

POLITICAL RISK INSURANCE FOR CONSTRUCTION AND ENGINEERING COMPANIES PROTECTING GLOBAL EXPOSURES



A robust construction marketplace offers an exciting opportunity for construction and engineering firms to expand beyond their borders to do business internationally. However, this pursuit of global growth exposes companies to political risks that they do not normally encounter in their native countries.

Host-country instability and adverse government actions are among the examples of political risks that should be properly assessed and managed, especially when projects are located in emerging markets.

When companies pursue opportunities for growth in emerging markets, they face many complex risks, including political risks. Broadly speaking, political risk is the range of politically motivated events that adversely affect investments, contracts, or other overseas exposures. Political risks that an engineering or construction firm might face include:

- Failure of the host government to pay contractually due amounts, due to either inability or unwillingness to meet obligations.
- Refusal of a governmental entity in the host country to pay arbitration awards in favour of the contractor or the engineering firm.
- Damage to construction equipment from politically motivated violence.
- Seizure of equipment or assets by the host government.
- Inability to convert local currency earnings or contract payments into hard currency.

- Wrongful call of on-demand standby letters of credit posted as bid, performance, or advance payment bonds, or a fair call precipitated by a political event.

Often, several of these threats may exist in a single operating location, which complicates the task of assessing your company's full political risk exposure. Should you forego valuable opportunities if they happen to be in potentially unstable areas of the world? Not necessarily.

COMBINING POLITICAL RISK EXPERTISE AND INSURANCE-MARKET KNOWLEDGE

Marsh works with many of the world's leading construction and engineering companies to evaluate the risks associated with their global businesses and to design and implement tailor-made risk management solutions.

Marsh offers construction and engineering companies the vision and proven depth of technical expertise to structure complex, tailored placements, including:

- Strategic risk assessment of your corporate exposures.
- Design of policy structure to help you protect your investments.
- Skilled, proactive advocacy throughout the claims process.

Marsh is a recognised leader in providing insurance and risk management solutions for the construction and engineering industries. We bring to our construction and engineering clients the combined expertise of industry specialists in our Construction and Political Risk Practices from all over the world. The Political Risk Practice is part of Marsh's global network of professionals that structure alternative risk finance and risk transfer products designed to help clients improve their enterprise value and take greater control of their risk programmes, including trade and investment risks.

CASE STUDY ONE

PROVIDING A CLIENT WITH A COMPREHENSIVE AND FLEXIBLE WORLDWIDE PROGRAMME

An engineering contractor had a large number of outstanding bonds and letters of credit for various projects throughout the world. The contractor sought to simplify its administrative process and obtain risk coverage at a reasonable cost.

After a careful review, Marsh was able to create a programme that included coverage designed to protect against all the client's outstanding exposures, rather than select exposures, at a rate well below the market rate for individual placement. Although the terms were written for three years, Marsh allowed for enough flexibility when placing the client's policy so that it could be cancelled and rewritten each year to provide a significant term of coverage.

CASE STUDY TWO

INFRASTRUCTURE CONTRACTOR FACES UNSTABLE POLITICAL ENVIRONMENT

A client was awarded a three-year contract with a Middle Eastern government to design and build a water treatment facility. Exposed to an unstable political environment and uncertain USAID (United States Agency for International Development) financing, the client had concerns about potential payment default and posted performance bond.

Marsh's Political Risk Practice reviewed the contracts to identify the risks faced by the client. After conducting extensive renegotiations to develop a policy that would meet the client's particular situation, Marsh placed a tailored and competitively priced programme that protected the client against payment default by the government buyer and against non-certification of invoices, including those financed by USAID. Marsh arranged extended coverage when additional time was needed to complete contractual obligations, successfully negotiating more favourable premium terms and saving money for the client.

CONTACT

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