

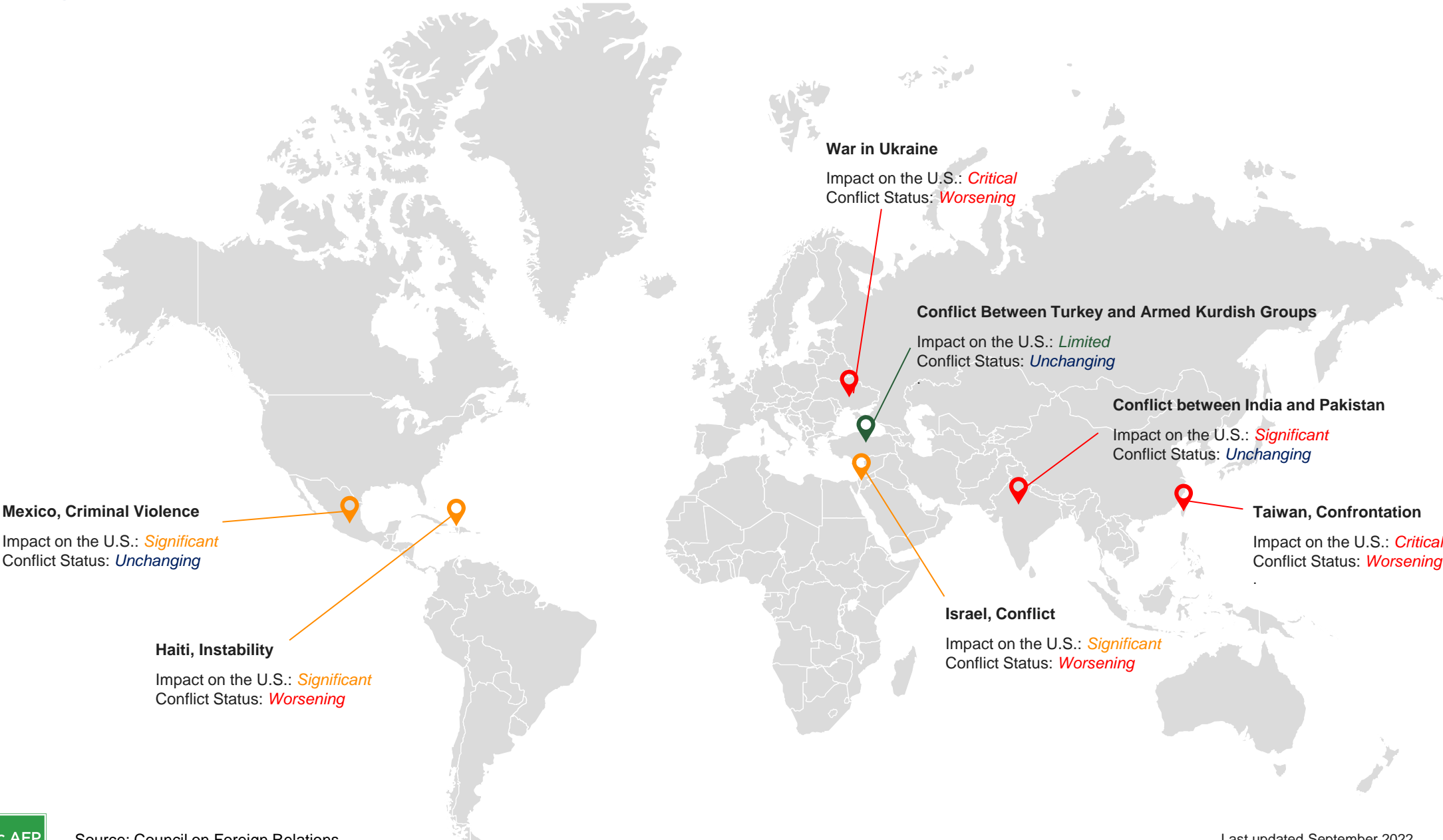
# Risk Resilience

## A Data Driven Approach to Geopolitical Risk



April 24, 2024

# Global Conflict Tracker



# Managing Political Risks

## 5 steps to effectively integrate political risk analysis into enterprise risk management frameworks:

### 1. Define risk appetite and tolerance

A well-defined risk appetite will provide organizations with insights on the risk exposures that they are willing to take to achieve their strategic objectives. Leaders must ask themselves fundamental questions about their organization's willingness to accept political risk.

