

Managing Political Instability in Developing Markets

Slowing economies, oppressive regimes, and broad societal changes have contributed to political instability in emerging markets and elsewhere in recent years. Companies with interests in such areas face the potential for political violence, terrorist attacks, resource nationalism, and expropriation actions that can jeopardise the safety and security of their people, assets, and supply chains.

Risks related to political instability cannot be completely eliminated, but multinational businesses can take steps to limit the potential effects on their employees and operations.



ORGANISATIONAL RESILIENCE

Before instability develops, businesses should have well-tested emergency response, business continuity, crisis management, and crisis communications plans in place. Organisations should identify their essential functions and assess the potential impact of unrest in various countries, taking into consideration employees, customers, and other key stakeholders.

Even if their own operations are in less volatile regions, companies can be affected by political instability in countries in which their suppliers operate. It is critical for businesses to ensure that their suppliers and other partners have robust risk management plans, while simultaneously making alternative suppliers part of business continuity planning.

Businesses should also:

- Maintain up-to-date locations and travel plans for all employees and provide methods through which employees can report their status.
- Determine in advance what type of humanitarian assistance the company may provide.

This assistance could include emergency evacuations, support and counselling, and pre-approval for employees to work from home or take emergency leave.

- Monitor government, media, and other data sources to maintain situational awareness of current and evolving threats.
- Provide employees with regular updates about local government travel advisories and monitor airlines' flight schedules and status.
- Communicate with staff in affected areas to gain advice or provide information about changes to their situation.

In a crisis, communication is crucial but could be hampered by government interference, disruptions to communications networks, loss of power, or other factors. Businesses should maintain current and complete contact information for employees — including personal email addresses and mobile numbers — and their emergency contacts so that employees can be reached through as many channels as possible. If appropriate, organisations should also consider the use of satellite phones or other technologies that may be more reliable during a crisis.

Businesses should maintain frequent contact with local embassies, consulates, and other government representatives, which may be able to assist their nationals with communications or evacuations in a crisis. Prior to an event, businesses should have employee citizenship information; employees should ensure that passports, visas, and other travel documents are current and on hand.

CAPITAL INFLOWS AND CLAIMS PREPARATION AND FILING

Before an event, organisations should develop claim management plans that establish clear roles and responsibilities for personnel inside and outside of the organisation.

Because instability can develop quickly, key records — including insurance policies, contact lists, and financial and property records — should be accessible in hard copy and electronic formats via local and alternative location sources.

In the event of a loss, organisations should begin to gather data for a claim filing. This includes capturing potential loss information and additional costs associated with the claim, including temporary repairs, extra expenses, and business interruption loss of income costs. Businesses should record photographic and/or video evidence of damage and maintain open lines of communication between employees, insurers, and claims advisers to support policy loss mitigation and notification terms.

INSURANCE CONSIDERATIONS

Even before instability develops, businesses should review all insurance policies that may apply. Organisations should clearly understand their policy limits and sublimits, deductibles, loss-reporting requirements, covered perils, exclusions, and any other restrictions.



Although laws vary by country, local risks in developing markets sometimes cannot be covered by offshore insurers on a non-admitted basis.

Multinational organisations should review their insurance programmes and consider the following questions, among others:

- Is coverage in each territory where we have operations in compliance with local insurance laws?
- If a claim arises, will the loss be adjusted and paid directly to the local loss bearing entity or, alternatively, to the parent company?

Answering these questions can help organizations avoid surprises about how their claims will be handled and manage exposures related to income or withholding tax (imposed on claim proceeds received by the parent), premium tax, and regulatory compliance.

Businesses should also look ahead to the next potential crisis. If they do not already have such policies in place, organisations should consider purchasing terrorism insurance and political violence insurance from private insurers or through local government entities where available. Events that occur in developing markets could go beyond the definition of “terrorism,” and may require broader political violence coverage, purchased either in conjunction with a standalone

terrorism policy or as part of a broad form political risk insurance policy.

In addition to physical damage from political violence, political risk insurance can provide coverage for financial losses resulting from the actions of host governments and others. Key elements include business interruption/loss of income, sovereign payment default risk, government breach of contract, contract frustration, expropriation of investments or assets, and currency inconvertibility and non-transfer blockage.

Although these insurance policies can be purchased for a single country, it is difficult to predict where the next uprising or terrorist attack might take place. Instability often emerges quickly — including in countries that have historically been considered stable. Organisations should instead consider multi-country political risk and terrorism/political violence insurance programmes. This approach allows buyers and insurers to spread risk across several countries in which insureds operate, and typically cost no more than a targeted single-country programme.

Multinational businesses should also consider purchasing:

- **Occupational and non-occupational coverage for employees**, including foreign voluntary workers’ compensation, business travel accident insurance,

and political evacuation coverage, which is typically triggered by a government order to evacuate a specific region. Where possible, third-party providers should be aligned across these forms of coverage. And for policies that include death benefits, covered deployed personnel should have clearly and officially declared beneficiaries to better ensure that insurers pay benefits to an employee’s family in the event that he or she dies during overseas travel.

- **Special risks (kidnap and ransom) insurance**, which can provide organisations with guaranteed and unlimited access to experienced response consultants who can assist during a crisis. These policies provide coverage for a myriad of events, including kidnappings, detention, extortion, hijackings, employee disappearances, hostage crises, and threat responses.
- **Credit insurance**, which can protect against commercial payment default risk from private entities — for example, customers purchasing goods from insureds on open account terms.
- **Trade disruption insurance and supply chain insurance**, which can protect organisations from financial loss triggered by a variety of foreign events affecting their supply chains.



HOW MARSH CAN HELP

The above considerations outline only some of the steps that organisations should consider in dealing with political risk and violence. Marsh's local and global insurance, property risk, forensic accounting, emergency response, business continuity, crisis management, and claims professionals can help companies address their concerns related to political instability.

For more information, contact your Marsh representative or email us at uk.politicalrisk@marsh.com

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