

TRADE CREDIT & POLITICAL RISK

“Risk Mitigation and Unlocking Capital”

Gerald Lim
April 2014, Singapore

Agenda

- Insurable Perils
- Value of Insurance
- Case Studies
- Applications
- Underwriting Considerations
- Insurance Markets
- About Marsh Trade Credit

Insurable Perils

Insurable Perils

- **Contract Repudiation**
- **Import/Export Embargo or Licence cancellation**
- **Law, Order or Decree (“Actions”) of Host Government**
- **Arbitration Award Default**
- **Unfair & Fair Calling of Contract Bonds**
- **Non-Honouring Guarantees**
- **Non-Honouring of Letters of Credit (State or Private Banks)**
- **Currency Inconvertibility and/or Non-Transfer**
- **Political Violence**
- **Buyer Non-Payment/Insolvency**

Value of Insurance

'Value' of Insurance

- **Risk mitigation**
 - protect cost incurred, revenue
 - new trading partners / new countries
 - concentration risk
- **Enhance bank financing**
- **Drive sales by offering more competitive terms to your contract counter-party**

Case Studies

Claim Case Study : Arbitration Award Default Mid-American - Indonesia

- **Case Study:** AAD and Expropriation
- **Exposure:** 2 geothermal power projects
- **Claim Payment:** \$290 million
- **Background:**
 - Projects postponed during Asian financial crisis
 - One unit completed; PLN failed to dispatch the unit and make capacity payments under a take-or-pay agreement.
 - Investor filed arbitration against PLN and won an award of \$572.3 million.
 - PLN failed to pay; the investor arbitrated against the Government of Indonesia under the Support Letter by the Ministry of Finance.
 - The second tribunal awarded the investor \$575.6 million
 - Government failed to pay
 - Investor filed claims with OPIC and the private market insurers and received full payment under the policies of \$290 million.

Claim Case Study - Forced Abandonment

Country: Solomon Islands

- **Case Study:** Forced Abandonment
- **Investment:** *Investment* in Gold Ridge mine
- **Claim Payment:** \$70 million
- **Background:** Mining was suspended and staff evacuated after political unrest broke out in June 2000. However, even after a cease-fire in October 2000, the mine remained occupied by hundreds of supporters of the Isatanbu Freedom Movement. The conflict appeared based on resentment between the local islanders and management of the mine who came from another island. Insured has entered into a joint venture with the insurer for the mine's operation in the scenario that it reopens.

Claim Case Study: PV and BI Sector Resources – Colombia

- **Case Study:** Political Violence / Business Income Loss
- **Exposure:** Investment & Debt in precious mineral mine
- **Claim Payment:** \$2.43 million
- **Background:** Mining was suspended less than three weeks after the mine became operational, as the guerrilla faction FARC threatened to blow up the facilities and kill the workers unless their demands were met. Since the government of Colombia has a policy of non-negotiation with terrorists, Sector Resources had limited options to react. The open neutrality letters and the petitions of the government did not achieve their goal and, with the FARC ultimatum still pending, the workers refused to return. The investor filed a claim for compensation and it was approved for both losses due to Political Violence and loss of Business Income, even though the latter required physical damage to the property, which had not technically occurred.

Claim Case Study: Currency Inconvertibility

Country : Venezuela

- **Case Study:** Currency Inconvertibility
- **Exposure:** Loan to Ferry Company
- **Claim Payment:** \$2.65 million
- **Background:** Under Venezuela law, foreign investors are entitled to convert and transfer abroad proceeds of their investments. However, the Law of the Central bank contemplates the possibility of imposing restrictions in certain circumstances. After a steep decline in the value of the Bolivar, following a 2 month general strike that brought oil production to a near standstill, the Central Bank halted trade in Bolivars and the imposed exchange controls. At the same time CADIVI was created to regulate the purchase and sale of foreign currency. Initially, CADIVI was unable to process FX requests efficiently and the Central Bank was only supplying currency to about 15-20 percent of approved authorizations. For two principal payments, the borrower was unable to pay the Insured.

Applications

Applications

- **Sale of goods and service eg. bunkers, fuel, supplies.**
- **Charterhire**
- **Shipbuilding / construction**
- **Vessel financing, leasing**

Underwriting Considerations

Underwriting Considerations

- **Financials – the parties, the transaction.**
- **Industry trends – macro and micro (sector specific).**
- **Economic factors.**
- **Political factors.**
- **INSURANCE DOES NOT MAKE A BAD DEAL GOOD**

Insurance Markets

Insurance Market Availability in Singapore

Primary

Ace
AIG
Atradius
Coface
ECICS
Euler Hermes
QBE
Zurich

New in Singapore past 2 years

Axis Insurance
Ironshore
XL Insurance

Lloyd's in Singapore

Ascot
Beazeley
Canopus
Catlin
Chaucer
Kiln
Markel
Starr
Talbot

About Marsh

About Us – Marsh Trade Credit & Political Risk

Marsh's Trade Credit & Political Risk Practice is a global network of 250 product specialists in 44 countries focused on delivering risk mitigation solutions for payment risk obligations and emerging market investments.



Value Proposition

- Industry's leading globally coordinated network allowing for local servicing, shared ideas and solutions, and access to all markets.
- Multinational Trade Credit Team provides consistent structuring, placement, and servicing platform to all geographies.
- Financial institution client specialists enable us to achieve customized and innovative solutions to complex transactions.
- Robust benchmarking data resulting from our industry-leading political-risk market share.

Capabilities

- Products for Corporations:
 - Credit insurance on accounts receivable
 - Contract frustration insurance covering cross-border sales and supply contracts
 - Political risk insurance for equity investments and mobile equipment
 - Political violence cover on physical assets
- Products for Financial Institutions:
 - Comprehensive credit insurance on various types of trade or projected-related debt obligations
 - Political risk insurance for cross-border loans

Thank You

This document and any recommendations, analysis, or advice provided by Marsh (collectively, the “Marsh Analysis”) are intended solely for the entity identified as the recipient herein (“you”). This document contains proprietary, confidential information of Marsh and may not be shared with any third party, including other insurance producers, without Marsh’s prior written consent. Any statements concerning actuarial, tax, accounting, or legal matters are based solely on our experience as insurance brokers and risk consultants and are not to be relied upon as actuarial, accounting, tax, or legal advice, for which you should consult your own professional advisors. Any modeling, analytics, or projections are subject to inherent uncertainty, and the Marsh Analysis could be materially affected if any underlying assumptions, conditions, information, or factors are inaccurate or incomplete or should change. The information contained herein is based on sources we believe reliable, but we make no representation or warranty as to its accuracy. Except as may be set forth in an agreement between you and Marsh, Marsh shall have no obligation to update the Marsh Analysis and shall have no liability to you or any other party with regard to the Marsh Analysis or to any services provided by a third party to you or Marsh. Marsh makes no representation or warranty concerning the application of policy wordings or the financial condition or solvency of insurers or reinsurers. Marsh makes no assurances regarding the availability, cost, or terms of insurance coverage.