### 2. Consider risk interconnectivity

The latest Marsh-World Economic Forum Global Risks Report used the term 'polycrisis' to describe the state of today's risk environment, which highlights the extent to which risks have become interconnected, and how the overall impact of such risks may exceed the sum of each part.

### 3. Perform a risk sensitivity analysis to evaluate and quantify political risk exposure

By modelling different scenarios and assessing their potential impact, companies can better understand the risks associated with operating in a particular environment and develop strategies to manage those risks.

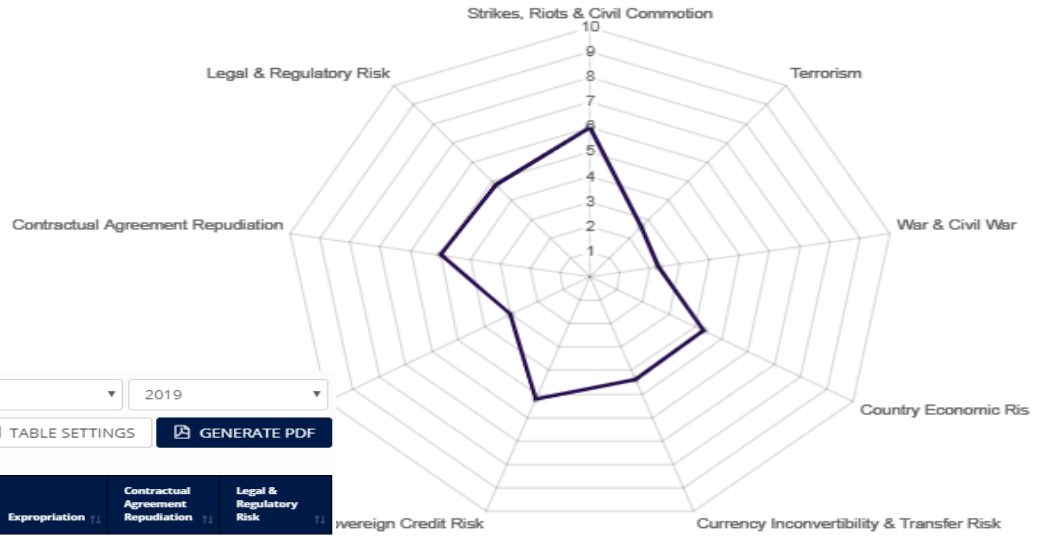
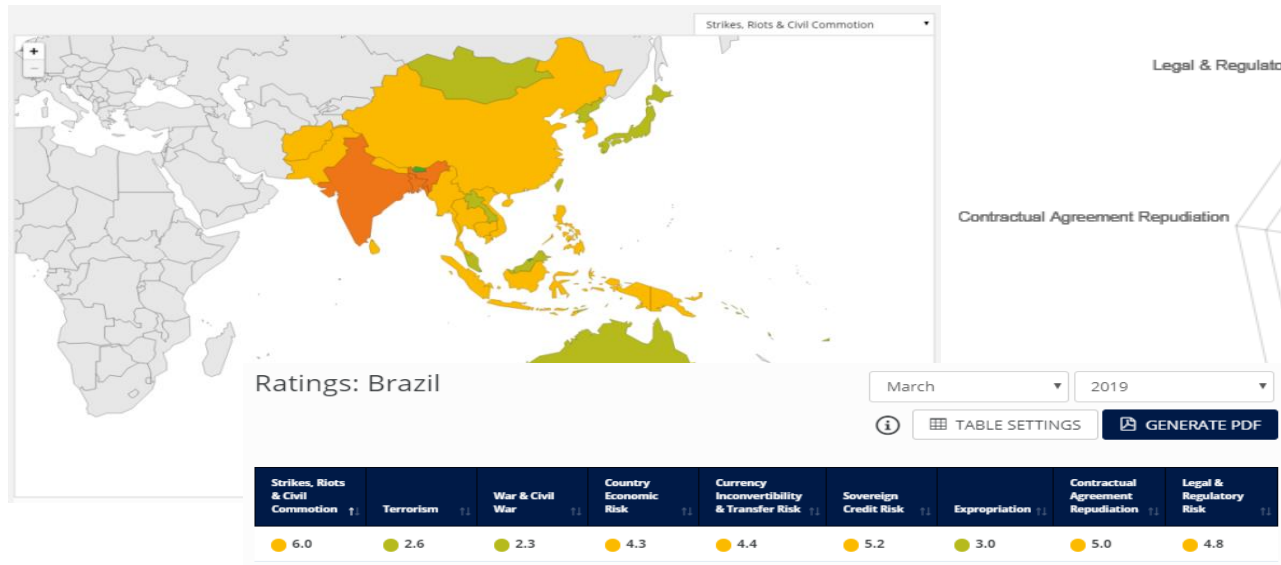
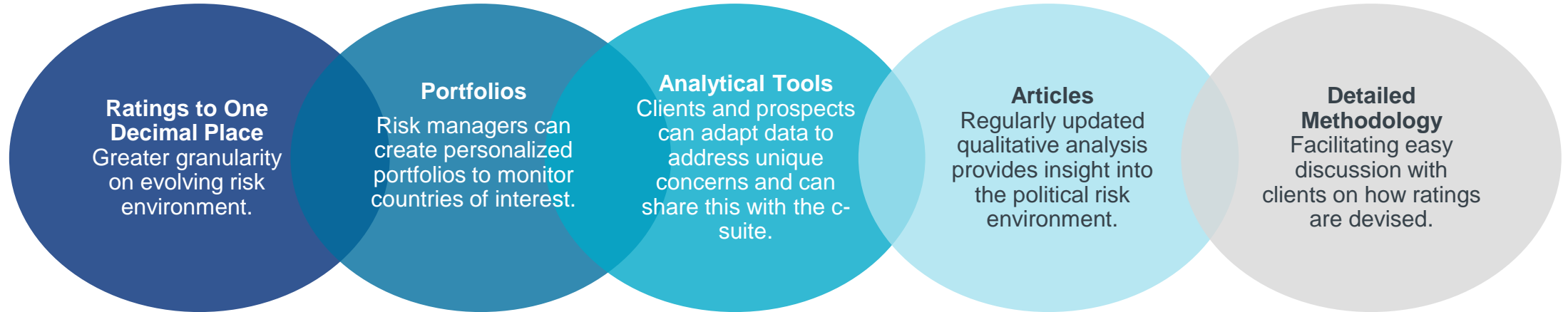
### 4. Choosing the right strategy to manage your political risk

