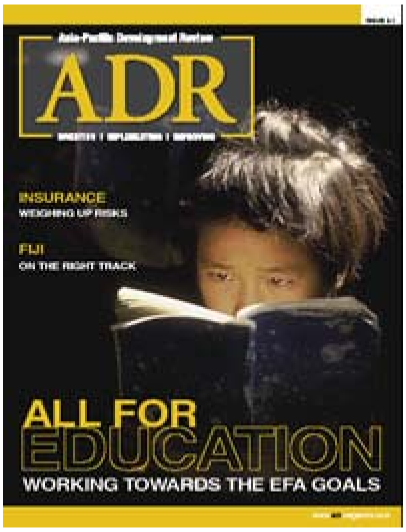
Asia-Pacific Development Review
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WEIGHING UP RISKS

Nothing is guaranteed when working or investing in some of the world's hotspots, but there are ways to mitigate risks. Caroline Regidor **reports**

During the 10 years that Ayala Aon has been the insurance broker for the ADB, the ADB has not made any major claims, according to Ayala Aon's president, James G Matti.

"It's interesting because they're in places like Kabul. They are in 16 different countries," he says. "We have handled personal loss claims of staff – minor claims. The minor claims take two to three months to settle. It's just like any normal claim. You process documents, it's not rocket science." It brings home the fact that, for the most part, the insurance requirement of the ADB is just like that of most organisations.

Ayala Aon is a joint venture between Ayala Corp, the oldest conglomerate in the Philippines, and Aon, the world's second-largest insurance broker. It provides insurance products to a variety of organisations, including blue chip companies, schools and universities. It counts as clients the International Rice Research Institute (a non-profit agricultural research and training centre established to improve the well-being of rice farmers in developing countries) and the ADB, both of which are headquartered in the Philippines.

These organisations represent a broad cross-section but require similar types of cover: public liability, general health and life insurance for staff, vehicle insurance and so on. As has been topical lately, however, aid and development organisations require additional cover, by virtue of where they go – to some of the most dangerous places in the world.

Emergency repatriation is one kind of insurance that workers situated in high-risk areas should have. This type of cover provides compensation for emergency medical expenses and repatriation. Political risk cover is another insurance product that is a must-have in the insurance checklist of aid and development organisations.

Another special risk is kidnapping; aid and development workers have a heightened awareness of this risk, thanks to well-publicised incidents in Iraq. Some insurers cover the costs associated with a kidnapping, plus provide access to specialist response consultants.

Lloyds of London is one of a handful of insurers that provide special risks coverage in Afghanistan and Iraq.

Organisations on the ground in Iraq would already know about Defence Base Act insurance. All contracts with the US Department of Defense require this cover, which is primarily a workers' compensation cover.

The basics

Hypothetically speaking, an organisation such as the Red Cross would require the following types of cover:

- regional property insurance for their buildings, machinery, equipment, medicinal stocks
- general liability insurance, including for third parties
- comprehensive fleet insurance
- insurance for individual drivers
- marine/cargo insurance to cover transport of stock from one country to another
- group health/life/accident insurance for staff while they are acting in the course of duty
- political risk
- repatriation cover
- kidnap, ransom cover

There are two types of players in the insurance market: underwriters and insurance brokers. The underwriters in Asia include AIG, ACE, Allianz, QBE Insurance Australia, Munich RE, Swiss RE and AXA.

There are countless brokers, but some of the leading ones in Asia are: Aon, Marsh, Jardine Lloyd Thompson and Alexander Forbes. Brokers such as TFG Global arrange specialist risk insurance for high-risk countries. TFG Global counts among its clients The Peacepath Group and the Institute for Media, Policy and Civil Society (IMPACS). The latter organisation provides media and press assistance in places such as Nepal, Cambodia and Afghanistan.

Many organisations – certainly most of the large ones – engage insurance brokers who act as their advocates in the insurance marketplace. "Brokers design, evaluate and implement market-competitive and client responsive solutions," says Matti, although he admits that what he is saying sounds biased, being in the business of insurance broking himself. "Brokers give a value-added service. We process claims on their behalf to expedite claims. We understand the marketplace."

Brokers charge according to various fee structures. A commission-based fee can be based on a percentage of the insurance premiums, say 15%. Increasingly, clients pay via a service fee arrangement, which can be an hourly, daily or annual fee. For example, a client can pay an hourly or daily rate for a two day task, or if the survey is conducted as part of a long-term client relationship, the service fee is included in the annual fee.

Analysing risk

To obtain a quote for a premium, organisations should be prepared to give detailed information. The more risky the situation, the more detailed the questionnaire will be.

David Tompkins, president of TFG Global emphasises the importance of getting a comprehensive plan. "If there is a war or terrorism or riot risk, then make sure your policy covers these occurrences, as many regular expat insurance plans do not cover these risks. Sending an employee to an overseas assignment is a very big financial commitment, so it makes sense to protect that assignee through excellent insurance. Plus, good insurance helps attract and retain expat employees."

