseas, whether mobile or fixed, against the confiscation, expropriation, nationalization of, or deprivation from those assets or investments or against any overt political act which may prevent the use of or benefit from those same assets.





# Two main categories of Political Risk Insurance (1):

## PR

### For Investments

- Confiscation, Expropriation, Nationalisation & Deprivation
  - Fixed Assets
  - Mobile Assets
- Licence or Project cancellation
- Lenders'
- Forced Divestiture, Selective Discrimination
- Often combined with PV (physical loss or damage,) Terrorism or War
- Can also be combined with Forced Abandonment



## Two main categories of Political Risk Insurance (2):

### CF (Contract Frustration)

#### For Trade

- Termination, Frustration or Repudiation of contract (State owned companies only)
  - including Non Payment
  - Non Delivery
  - Pre Shipment Expenses
- Political Force Majeure
  - Frustration of contract with private buyers or suppliers
- Embargo
- Unfair Calling of Bonds
- Currency Inconvertibility/ non Transfer
- Non Honouring of Arbitration Award
- War
- Usually no more than 90% indemnity with remainder retained

## Public vs. Private

- Contract Frustration must be with a State or a State owned enterprise
- A State owned, public obligor is one that has a majority shareholding in government hands
- If an obligor is private, then Political Force Majeure can be offered. Direct payment, delivery or repudiation risks cannot.
- Political Force Majeure is Contract Frustration owing to CEND, War, Licence Cancellation etc.
- Credit Insurance, whether on a single situation or whole turnover basis is available for payment risks with private entities.

# Lenders' ?

Insurance for Lending Institutions against non repayment  
directly caused by:

- Confiscation & etc of assets or project
- Currency Inconvertibility
- War, Terrorism or Political Violence
- Licence Cancellation



# Why do businesses need Political Risk?

Example: Large manufacturer of soft drinks build factory in Mexico

- Need to protect against confiscation or nationalization of that factory at national government level
- Illegal Occupation / campaign at a local government level
- Licence or permit cancellation
- Embargo
- War ,Terrorism or Civil Unrest causing destruction of or damage to that factory
- Currency embargo preventing repatriation of funds
- Trade sanctions forcing divestiture of assets

# Factors to consider

- Seeking to cover?
  - Physical Assets or Stocks
  - Financial Investment
  - Loan Repayments
- Government acting as?
  - Regulatory Authority
  - Contract Party
- Information Required
  - Proposal Form - background information on Assured, Contract, Experience etc
  - Copy of Contract / Loan Agreement
  - Copy of Licences / Concession agreement



# Underwriting Considerations

- Risk
  - › Does the project /investment /deal work?
  - › Does the Assured have the required skills & experience to complete the contract? / claims history?
- Country
  - › Is the country in question stable?
  - › Are there any impending elections?
  - › Is the necessary legal & financial infrastructure established?
- Internal Concerns
  - › Does the risk fit our portfolio?
  - › Is the pricing adequate?
  - › Do we have necessary aggregate capacity?
  - › Are there any sanctions related concerns affecting the risk?

# Standard Exclusions & conditions in Political Risk

- Non Assignment
  - Insured shall not assign contract or rights to contract to third party without prior consent from Underwriters
- Insolvency
  - Excludes Insolvency of the Insured
- Fraud
  - Excludes any deliberate act to claim on pain of policy forfeiture
- Confidentiality
  - Insured not allowed to disclose the existence of PRI policy, outside of lawyer/financier
- No Prior Knowledge
  - Insured must know of no existing problems/ issues
- Contract Alteration
  - Insured may not make any material alteration without underwriters consent.



# To Conclude – Who ?

## The buyers of Political Risk

### Exporters

- Manufacturers
- Energy Companies
- Technology Companies
- Contractors & Service Providers

### Financiers

- Corporate Investors
- Banks & Trade Finance houses
- Traders



# To Conclude – Why ?

## The coverage benefits of Political Risk

- Risk Mitigation
- Access to Finance
- Leveraging of finance costs
- Enhanced investment opportunities
- Shareholder comfort
- Balance Sheet Protection

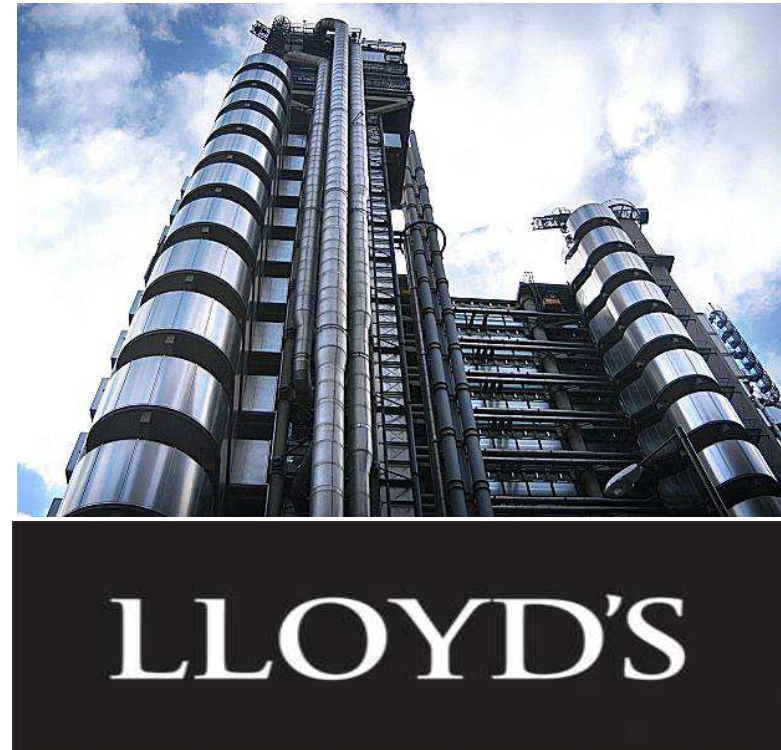
# To Conclude – How ?

## Bespoke

- Wordings
- Proposal Forms
- Claims Handling

## Specialist

- Market
- Brokers
- Underwriters



## **Political Risk Insurance**

**THANK YOU  
ANY QUESTIONS?**

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