By comparing the result of your sensitivity analysis, risk appetite and tolerance, as well as risk interconnectivity, organizations can make informed decisions about how best to manage and mitigate political risk and protect long-term business sustainability.

### 5. Monitoring political risk trends as part of your BAU (business-as-usual)

It is important to note that political risk management should be integrated into your broader ERM framework, which includes political risk analysis that identifies and assesses what risks could impact the organization's objectives, as well as the extent of the impacts.

# Data & Analytics Example - Marsh World Risk Review



# Data & Analytics World Risk Review

## Country Risk Ratings – Key Countries

RISK CATEGORY	SECURITY ENVIRONMENT			TRADING ENVIRONMENT			INVESTMENT ENVIRONMENT		
Country	Strikes, Riots & Civil Commotion	Terrorism	War & Civil War	Country Economic Risk	Currency Inconvertibility & Transfer Risk	Sovereign Credit Risk	Expropriation	Contractual Agreement Repudiation	Legal & Regulatory Risk
Mexico	6.1	3.6	2.6	3.7	3.6	3.7	4.4	6.8	5.4
Chile	5.6	4.6	2.8	3.8	3.3	2.7	3.7	4.3	2.9
Argentina	7.5	3.0	2.0	7.4	7.4	8.3	3.0	5.5	5.3
Colombia	6.1	6.4	5.2	4.6	4.0	4.4	4.0	5.5	5.0
Brazil	5.9	2.7	2.6	4.4	4.1	4.9	3.1	5.2	5.0
Turkey	5.4	5.8	5.2	5.7	4.9	6.8	4.7	6.3	4.8
India	6.4	6.4	4.5	3.6	3.9	4.0	2.6	4.9	5.3
China	5.0	3.0	3.6	3.5	4.9	2.2	4.4	5.8	5.3
Taiwan	3.7	1.1	2.8	2.5	1.9	1.4	1.4	2.7	2.8
Viet Nam	4.6	2.2	2.7	3.4	4.7	4.6	3.8	4.8	5.5
Indonesia	5.6	5.5	4.3	3.7	4.4	3.9	5.4	5.2	5.9

# Country Risk Premium

## Basics

**Country Risk Premium (CRP):** the additional returns a project (or loan) must generate to cover the risks arising from its operating environment.

