CRISIS MANAGEMENT

RISK MAPS 2020

Aon's guide to Political Risk, Terrorism & Political Violence

Aon Empower Results®

In partnership with **The Risk Advisory Group** and **Continuum Economics**

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New threats emerge

2019 was a challenging year for business, with a number of significant geopolitical events posing a threat to people and operations. Many of those issues remain in 2020 and we anticipate further complexities to emerge.

Riots and civil unrest in Hong Kong, Paris and Santiago caught many off-guard and revealed a growing undercurrent of disgruntlement, which will be a feature of the risk landscape in 2020. Socio-economic and environmental factors will continue to be prominent drivers, although there is also scope for politically-motivated unrest. Businesses need to prepare for the increased possibility of civil disturbances.

The increasing frequency and lethality of extreme right terrorism should also be of concern to businesses as they look to protect their people and premises. The risk is particularly significant in the U.S. and Germany, but the trend is apparent across Europe. Organisations representing or working with minority groups need to ensure they are taking active steps to address this threat.

For businesses operating in emerging markets, a number of governments have responded to rising trade restrictions and tariffs with FX controls and measures that amount to expropriation. Together they are eroding the attractiveness of emerging markets and investors need to keep a watchful eye on such developments.

We are also seeing an increased risk of sovereign and corporate default this year, with significant implications for business.

Finally, the COVID-19 pandemic has caused a global health crisis that continues to evolve, and the devastating impact on economies will contribute to additional volatility and complexity in 2020.

Through its Crisis Management practice – Aon is well-positioned to support clients seeking to navigate these complex risks. Whether it is insulating against government intervention in emerging markets, protecting people and operations from the threats posed by terrorism and kidnapping, or insuring your, insulating against sovereign or corporate default, annual event against the threat of cancellation, Aon's Crisis Management team is working to protect against, and mitigate, a range of client exposures.

I hope through the Risk Maps – developed in collaboration with our long-standing partners The Risk Advisory Group and Continuum Economics – we can provide actionable insights that help insulate your organisation against these esoteric risks.

Vlad Bobko,
Head of Crisis Management, Aon

COVID-19: unprecedented global health crisis with devastating economic impacts

COVID-19: an altered landscape

The COVID-19 pandemic is a turning point and may well mark the end of an era. With over 188+ countries experiencing COVID-19 simultaneously, never before have so many governments taken extraordinary measures at once to exercise control within their borders, restrict movement and limit commercial activity; all with the goal of saving lives by flattening the curve and minimising the potential for health care systems to become overwhelmed. Until such time as a vaccine is developed or a treatment protocol is found to be effective, intervention measures must be alternately implemented to manage infections and eased to allow economic activity; thereby creating a volatile and fluid environment which can lead to significant political change and risk.

Political and business leaders across the world have faced criticism, fairly or unfairly, for their response to the pandemic. The full repercussions of their decisions remain to be seen. But widespread unemployment, hardship and resulting instability are inevitable, as are sizable fiscal deficits. Many industries and countries are unlikely to be the same, and it seems equally likely that political risks will not be the same either.

Sooner or later, the pandemic will ebb, and the measures taken to slow its spread will ease. The timeline for this is uncertain, but it is reasonable to predict that the longer it takes, the greater the economic, social and political impact. Also, the more diminished public and private sector resources and resilience will be as they manage risks that arise, violent or otherwise. Businesses that have made radical cuts in their risk management capabilities may be particularly vulnerable to any tumult as they try to recover.

In even the most liberal of democracies, there has been unprecedented state intervention in the economy and public life to curb the pandemic. This may, paradoxically, keep violent risks suppressed even as it aggravates grievances. With latent instability awaiting the world when the disease recedes, it seems reasonable to anticipate that tight controls will remain in place in some countries and that the return to normalcy will be extended.

This may discourage or prevent civil commotion and keep political violence at reduced levels globally. But it would also add to already acute economic, social and political pressure. A key point in government planning and decision making is when to lift restrictions and whether a second wave of coronavirus outbreaks will follow. It may also be prudent alongside such planning to anticipate a longer tail of political instability and insecurity to follow in the wake of COVID-19.

Risk considerations

The socio-economic implications of COVID-19 are likely to be significant, creating complex security challenges long-term. Particularly hard-hit countries – such as those with a significant footprint in the tourism and retail sector, or where there are proportionally more deaths from the pandemic – have greater potential for civil unrest and government-focused protest regarding response and lockdown measures. Economic grievances may also incubate nationalist extremism or encourage the use of political violence at a sub-state or state level.

