

SOCIAL MEDIA HEIGHTENS POLITICAL RISKS IN EMERGING MARKETS

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The supercharged growth seen in many emerging economies over the last decade helped fuel rising expectations among middle-class populations. One result was the widespread distribution of technology, including internet access to social media. But recent economic stagnation in emerging markets has brought a new era of instability, increasing the political risk exposures for many companies — a risk that is often compounded by social media usage.

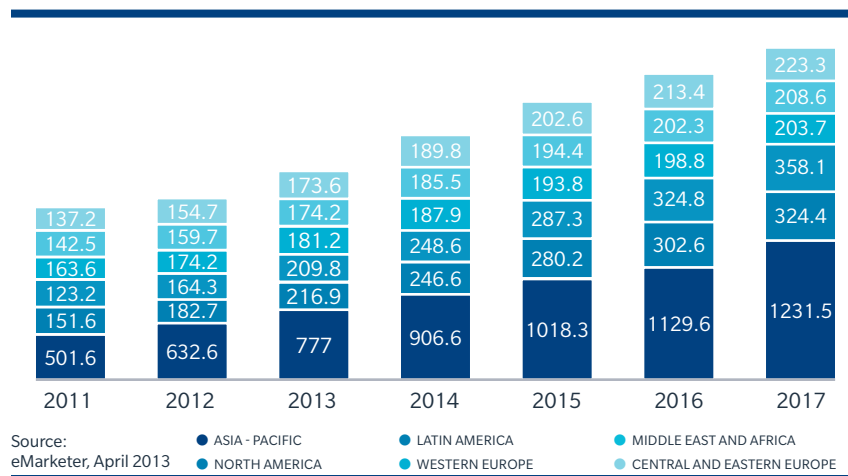
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SOCIAL MEDIA'S EVOLVING ROLE IN PROTESTS

On June 8, 2010, an Egyptian-born software engineer created a group page on a popular social media network to protest the killing of a 28-year-old civilian by Egyptian police. Within three months, 250,000 individuals had joined his group, sparking a movement that quickly spread onto the streets of Cairo and other major cities. By February 2011, this protest movement had forced the dramatic overthrow of President Hosni Mubarak.

Social media has become a critical tool for the mobilization of protest movements in Libya, Syria, Brazil, Turkey, and elsewhere. And it is only gaining in popularity: 1.73 billion people — a quarter of the world's population — will use social networks in 2013, according to eMarketer, a market research firm (see Figure 1). eMarketer expects the two billion user barrier to be broken in 2015; within five years, more than one-third of the world's population — 2.5 billion people — is expected to be active on at least one social network.

FIGURE 1: SOCIAL NETWORK USERS BY REGION 2011 - 2017 (MILLIONS)



OVERVIEW

- As the influence of social media grows — particularly in emerging economies — businesses must consider its potential impacts on their own operations and factor them into their global political risk management strategies.
- Instead of targeted and “just-in-time” political risk management, a broad, multi-country and multi-hazard approach to managing political risk is more practical and effective.
- Beyond insurance, a comprehensive risk management plan can help businesses prepare for the increased unrest in these more volatile environments.

The majority of the growth of social-media users is expected to come from emerging markets across the Middle East, Africa, Latin America, and Asia. Social media in these regions has already catalyzed unrest and accelerated the process of societal and political change in several countries. In Brazil, for example, more than 80% of the participants in a recent major political rally learned about it via social media, according to research firm Datafolha.

COMPOUNDING POLITICAL, ECONOMIC, AND SOCIETAL FACTORS

Although the use of social media has enabled populations to more easily criticize governments and organize protests, the underlying cause of recent political movements has been a confluence of factors that vary by country. Slower growth amid greater market volatility and frustration with seemingly less responsive political incumbents, for example, have been major drivers of unrest in both Brazil and Turkey. In Brazil, perceived corruption among political elites has been a major driving factor of unrest.

For businesses operating in these countries, such unrest can translate into a variety of political risks, including expropriation actions, forced divestiture, political violence (including forced abandonment), business interruption and contingent business interruption, contract frustration, and trade disruption. Broadly, social media can exacerbate these political risks in four ways:

- **Accelerate:** Social media can accelerate the formation of political protests and resistance — frequently with little warning even in countries that have historically been considered “stable” — making it difficult for businesses to maintain cash flows, safeguard corporate assets, or evacuate employees from dangerous locations.
- **Spread:** The global nature of social media can enable civil unrest to more easily and quickly transition from a single-country phenomenon to a regional event.

- **Target:** Social media users frequently target individuals and organizations perceived as being friendly or close to unpopular regimes, potentially leading to a loss of income for some businesses.
- **Deflect:** Authoritarian governments may use social media to deflect popular discontent away from political leadership and toward foreign entities or companies that may be instigating or playing a role in fueling unrest.