Country Risk Premium

Target Investment Return

ISO3	Country	Average country CRP
AFG	Afghanistan	19.83%
ALB	Albania	1.52%
DZA	Algeria	3.77%
AGO	Angola	1.89%
ARG	Argentina	3.55%
ARM	Armenia	1.71%
AUS	Australia	0.95%
AUT	Austria	0.74%
AZE	Azerbaijan	1.52%
BHR	Bahrain	1.61%
BGD	Bangladesh	3.61%
BLR	Belarus	3.13%
BEL	Belgium	0.85%
BTN	Bhutan	1.54%
BOL	Bolivia	3.17%
BIH	Bosnia and Herzegovina	1.50%
BWA	Botswana	0.94%
BRA	Brazil	1.58%
BGR	Bulgaria	1.29%
BFA	Burkina Faso	2.75%
BDI	Burundi	3.85%
KHM	Cambodia	1.55%
CMR	Cameroon	2.11%
CAN	Canada	0.83%
CHL	Chile	1.44%
CHN	China (mainland)	2.05%
COL	Colombia	2.36%
COG	Congo, Republic of the	3.59%
COD	Congo, the Democratic Republic of the	10.53%
CRI	Costa Rica	1.60%
CIV	Côte d'Ivoire	1.48%
HRV	Croatia	0.96%
CUB	Cuba	2.18%
CYP	Cyprus	0.92%
CZE	Czechia	0.80%
DNK	Denmark	0.59%
DOM	Dominican Republic	1.63%
ECU	Ecuador	3.36%

EGY	Egypt	2.32%
SLV	El Salvador	2.22%
GNQ	Equatorial Guinea	4.74%
EST	Estonia	0.75%
SWZ	Eswatini	1.61%
ETH	Ethiopia	3.60%
FIN	Finland	0.69%
FRA	France	1.24%
GAB	Gabon	2.21%
GEO	Georgia	1.47%
DEU	Germany	0.84%
GHA	Ghana	1.79%
GRC	Greece	1.32%
GTM	Guatemala	3.41%
GIN	Guinea	2.25%
HND	Honduras	2.84%
HKG	Hong Kong SAR	0.64%
HUN	Hungary	0.88%
ISL	Iceland	0.61%
IND	India	2.29%
IDN	Indonesia	2.50%
IRN	Iran	5.94%
IRQ	Iraq	12.59%
IRL	Ireland	0.81%
ISR	Israel	1.42%
ITA	Italy	1.34%
JPN	Japan	1.69%
JOR	Jordan	1.56%
KAZ	Kazakhstan	1.77%
KEN	Kenya	2.41%
KOR	Korea, South	1.17%
XKX	Kosovo	1.39%
KWT	Kuwait	2.22%
KGZ	Kyrgyzstan	5.66%
LAO	Laos	1.70%
LVA	Latvia	0.90%
LBN	Lebanon	14.46%
LSO	Lesotho	1.97%
LBR	Liberia	3.55%
LRY	Lithuania	17.36%

Example only - Source IHS Markit - November 2021 Scores

# Political Risk Insurance

## Brief Overview



Broad protection for **specifically named political risks** – can be highly customized



Private insurance market of **60+/- insurers**, and Public insurers MIGA, DFC, etc.