An appreciation of protests in the U.S. and what happened in Hong Kong, Paris and Santiago in 2019 provides some indication of the potential impacts from widespread civil unrest (read our Riots section for more). Organisations should consider on a country-by-country basis whether their operations have the potential to be affected by widespread protest, review the impacts and how their current insurance programmes would respond.

We encourage firms to engage with their broker to better understand market appetite and how to build physical and financial resilience in the face of these evolving threats.

COVID-19: the economic consequences

The economic, policy and market views for end-2020 and end-2021 are dominated by an assessment of the spread of COVID-19, its economic consequences and the economic policy and healthcare responses. The adverse economic consequences come through five channels:

- Supply disruption due to lockdowns and quarantines, which started in China and expanded globally.
- Labour market disruptions, including the absence of parents from work due to school closures, as well as illness.
- Consumer anxiety that restricts overall consumption, but especially travel, entertainment, experiences and delays on big-ticket purchases.
- Wider risk premia for equities and corporate debt, which centres on U.S. financial markets.
- Restriction in corporate bond issuance and lending, which reflects domestic specificities but also illustrates the consequences of the past decade's Eurobond issuance boom, which increases the risk of debt default in times of crisis. COVID-19 is turning into a reality check for these economies.

The policy response is now kicking into high gear. Large-scale quantitative easing from the Fed and the ECB will likely be expanded further, which will help fund emergency government spending. Domestic liquidity provision and Fed-centered USD swap lines will be large, while policymakers will ensure that a health and economic crisis does not become an all-consuming financial crisis.

EM countries have scope for interest rate cuts, but a reluctance to reduce real policy rates too far will curtail these ambitions. High government debt in several major EM countries will also restrain fiscal policy so that stimulus packages are moderate rather than massive.

Risk considerations

The economic and political implications of the COVID-19 pandemic will be profound, with state intervention at levels not seen during peacetime. Action taken to protect public health has, in many instances, displaced long-established economic norms – including trade, contracts, supply chains and monetary policy – creating potential new exposures for international firms.

Contract and payment risk is likely to increase considerably in the current climate and we would encourage firms to talk with their broker to understand their exposure to non-payment better and establish supply chain resilience in an increasingly dislocated world.

The impact of COVID-19 may also result in countries revisiting licences and concessions, PPAs and offtake agreements awarded prior to the pandemic. If the predicted economic recession becomes a trade war – much like we have seen recently between China and the U.S. – then there is the potential for export and import embargoes and the expropriation of assets.

Firms should consider – more closely than ever – where they are operating how significant the impact of COVID-19 has been in those territories and their relative exposure to, in some cases, a radically changed business environment as a result of this pandemic.

