MARSH

# MANAGING POLITICAL INSTABILITY IN EMERGING MARKETS

Slowing economies, oppressive regimes, and broad societal changes have contributed to political instability in emerging markets and other countries in recent years. Companies with interests in such areas face the potential for political violence, terrorist attacks, resource nationalism, and expropriation actions that can jeopardize 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 operations.

## CRISIS MANAGEMENT AND BUSINESS CONTINUITY

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

Companies can be affected by political risk even when their own operations are in less volatile regions. For example, supply chains can be impacted, making it critical for businesses to ensure that their suppliers and other partners have robust risk management plans, while simultaneously making alternative suppliers part of resiliency planning.

To help protect people, operations, and assets, businesses should consider taking proactive steps, including:

- Maintaining up-to-date locations and travel plans for all employees and enabling them to report their status.
- Providing employees with regular updates about local government travel advisories.
- Communicating with staff in affected countries to gain advice or provide information about changes to their situation.
- Monitoring airlines' flight schedules and status.

In a crisis, communication is crucial but could be hampered by government interference, damage 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 — so that they can be reached through as many channels as possible. If appropriate, organizations 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 have passports, visas, and other travel documents on hand.

## CLAIMS PREPARATION AND FILING

Before an event, organizations should develop claim management plans that establish clear roles and responsibilities for personnel inside and outside of the organization. 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, organizations 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 advisors to support policy loss mitigation and notification terms.

## INSURANCE CONSIDERATIONS

Even before instability develops, businesses should review all insurance policies that may apply. Organizations 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 emerging markets generally cannot be covered by offshore insurers. When a multinational company chooses to place coverage for risk in these countries with global insurers on a non-admitted basis, a swift claims response may be absent when it is needed most. Before a loss, multinational organizations should review their insurance programs 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 not only avoid surprises about how their claims will be handled, but manage exposures related to income 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, organizations should consider purchasing:

- Political risk insurance, which can provide coverage for financial losses resulting from the actions of host governments and other actors. Key elements include physical damage from political violence, 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.
- 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 organizations from financial setbacks triggered by a variety of foreign events affecting their supply chains.
- Terrorism and/or political violence insurance, from private insurance markets or, if available, through local government entities and pooling.
- Occupational and non-occupational coverage for employees, including foreign voluntary workers' compensation, travel accident insurance, kidnap and ransom, and political evacuation coverage, which is typically triggered by a government order to evacuate a specific region.

Events in developing markets often go far beyond the boundaries of "terrorism" as defined in such policies. For this reason, businesses operating in emerging markets should consider purchasing broad political violence coverage, either on a standalone basis or as part of a political risk insurance policy.

Although insurance policies can be purchased for a single country, predicting where the next uprising or terrorist attack might take place can be difficult. Instability often emerges quickly — including in countries that have historically been considered stable. That's why many global companies are purchasing multi-country political risk and terrorism/political violence insurance policies.

## HOW MARSH CAN HELP

The above considerations outline only some of the steps that organizations should consider in dealing with political risk and violence. Marsh's local and global insurance, property risk, forensic accounting, business resiliency, crisis management, and claims experts can help companies address their concerns related to political instability. For more information, please contact your Marsh representative.