Focus on political risk

Political risk insurance covers losses due to war, revolution, insurrection or politically motivated civil strife or terrorism. The cover can apply to corporate investors and their workers, as well as aid organisations and their workers in developing countries. Property seized or destroyed during a political riot is an example of a loss that falls under this cover.

The Asian economic crisis and 9/11 increased interest in political risk among organisations operating in the regions. These events also deterred investors from engaging in development projects.

"9/11 actually reduced the demand for political risk coverage," says Daniel Wagner, senior cofinancing specialist at the Asian Development Bank in Manila. "Many equity investors and lenders reduced their exposure to emerging markets due to the perceived political risks and the resulting economic slowdown. New project finance basically closed down."

A common and wrong presumption is that premiums for political risk insurance (PRI) would have increased as a result of 9/11. "PRI is supply and demand driven," says Wagner. "Premium rates do not generally correlate to general market trends. PRI premium rates have generally been stable over the past three years."

Political risk insurance is available through the public and private sectors. In the private sector, the underwriters in Asia include Zurich, Chubb, Coface and Euler/Hermes.

The public sector underwriters include export credit agencies (ECAs), which are publicly funded government agencies that supply finance and insurance to companies investing overseas, particularly in large-scale infrastructure development projects. The bulk of the insurance that ECAs supply is credit insurance, however, they also provide political risk insurance. Japan's ECA is called Nippon Export and Investment Insurance. The US has the Overseas Private Investment Corporation.

The Australian ECA is called the Export Finance and Insurance Corporation (EFIC). Projects for which EFIC has either provided funds or guarantees include operations at BHP's Ok Tedi mine in Papua New Guinea and the Panguna copper mine in Bougainville.

Multilateral institutions such as the Inter-American Development Bank and the ADB also provide political risk insurance. In Asia, the ADB is the only multilateral institution that provides political risk insurance.

INSURANCE CHECKLIST

TFG Global is a Canada-based insurance broker that can provide cover for death, accidental dismemberment and disability and medical and evacuation costs for high-risk places such as Iraq and Afghanistan. TFG Global arranges cover for individuals and groups.

The checklist of questions that TFG Global requires to obtain a quote is as follows:

1 Names of people going to ________
2 Citizenship(s):
3 Country of residence of person(s) going:
4 Dates of birth:
5 Annual income and currency:
6 Contact details for person or company:
7 Countries to be visited and durations of visits:
8 Exact locations in countries to be visited:
9 Describe your company and what it does:
10 Describe the locations that will be worked at:
11 Security arrangements at work and sleep areas:
12 Do you expect all the people in one country to work and stay at one location?
13 Will they sleep and work at one location? Which one?
14 How will they get to and from location and where they are staying?
15 Details on transportation to and within country and security during travels:
16 Nationalities of people visiting:
17 Their occupations and duties while there:
18 Statement of work – why they are going there:
19 Travel dates and durations – are they going there on rotational basis? – please describe:
20 Any previous claims? If yes, please describe:

Plus these coverage questions:

a Amount of accidental death coverage and currency per employee – maximum amount of cover is 5–10 times annual income, depending on insurer.
b Do you want dismemberment coverage?
c Do you want permanent accidental disablement coverage?
d Is medical and repatriation/evacuation needed? Level required?
e What currency do you want people to be covered in?

Source: TFG Global, <http://www.tfgglobal.com/specialrisks.htm>

> **"If there is a war or terrorism or riot risk, then make sure your policy covers these occurrences, as many regular expat insurance plans do not"**

Case study: Pakistan

Political risk is perceived as higher in Pakistan than in many other developing countries. The ADB held discussions with the Pakistan government on how to attract investors into the country and broaden the scope of insurance through reinsurance. "We have found that the investor marketplace has tended to exaggerate the threat of terrorism in Pakistan from a commercial perspective," says Wagner. "We have found that Pakistan is actually a very good place to do business in that regard."

The result of the discussions was insurance programs, whereby private insurers and the ADB would offer reinsurance to local insurance providers.

"ADB fills the gaps that others in the market are not inclined to fill – the transactions that are judged to be riskier, or that the private sector is not attracted to," says Wagner. The ADB is putting the finishing touches on its Pakistan Political Violence Facility, designed to attract investors to undertake development projects in the country. The ADB expects to launch the facility during the first quarter of 2005.

Through its Political Risk Guarantee (PRG), the ADB can act as the sole guarantor for political risk, backed by its ordinary capital resources. Under certain circumstances the government may provide a guarantee to the project and/or a counterguarantee to ADB – the host government

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Expat Financial is an international insurance broker providing individual and group international insurance coverage for those on overseas assignments. Coverage for local nationals in some circumstances. TFG Global Insurance Solutions Ltd, through its web site Expat Financial, can also access special risk insurance for persons working in high risk regions such as Iraq and Afghanistan. We can search the market for global insurance solutions for your employees and consultants on overseas assignments.