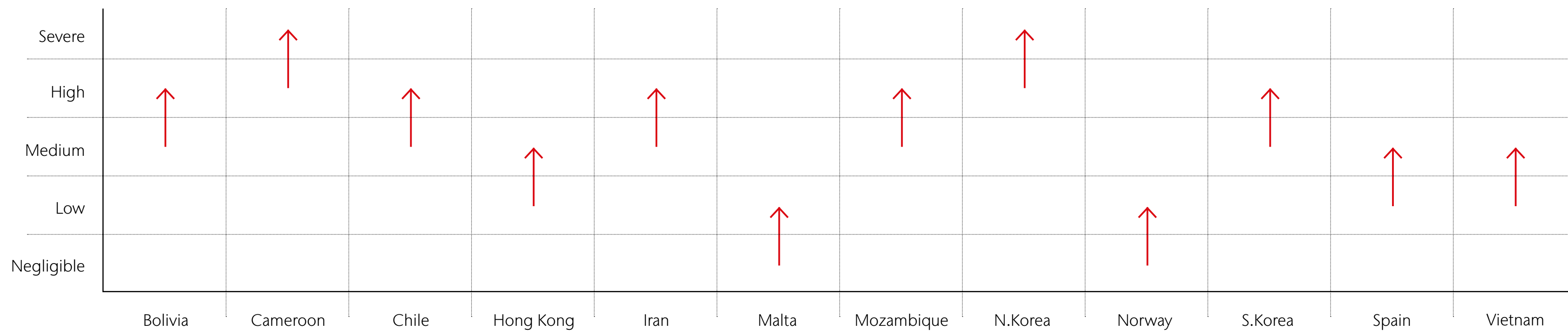
In partnership with

Terrorism & Political Violence

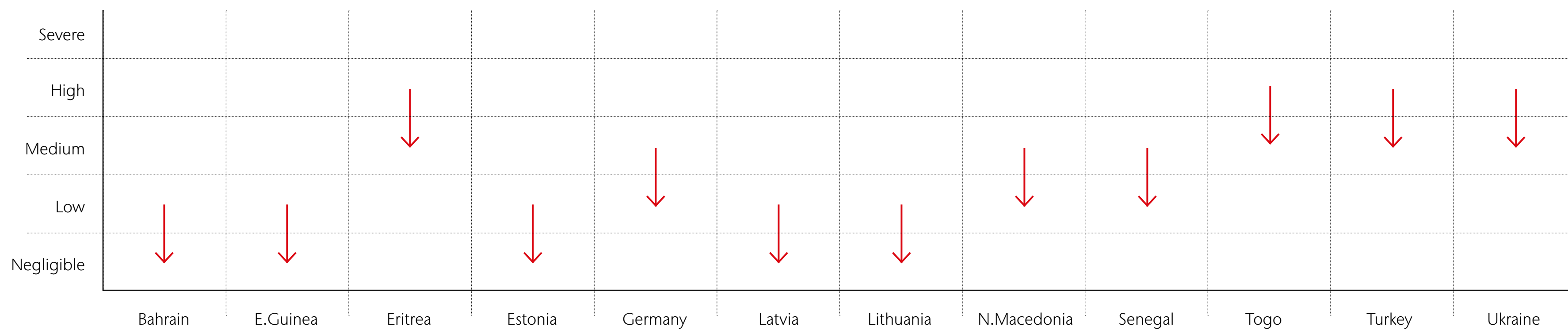
3 in 5 countries are exposed to some form of riots or civil unrest in 2020.

Terrorism & Political Violence 2019 country risk changes

Risk level deterioration



Risk level improvement



High-level themes

01

Three in five countries or territories are at risk of some form of civil commotion in 2020. This ratio is roughly the same as last year, but the proportion of advanced economies among that list has grown. The COVID-19 pandemic is exacerbating underlying vulnerabilities in those economies and beyond, thereby worsening an already largely negative global outlook for unrest risk.

02

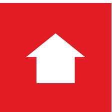
Nearly half of all countries and territories face some degree of terrorism risk in 2020. This ratio is higher than last year and reflects a more widespread threat of terrorism, motivated by a range of extremist ideologies and causes. The threat in each country or territory is primarily based on local grievances but continues to be shaped by transnational belief systems and global events.

03

Twenty-four countries or territories have a different risk rating to last year – 12 improved and 12 worsened. The changes are not clustered in a certain geography or attributable to a single cause. Instead, they point to fluidity and transformation in nearly every region.

04

Iraq, Afghanistan, Colombia, India and Somalia were the countries with the highest number of terrorist attacks in 2019, in descending order. The countries with the highest number of casualties as a result of terrorism were Afghanistan, Iraq, Somalia, Syria and Nigeria, also in descending order.



Terrorism and sabotage

Nearly half of all countries and territories face some degree of terrorism risk in 2020. This ratio is higher than last year and reflects a more widespread threat of terrorism, motivated by a range of extremist ideologies and causes. The threat in each country or territory is primarily based on local grievances but continues to be shaped by international ideologies and global events.

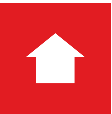
The 2020 Risk Maps has identified several key trends. Extreme right-wing terrorist attacks have increased in frequency for at least five consecutive years and have doubled globally in the last three years. Lone actors have been the primary perpetrators of attacks motivated by right-wing extremist ideas, and they have often emulated one another. For example, the mass shooting by a lone gunman in Christchurch, New Zealand, in March 2019 sparked copycat attacks in the U.S., Norway and Germany.

The data behind the map also depict clear trends related to Islamist extremism. The threat of jihadist terrorism has increased in African countries, particularly in the Sahel region, where there has been a 35% increase in attacks across Mali, Burkina Faso and Niger. The Risk Advisory Group recorded 370 terrorist attacks in that cluster of countries in 2018 and 500 in 2019.

In Western countries, however, a year-on-year drop in terrorist attacks by Islamist extremists has continued. There were eight such attacks in 2019, compared with 15 in 2018 and 26 in 2017. There are several reasons for this, including that the terrorist group Islamic State is less focused on trying to incite attacks in the West than before and is instead more preoccupied with operations by its affiliates in the Middle East, Africa and Asia.