Can Be **Multi-Year** (2 to 15 years) **Non-Cancellable** Coverage



Private market has up to **\$3 billion of capacity** for each investment



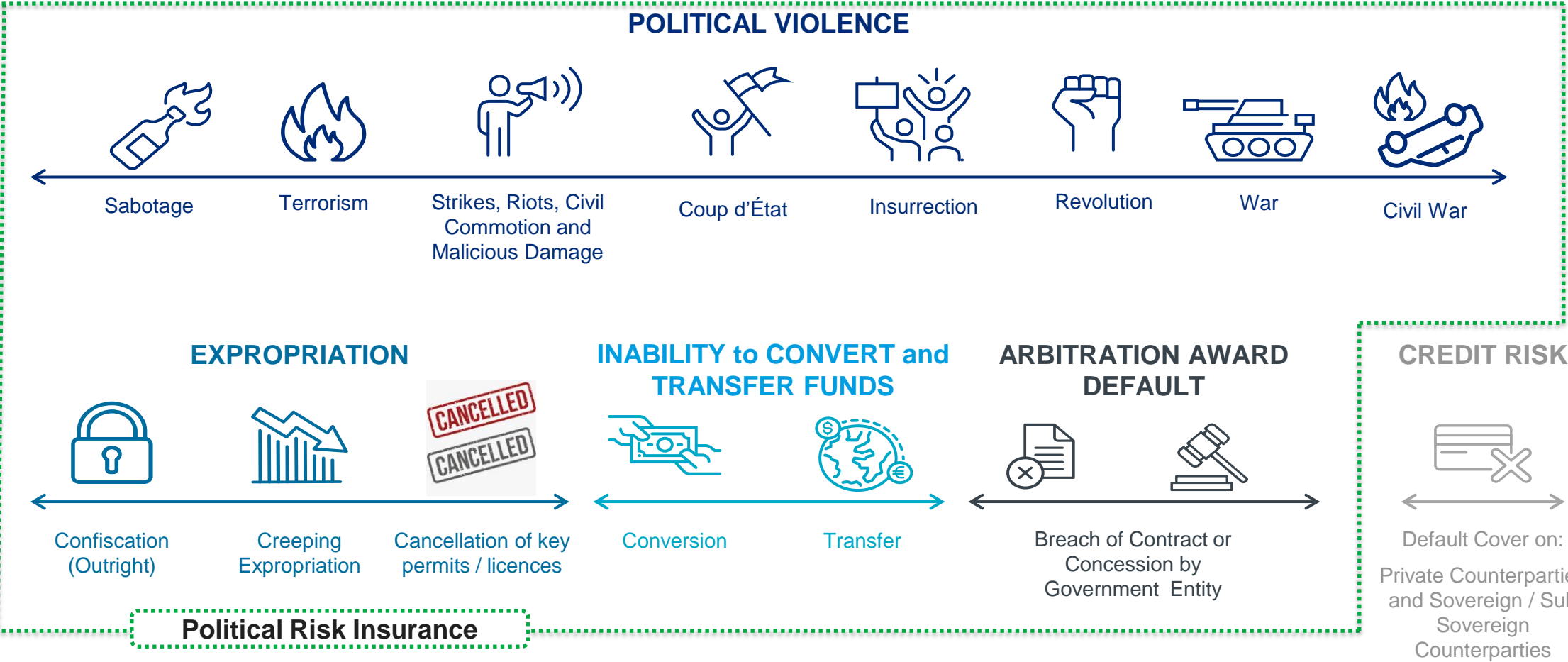
Protection for international assets or contracts with governmental entities and typically used in **emerging markets**



Primary users are **Manufacturing, Investors, Energy & Power, Chemicals, Mining, and Foods/Beverage**

# Political Risk and Credit Insurance

## Insurable Perils





# Key overall findings

**Political Risk Insurance (PRI) protects against potential cash flow losses**

**PRI reduces the effective Country Risk Premium (CRP)**

**Reduction in CRP can be quantified**

**Cost of PRI offset by potential protection from country risk losses**

**Quantifying CRP reduction from PRI improves the investment case**



PRI can compensate companies for a significant percentage of potential cash flow losses associated with key areas of country risk



PRI cover will indemnify companies against a proportion of potential losses, justifying a reduction in CRP incorporated in the discount rate representing investors' required rate of return



IHS Markit models quantify the expected cash flow losses associated with all sources of country risk and can therefore quantify a reduction in CRP and capture any associated improvement in the credit rating



Annual premium payments for PRI do negatively affect the project's future cash flows, although the impact on expected NPV is offset by cover provided and the balance can be positive if premium payments are tax deductible



Historically PRI users considered the negative cash flow "expense" without reflecting positive impacts of PRI in reducing the CRP and therefore raising the project's valuation (NPV) and returns (IRR) - ignoring the benefits of a de-risked project

**PRI does more for a company than cover insured losses, as a lower CRP results in investment finance on more favorable terms, higher asset valuation, increased rate of return for the project, and other benefits**