Authoritarian governments may also attempt to crack down on and manipulate social media in an effort to control online content, but often are relatively powerless to restrict such conversations. The Syrian government, for example, has blocked access to popular video sites since the start of that country’s civil war. But local activists have uploaded videos — allegedly showing the use of chemical weapons by the government — to file-sharing accounts of users outside of Syria, who then posted them to video-sharing websites.

Such government intervention can backfire — as happened in Turkey — by inciting protesters further. In these ways, social media can often be more potent and potentially disruptive than “traditional” media, which authoritarian governments can more effectively censor and control.

Political protests organized via social media do not always target governments. In Turkey, for example, protesters upset with a television station’s coverage of demonstrations organized a boycott of a related large national bank. (The owner of the television station also owns a large stake in the bank.) Activists created a hashtag to encourage social media users to close their accounts and withdraw funds from the bank; a demonstration was also organized outside of the bank’s Istanbul headquarters. The bank responded with public statements and social media messages stressing its focus on social responsibility; the bank’s CEO also expressed his personal support for the protests, which drew a rebuke from the Turkish government. Ultimately, the campaign cost the bank approximately 1,500 customers.

MANAGING POLITICAL RISK

The use of social media does not necessarily create new risks for companies operating in potentially at-risk countries. But social media does seem to increase the speed at which instability can develop by giving disaffected populations a new and often more powerful outlet through which they can launch political demonstrations. All of this means that the frequently used “rear-view-mirror” approach — forecasting risk by examining past events — will no longer suffice.

Instead of targeted and “just-in-time” political risk management, a broad, multi-country and multi-hazard approach to managing political risk is more practical and effective. This includes the purchase of broad, multi-country political risk insurance policies and detailed planning to ensure business continuity and the safety of employees and key assets.

RISK TRANSFER

Rather than purchasing political risk coverage for a specific risk in a single country, multinational businesses are increasingly purchasing multi-country policies — often covering 10 to 20 or more countries — that insure a broad range of risks, including:

- Expropriation.
- Forced divestiture.
- Political violence (including forced abandonment).
- Business interruption and contingent business interruption.
- Contract frustration.
- Trade disruption.
- Currency inconvertibility and foreign exchange transfer.

It is important to note that some exposures related to social media will not be covered by political risk insurance. For example, the loss of customers through an organized but non-violent protest (as in the previous example of the Turkish bank) will not trigger a political risk insurance policy. Businesses should also keep in mind that political risk insurance provides coverage for property and assets but not employees. Businesses should work with their insurance advisors to carefully consider all appropriate coverages for the countries in which they do business — including those related to reputation risk, cyber/privacy, casualty, property, and terrorism.

COMPREHENSIVE RISK MANAGEMENT PLANNING

Beyond insurance, a comprehensive risk management plan can help businesses prepare for increased unrest in a more volatile environment. Organizations doing business in countries with high levels of political risk, for example, should:

- Review their current business interruption and supply chain resiliency plans and procedures, evaluating the immediate and long-term impact of potential political risk events on their own operations and on those of their customers and suppliers.
- Ensure that they can communicate potential problems to employees, customers, and suppliers, and review crisis communication plans and procedures to ensure the safety of employees.
- Review their credit risks and credit control policies and procedures. Ongoing financial monitoring of an organization’s customers and suppliers can identify strengths and weaknesses in their credit risk management processes, ultimately enabling businesses to avoid bad debts and improve cash flow.

Businesses should also pay close attention to local conversations on social media. An early-warning system — for example, monitoring news and social media through a third-party vendor — can help companies to get information on developing political unrest quickly and potentially take action before an event threatens their employees and operations.

If a business becomes a target of an online protest, it should consider a social media response as part of its communications plan. Communications and social media policies should determine whether employees should speak on behalf of the company and provide them with guidelines for doing so.

The proliferation of social media will likely accelerate in the years to come, at times facilitating protest movements, including in some countries traditionally deemed “safe.” It is vital that businesses recognize the added exposures that social media can present and manage those risks accordingly.

ABOUT THIS BRIEFING

This report was prepared by Marsh's Political Risk and Structured Credit Practice, which helps businesses to manage risks related to political violence, government breach of contract, sovereign or commercial default, expropriation of investments or assets, currency inconvertibility, and more.

This report was prepared in conjunction with Eurasia Group, a leading global political risk research and consulting firm. By providing information and insight on how political developments move markets, Eurasia Group helps clients anticipate and respond to instability and opportunities everywhere they do business. For more information, visit www.eurasiagroup.net.

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