Islamic State and its affiliates mounted a total of 570 attacks globally in 2019, down from 810 the year before. The group experienced two major setbacks in 2019 – the loss of its last patch of territory in Syria in March, and the death of its leader, Abu Bakr Al-Baghdadi, in a U.S. raid in October. But it continues to present itself as a global terrorist organisation, and announced new affiliate groups in the Democratic Republic of Congo, Mozambique, Mali, Burkina Faso, Pakistan, India, Turkey and Azerbaijan in 2019.

"In Western countries, a year-on-year drop in terrorist attacks by Islamist extremists has continued."



Strikes, Riots, Civil Commotion, Malicious Damage

Three in five countries or territories are at risk of some form of civil commotion in 2020. This ratio is roughly the same as last year, but the proportion of advanced economies among that list has grown. Across the globe and across the political spectrum, people are frustrated at the inability of their political leaders to resolve the largest challenges of our time.

Civil commotion risk is closely tied to imminent economic grievances. And the general trajectory for 2020 is negative, led by a slowdown in Chinese growth. China is the top trading partner of many of the world's largest economies and the largest overall commodity buyer, so fluctuations in its spending and growth has significant knock-on effects across the globe, and across almost all industries.

Whether the Chinese economy slows further in the months ahead, or recovers, is due to have wide-ranging implications. The COVID-19 pandemic has all but guaranteed that it will slow further, increasing the likelihood of a global economic downturn in 2020. This would be a widely destabilising scenario, and heighten the risk of unrest worldwide, particularly in countries already struggling to address public grievances and experiencing hardship protests.

Another trend is that environmentalism is becoming a more prominent part of civil commotion globally. Disruptive demonstrations and direct action campaigns against businesses over carbon emissions have increased in frequency in the last year, and gained greater public support in almost every region. Although economic grievances tend to take precedence over environmental concerns, the public increasingly sees the two issues as closely tied together, and this is reflected in the agendas of pressure groups across the globe.

Countries with high levels of food insecurity and that are highly reliant on trade are more likely to be vulnerable to unrest. But places that have recently seen large and violent demonstrations over economic mismanagement or corruption will also be susceptible to sudden unrest and unforeseen disruption, including Lebanon, Kuwait, Ecuador and Puerto Rico.

"Countries with high levels of food insecurity and that are highly reliant on trade are more likely to be vulnerable to unrest."

Insurrection, Revolution, Rebellion, Mutiny, Coup, War, Civil War

Two in five countries face some exposure to risks associated with insurrection or war. This ratio is unchanged from last year but is higher than it was five or 10 years ago, reflecting increased competition both among and within states.

Civil unrest at a sub-national level is broadly on the rise. The primary drivers of conflict – resource scarcity and political dysfunction – are worsening in parts of the world, including countries in Central America and South Asia. This is amplifying existing group rivalries, whether based on ethnicity, religion or otherwise, and creating new ones.

Several countries already exposed to civil strife and conflict are likely to face additional pressures in the year ahead. An election due in Myanmar in late 2020 is likely to lead to an escalation of fighting between armed groups and government forces. And an anticipated lengthy drought in parts of eastern Africa in the first half of 2020 has the potential to exacerbate ethnic tensions in Ethiopia and lead to more frequent and deadly inter-communal violence.

Interstate competition is also on the rise. The U.S.'s strategic ambition and influence have narrowed in the last three years, while China's have widened. This geopolitical realignment has weakened countries reliant on U.S. security guarantees, including many in Europe. And it has created opportunities for those previously held back by U.S. policies of deterrence, notably Turkey and Russia.

The risk of interstate war has generally increased during this period of geopolitical change and uncertainty. Greater risk-taking around territorial disputes in the eastern Mediterranean and the South China Sea, for example, has heightened the potential for a sudden crisis. It has also undermined the trust that would be necessary to avoid an unintended or avoidable escalation if such a crisis were to occur.

2 in 5 countries

face some exposure to risks associated with insurrection or war in 2020.

3 in 5 countries

or territories are at risk of some form of civil commotion in 2020.

570 attacks

Mounted by Islamic State and its affiliates globally in 2019.

Case study: an extreme right-wing terrorist attack in El Paso, Texas

The white nationalist who opened fire at a supermarket chain in El Paso, Texas, on 3 August, 2019 said he wanted to kill as many Hispanic people as he could. The anti-immigrant manifesto he posted online before the shooting is primarily focused on ethnic and racial grievances. However, in that text, the gunman also accuses U.S. businesses of "shamelessly overharvesting resources" and preventing the U.S. government from confronting pollution and climate change. He shot nearly 50 people before being subdued and arrested. Some victims have filed a lawsuit against the retailer over alleged lapses in security.