# Results of three case studies

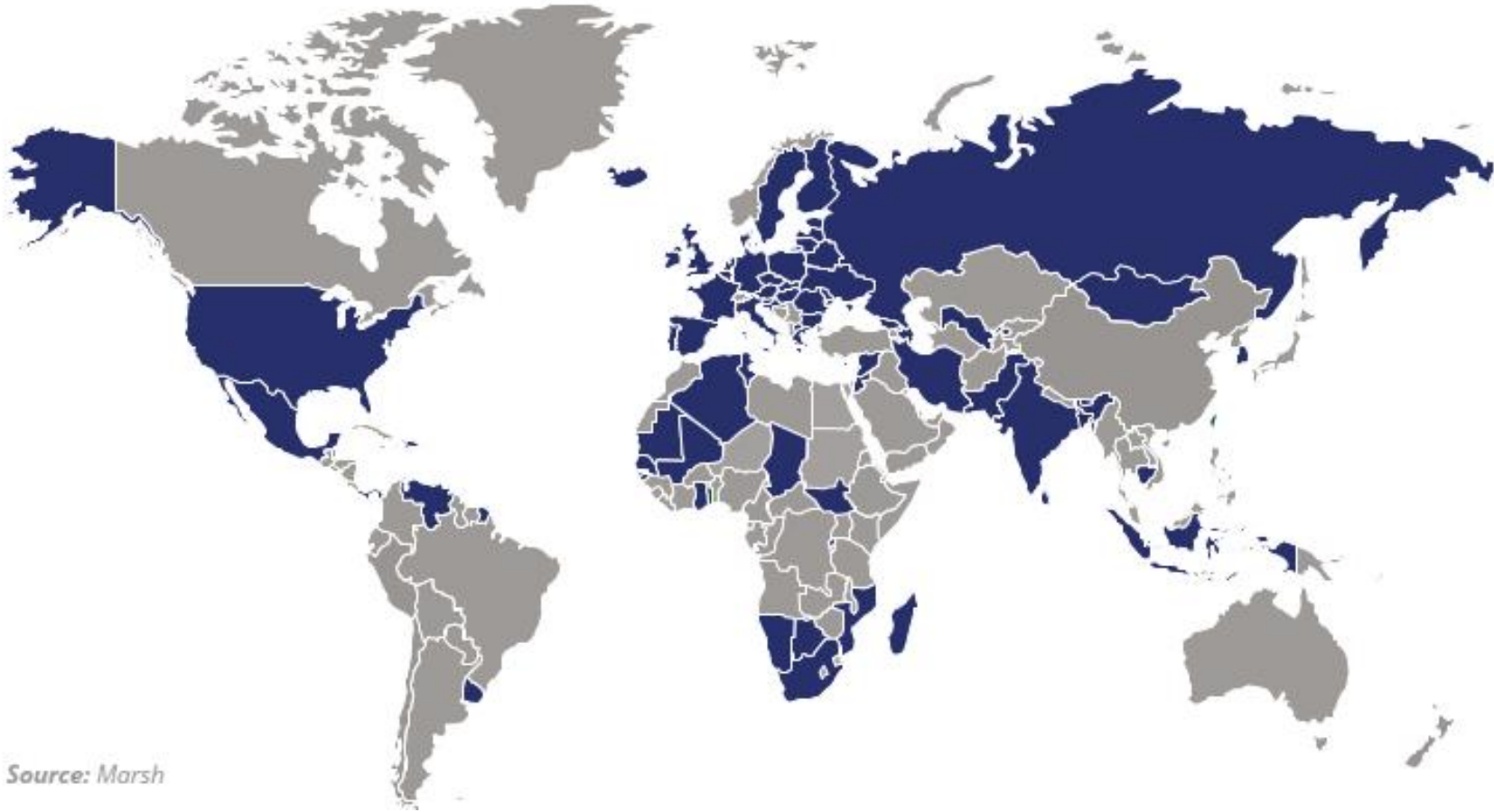
	Base			Post-PRI			Change		
	Ghana	Indonesia	Brazil	Ghana	Indonesia	Brazil	Ghana	Indonesia	Brazil
<b>Country Risk Premium</b>	6.30%	1.84%	2.91%	2.23%	1.05%	1.41%	-4.07%	-0.79%	-1.50%
<b>Moody's Rating (equivalent)</b>	B3	Baa2	Ba2	Baa2	A3	A3	7	2	5
<b>S&amp;P/Fitch Rating (equivalent)</b>	B-	BBB	BB	BBB	A-	A-	7	2	5
<b>NPV adjusted for country risk</b>	-89.2	83.4	25.5	80.0	113.9	101.5	169.2	30.4	75.9
<b>IRR adjusted for country risk</b>	2.44%	7.44%	6.05%	7.02%	8.34%	7.84%	4.58%	0.89%	1.80%



**In all three cases, the Country Risk Premium and sovereign rating equivalent were significantly improved by the application of PRI, resulting in an improvement in IRR**



# 2024 - Year of Elections



Source: Marsh



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