Contact us in North America at **800-232-9415** or **604-351-5278** or via our web page or corporate email at **info@tfgglobal.com**

TFG GLOBAL insurance solutions

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COMPANY PROFILE

TFG Global Insurance Solutions Ltd/Expat Financial

Providing global financial security for your employees and consultants

If you or your employees are working abroad, one of the most important parts of their financial security is their expatriate benefit plan. Working overseas can be stressful enough – but doing so without an adequate health, life or disability insurance is downright dangerous. Falling ill in some far off land is distressing enough without the worry of who is going to pay your health bills. Such bills can run into the hundreds of thousands of dollars and the employee may turn to the employer for relief. Building a quality insurance plan can help attract and retain employees, especially if you are sending them to dangerous or remote locations.

TFG Global Insurance Solutions, through its Expat Financial division, has been providing employers with international group insurance benefits for many years. TFG Global brokers international health, life, AD&D, disability, health and evacuation insurance for individuals and their employers around the world – from one single employee to 300. TFG Global has accessed coverage for many companies and NGOs who have people who are working in high-risk zones such as Iraq, Afghanistan and Africa.

With a wealth of experience in dealing with a multitude of insurers from the United States, Canada and Europe, its principal, David Tompkins, is one of the leaders in the field of international group insurance and special risks coverage. As a Chartered Life Underwriter in the business since 1991, David's role is to search out the market for insurance solutions for your employees and consultants on overseas assignments – from short to long-term assignments. TFG Global is accountable only to the client and doesn't charge a fee to their clients as they are compensated by the insurer you choose. **ADR**

For further information or a quote please visit their web site at: www.expatfinancial.com or www.tfgglobal.com or send an email to info@tfgglobal.com

World map of political and economic risk

Aon Limited: www.aon.com/us/politicalrisk

can normally control the outcomes of political risks in the country. A counterguarantee from the host government is a drawcard as it provides another layer of guarantee and demonstrates the host government's commitment to the project.

If the PRG is counter-guaranteed by the host government, there is no limit on the amount of the PRG. For projects with PRG support for which there is no host government counterguarantee, the ADB's total assistance may be up to $150m or 50% of project costs, whichever is less.

The risks covered under the PRG include:

- currency inconvertibility or non-transfer
- confiscation, expropriation, nationalisation or deprivation of project assets
- political violence, such as strikes or civil disturbances (including terrorism, sabotage) that negatively affects the project
- breach of contract, such as non-delivery by state-owned entities of inputs (such as fuel supplies) or non-payment for outputs (such as power or water)

The PRG acts as a catalyst to get the private sector involved in development projects. In some cases commercial lenders are willing to bear the credit risk of a project, but need a multilateral institution or a private insurer to assist with providing guarantees for political risks.

PRG can be structured to make it compatible with the political risk insurance products offered by other agencies, including the World Bank's Multilateral Insurance Guarantee Agency, private sector PRI providers and ECAs. In Afghanistan, the ADB has instituted a program for political risk coverage through a joint venture with the World Bank. Investors should be aware of these options when assembling their insurance packages for development projects.

On a more macro level, the OECD is conducting a study on who can foot the bill, should compensation be payable as a result of terrorism. Cecile Vignial, principal administrator at the OECD's headquarters in Paris, says that the report will be released in 2005. "If the insurers don't want to pay, then probably private public partnerships should be developed to try to neutralise the risk, thus insurers and reinsurers wouldn't become insolvent," says Vignial. It is yet another development in insurance that those active in high risk countries should be keeping an eye on. **ADR**

POLITICAL RISK GUARANTEE

Example of how the ADB provides political risk guarantee

SME Trade Enhancement Finance (Pakistan)

Type ADB Political Risk Guarantee facility guaranteeing payment to international banks confirming letters of credit (L/Cs) issued by Pakistani banks to finance imports of intermediate goods for eventual export.

Guarantee Coverage The PRG covers 100% of the obligations under each eligible L/C, provided that failure to pay by the issuing bank is caused by:

- currency inconvertibility or transferability blockage
- other agreed political risk events directly affecting payment

Counter guarantor Pakistan

PRG Facility Amount Aggregate value of all L/Cs guaranteed under the facility is not to exceed $150m.

Facility Agent Standard Chartered Bank (Dubai) was carefully selected as Facility Agent and acts as a conduit between ADB and the confirming banks in administering and helping promote the Facility in Pakistan and overseas.

Availability Period Six years. During the availability period, new eligible L/Cs may replace the L/Cs that have matured. L/Cs may have a term of up to 360 days, but on a case-by-case basis may have a term of up to 3 years.

ADB Direct Loan – $150m to Pakistan for Foreign Currency Export Facility.

Participation Equity – $2m invested in Pakistan Export Finance Guarantee Agency Ltd.

Rationale for ADB At times of political uncertainty, offshore suppliers that sell much-needed imports.

Guarantee Support to Pakistan have encountered difficulties in obtaining confirmation of L/Cs issued by Pakistani banks, or have done so at an exceptionally high cost. The PRG effectively mitigates Pakistan country risk, thus helping keep Pakistan country limits open for international banks confirming import L/Cs issued by Pakistani banks during periods of political and economic uncertainty. The facility should ensure that Pakistani exporters have continued access to trade finance and effectively reduce the cost of imports for export production, thus enabling Pakistani exporters to compete on terms similar to those of their international competitors (without being penalised unduly for Pakistan's country risk).

Source: Asian Development Bank