Doubled in frequency

Terrorist attacks by right-wing extremists have doubled in frequency globally since 2016, and this trend is likely to continue in 2020. Extreme right-wing attacks were among the most lethal of any kind in 2019, specifically a mass shooting in Christchurch, New Zealand, in March and the other in El Paso.

In both attacks, a lone gunman entered a semi-public space – a mosque in Christchurch and a retail store in El Paso – and opened fire. The fact that extreme right-wing terrorists try to emulate each other globally points to a heightened threat against similar semi-public spaces, and a need to reassess mitigation that can prevent or limit the impact of such an attack.

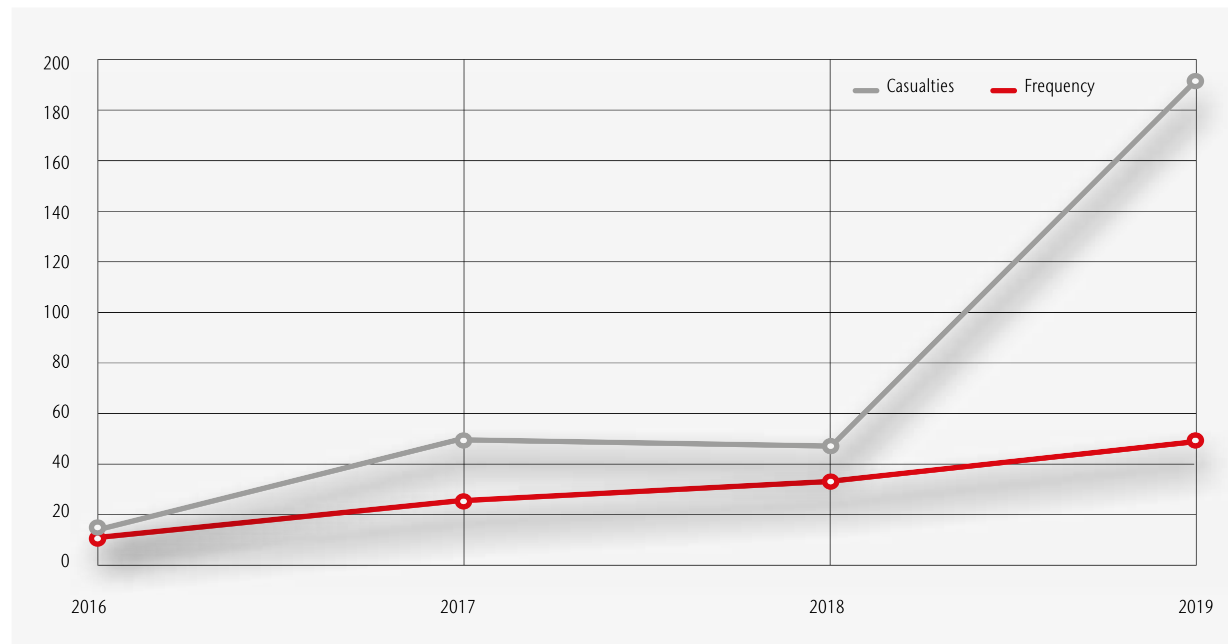
Most of the violence attributed to right-wing extremists in recent years has been physical assaults or acts of malicious damage against religious, racial or ethnic minorities, immigrant communities, and LGBTQ+ groups. But lone actors and small groups in predominantly white countries are increasingly displaying a readiness to carry out terrorist attacks. Many appear to give greater weight to the number of casualties and fatalities above other considerations, such as the symbolism of target, representing a threat to a wider range of potential targets than before. This includes accessible places where crowds are likely to gather, such as shopping centres, places of worship and other large venues or open spaces. Mass shootings carried out most recently in February 2020 in Hanau, Germany, are suspected to have far-right motives with the shooter targeting hookah bars. Considered an act of terrorism by German federal prosecutors, the event exemplifies the risk to crowded and accessible venues.

Multinationals increasingly in the line of fire

Over the past year, right-wing extremist messaging has become more directly hostile towards multinational businesses. In many cases, threats towards specific companies have followed on from contentious events. For example, extremists often discuss technology companies in the context of their efforts to remove hate speech from their platforms. Companies in the banking sector have featured prominently in recent extreme-right messaging, as well, in the context of anti-Semitic and conspiratorial narratives. And the media and communications sector has been a particular focus for explicit threats of violence and attempts at intimidation.

