

POLITICAL RISK IN EMERGING MARKETS

Speakers:

Adrian Lewers, Head of Political and Contingency Group, Beazley

Charles Berry, Chairman, BPL Global

Dan Smith, Secretary General, International Alert

Voice over:

Global businesses are keen to take advantage of the new opportunities offered by emerging economies.

Business leaders now recognise they are operating in an increasingly risky world and have significant concerns about the ways in which terrorism and other forms of political violence could impact their organisations.

Lloyd's recent report, written in conjunction with the Economist Intelligence Unit, reveals that political violence causes 37% of companies to avoid overseas markets where they might otherwise have invested*.

The resulting drawbacks are clear to Adrian Lewers, Head of the Political and Contingency Group at Beazley:

Adrian Lewers:

I find it surprising that so many companies have failed to invest in countries simply on the basis of the political violence risk. This must represent a huge lost opportunity, not just for those businesses who will clearly lose out to their competitors, but also for specialist insurers such as Beazley.

Voice over:

Lloyd's' report also reveals that only 36 per cent believe their companies have a strong understanding of the political violence risks they face*.

So where are businesses getting their information?

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Adrian Lewers:

The perception of risk appears to be driven more by media headlines rather than rigorous analysis.

Many Lloyd's underwriters have access to a valuable range of information sources, and these could be made available to companies as part of their risk assessment and risk management strategies.

Voice over:

Many companies rely on international media which is a sensible start but too few go further and consult local media in emerging markets, for example, via the internet. And fewer still seek out specialist information, academic writing or NGO reports. These are all high quality and the latter two are often free.

Currently only one in five global companies makes use of information from specialist sources.

Dan Smith, Secretary General of International Alert, one of the world's leading peace-building NGOs, sees the problem on the ground.

Dan Smith:

For companies to get what they need, really the media are not going to be enough. Companies need more than just information about events. They need to know about trends, they need to know about the context. For that, you've really got to turn to people who have a feel for the countries, who really know them. If companies don't have those kinds of people on their own strength, then they are going to have to outsource the task of developing that kind of material. There are plenty of places to go. They can go to consultancy companies, there are academics, and there are also plenty of NGOs around, like our own, International Alert. In fact, sometimes NGOs are the best source of information because they have people who have been in those countries for years and they are impartial.

Voice over:

For over 300 years Lloyd's has been the world's leading specialist insurance market.

For centuries it has covered war losses and lawlessness on the high seas and in today's ever changing world, Lloyd's remains a leader and innovator helping develop new ways to deal with the threat of terrorism and political risk.

Charles Berry, Chairman of BPL Global, a London based broker specialising in Emerging Market Risk, explains:

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Charles Berry:

Traditionally, the insurance market has treated terrorism risk and political risk as two separate silos of the insurance market. Now, you don't have to worry too much about political risk if you are addressing terrorism in New York or London, but you cannot separate terrorism and political risk when you are operating in areas where the terrorist organisations may have considerable local support and that can happen in emerging markets.

Take Hezbollah, for example. They have shown their ability to get hundreds of thousands of their supporters demonstrating on the streets of Beirut. When a terrorist organisation achieves that level of support, well, they are a political force as well as a military one, and if in the battle of hearts and minds, they achieve the tipping point, that is when they can topple governments, they can move borders and they can even finish up in government themselves, so businesses operating in emerging markets need to understand this link between political risk and terrorism. As specialists in emerging market risk, we can help them achieve that understanding.

Adrian Lewers:

Companies face different risks depending on which country they are in, and their risk management strategies need to reflect this. There is no 'one size fits all' solution.

For example, a company operating in Latin America, might have an office in Brazil where they face civil unrest and economic risk, whereas in Colombia they might face a much broader spectrum of risk, including terrorism. And in parts of Africa, they may face the whole spectrum of political risk, political violence and terrorism risks.

Voice over:

And Lloyd's identifies a further worrying fact from their recent research: Only around half of companies are insured for political violence in emerging markets. Of those which are insured, many businesses believe they are covered under other policies which may not be adequate and more than one in ten overall admit they do not know if they are covered or not*.

Charles Berry:

Businesses need to sit down with their advisors and their brokers and work out exactly what they need in different areas of the world, but they will find that they need to add in risks that are traditionally covered by the political risk underwriters. In other words, they will need to break down these two silos of risk. Now, this is a very good place to do it.

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Voice over:

So how is Lloyd's responding to the range of risks that business may encounter in emerging markets?

Charles Berry:

Certainly in 2003 when we started developing these types of coverages specifically for emerging market risk, we got our initial lead from underwriters in the Lloyd's market, but that process is continuing and it is continuing to be led by people with a Lloyd's and London market background, and we really are producing the types of products that respond to the changing world and give the coverage which you really need in these emerging markets.

Adrian Lewers:

Beazley is able to offer a wide range of products covering the risks that are faced by businesses operating in emerging markets, right through from expropriation to terrorism, war and political violence. The typical buyers of our products would be investors in emerging markets who have either fixed assets on the ground, and those might be mining investments, natural resources, they might be real estate assets. Buyers also include importers and exporters of goods and services into those countries. We even go so far as to cover organisers of exhibitions, sporting events, and the like.

Voiceover:

So, today's business leaders are probably right to be concerned about the changing risk landscape as they expand across a highly volatile world.

But the good news is that the insurance market is broadening its view of risk and making new products available, helping business to invest where they want with a new confidence.

*Source:

'Under Attack? Global Business and the Threat of Political Violence'

Lloyd's and Economist Intelligence Unit, May 2007