Another developing trend is the fusion of environmentalist arguments in right-wing extremist messaging. The Christchurch and El Paso attackers both cited overpopulation and the depletion of natural resources as motivations for their attacks on immigrant communities. This type of rhetoric appears more often in right-wing extremist content. It does not appear to be causing a shift in attack patterns – at least not yet. But tapping into anxieties over climate change as well as other issues such as migration points to attempts by the extreme right to appeal to a more mainstream audience, and justify acts of violence.

Terrorist attacks by right-wing extremists globally



Risk considerations

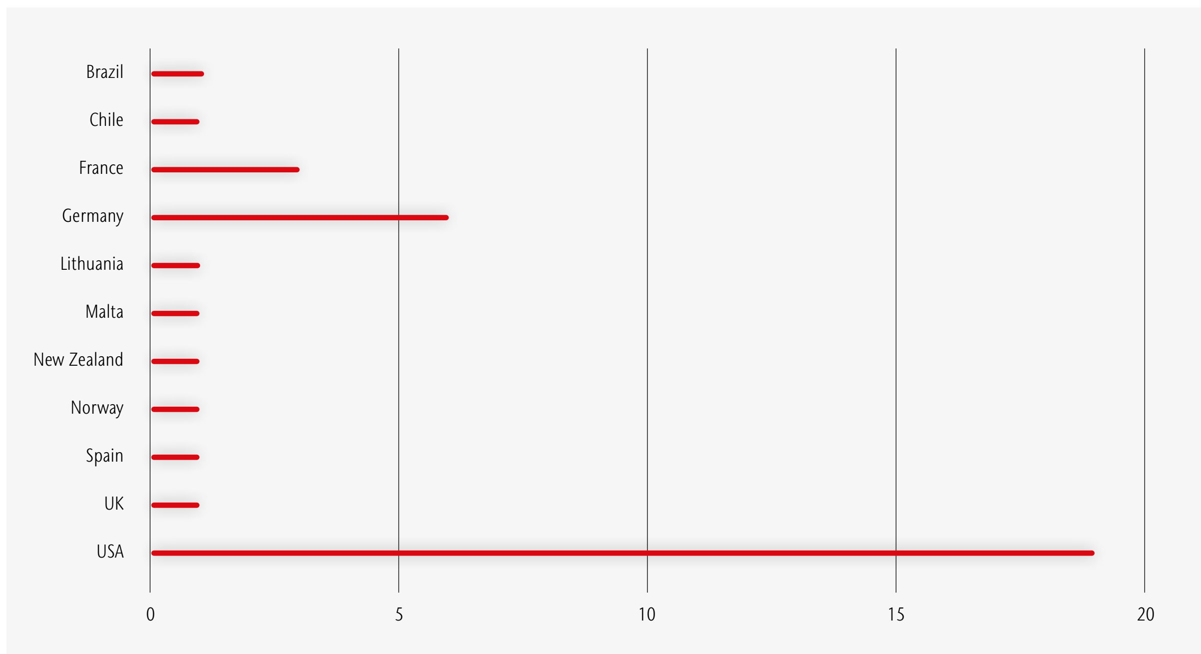
Rising incidents of right-wing terrorism targeting minority groups and multinational firms are creating new exposures for public spaces and international business, with those operating in the U.S. and Germany particularly exposed. Firms with a public profile and those with connections to minority groups – from places of worship to venues and public spaces hosting LGBTQ+ events – are at greater risk of being targeted, based on plots and attacks in the U.S. in 2019.

Firms should pay close attention to the threat posed by right-wing extremists and take expressions of intent seriously; with groups and individuals increasingly inspired, organised and vocal online.

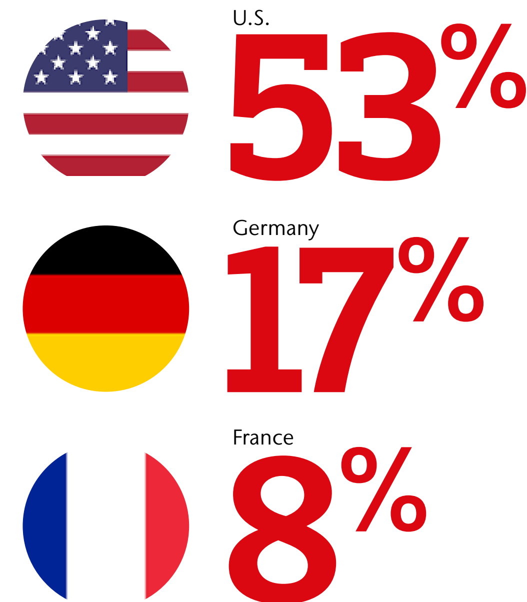
The challenge is many vulnerable areas are defined by open public access. Implementing security where the operating model is based on free movement of people (as true for places of worship as it is for a shopping mall), can be very challenging even during periods of higher threat. Limiting the access of an attacker targeting the public in a large mall, or at a Pride event on the streets of a large city is extremely difficult.

Depending on the event and the location, there are options for staff training (utilising open source, best practice tools), managing access, monitoring, detection and response management – and clearly, police liaison, planning and support as it will be first responders who are likely to be required to end an attack.

Terrorist attacks by right-wing extremists in 2019



Break-down of 2019 extreme right-wing terrorist attacks



Further, those at risk should consider how their insurance programmes will respond to an attack, specifically what this will mean for their property and casualty related programmes; is it terrorism or is it a malicious attack? The potential for business interruption, with no property damage, can be significant from both the attack, and from the subsequent police investigation, particularly if there have been injuries and deaths – and the longer-term disinclination of people to return to a location where there has been an attack.

Casualty programmes should take note of the potential to be found wanting if the perception is that a firm had not adequately prepared for such an attack, or their response worsened the situation; it's not necessarily about whether the attack was stopped in the first place.

Liabilities linked to these attacks, terrorism-related or malicious, can be significant – the USD 800 million settlement for the 2017 Las Vegas attack has focused thinking for both insureds and insurers. Appetite amongst insurers for certain industries that they consider to be "at particular risk" has reduced, with pricing increasing or the perils now excluded from core programmes. Insureds are increasingly considering casualty solutions where the cover for terror and malicious events is affirmative and designed for the event, buying to protect their core casualty towers, to access broader cover and expertise, and to fund any wider action necessary in the management of post-attack responses.

"The increase in terrorist attacks by right-wing extremists over the last few years combined with the sharp increase in casualties in 2019, means there are significant exposures for multinational firms who are seen to support minority groups – such as the LGBTQ community – as well as those public spaces and events that host festivals and Pride parades. Firms need to demonstrate they have considered, and prepared, for the threat posed by this new wave of extremism."

Katherine Conway
Aon's Head of Diversity & Inclusion and Community Affairs, Global

Case study: a swarm drone and missile attack on oil infrastructure in Saudi Arabia

The swarm drone and missile attack on two major oil-processing facilities in eastern Saudi Arabia on September 14 2019, highlighted the growing threat of drone attacks on key infrastructure and people. However, despite the headlines, advanced armed drone technology is out of reach for most non-state actors and attribution for attacks is difficult. Nonetheless, Iran is known to provide drones and other advanced weapons systems to its proxy forces, including Shia militias in Iraq and Houthi rebels in Yemen – who claimed responsibility for the attack. But Saudi Arabia said that the drones and missiles entered its airspace from the north, not the south, as would have been the case if the Houthis had been responsible.

Weaponising drones

There is compelling evidence that terrorists outside conflict zones, particularly Islamist extremists, have experimented with weaponising hobbyist drones since at least 2016. In most cases, they intended to attach a small improvised explosive device to the aircraft and crash it into a crowded area, effectively using the drone as a guided munition. None of these plots have so far gone beyond an early phase of planning. They have been detected due to intercepted communications, tip-offs or attempts by would-be terrorists to buy restricted substances.

The absence of a successful drone attack in a peacetime civilian setting reflects the difficulty and technical hurdles of carrying such a plot to completion. It also reflects the temptation to fall back on easier and less elaborate attack methods, such as using knives or firearms. This is particularly in countries where the terrorism and counter-terrorism landscape makes attacks by lone actors, rather than by higher capability groups, more likely.

Despite these hurdles, it is likely that terrorists motivated by a range of ideologies will continue to experiment with weaponising off-the-shelf drones in the coming years as the technology evolves. The potential for drones to carry ever-greater payloads over longer ranges, and reach targets that might be otherwise denied or less vulnerable to attacks on the ground, makes their appeal clear.

Limitations around the availability and effectiveness of countermeasures and gaps in legislation and regulations also mean that mitigation against drone attacks is inconsistent worldwide.

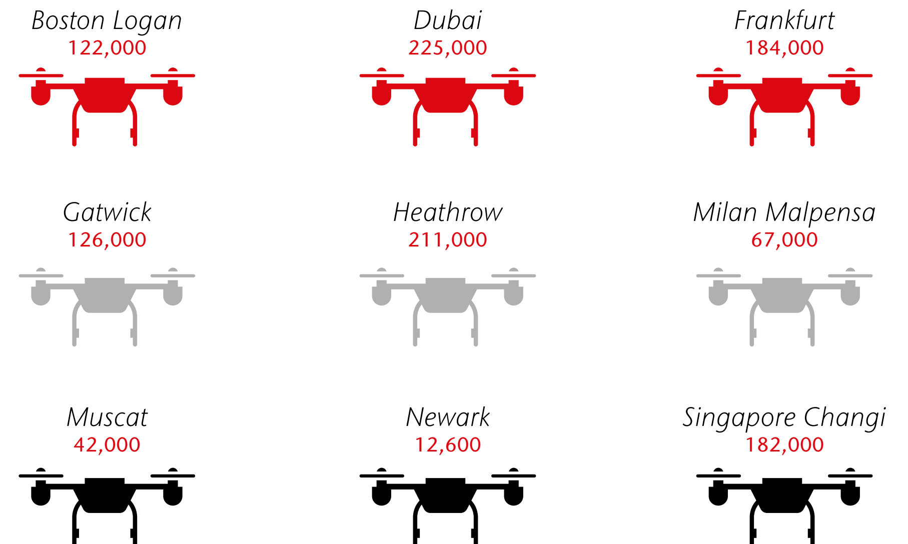
Aviation sector faces particular vulnerabilities

The aviation industry is particularly vulnerable. A drone does not need to carry a lethal payload to pose a threat to a low-flying aircraft. The collision of a recreational quadcopter into a cockpit window or an engine could have catastrophic results, and drone sightings near airports are a growing cause of disruption to global aviation. Indeed, at least nine major international airports said they experienced business interruption in 2019 due to recreational drone flights near the runway, causing travellers flying to and from London, Singapore, Dubai and New York to deal with cancellations, delays or diversions.

Other sectors are becoming anxious about hobbyist drones as well. Drone sightings during or before major sporting events forced at least four large open-air venues – three in the U.S. and one in eastern Europe – to seek help from the local authorities in 2019. Restrictions on recreational drone use have increased as a result, but in most regions, the rules are far from clear and hard to enforce. And with legitimate drone uses set to expand soon to include retailers and other kinds of businesses, regulating this technology and keeping it out of the hands of hostile actors will only become more difficult.

9 **Drone incursions closed 9 major international airports in 2019**

Daily passenger numbers



“While drones are playing an increasingly positive role in supporting the aviation sector, they also have the potential to ground flights and have significant business interruption implications for airlines and airports – and it is apparent that deterrent measures are not yet keeping track with evolving technology.”

Brian Jilley,
Head of General Aviation, London

Risk considerations

Events in Saudi Arabia and the UK highlight the potential for drone technology to be used to carry out attacks at arm's length, or to disrupt flights or business. Following these incidents, technology transfer – where terrorist groups and state actors seek to imitate the attack – is an increasingly valid prospect, as seen previously with the use of vehicles as kinetic weapons in a spate of European attacks. The potential for the use of drones in future attacks – and the vulnerabilities that these exploit – is therefore high.

It is worth highlighting that, from a risk transfer perspective, exposure to drones has the potential to be accommodated within existing insurance lines; a drone is either a potential new delivery vehicle for an attack or a new kinetic vehicle (a weapon in itself). The intent behind the attack and the manner of impact will define where existing insurance would, or would not respond: malicious or terrorism, threat or attack, damage or non-damage.

It is important to note that even where no attack has taken place, the threat of drone attack or a drone being used as a kinetic weapon has initiated police action, causing significant disruption and financial impact; Gatwick airport's closure for 33 hours in December 2018 collectively generated an estimated USD 65 million in losses across the airlines and airport – with the majority of the loss borne by the airlines.

Other particularly vulnerable industries include energy and power – where the fragility of assets to modest explosive attacks can generate significant impact – and smaller drone incidents have the potential to be used in public spaces, such as sporting venues, and to disrupt the aviation industry.

Organisations should evaluate what evolving drone technology means for their risk posture, which may now need to extend beyond the existing perimeter – be it a building, refinery, port or airport. Making an informed, formal decision on whether to invest, or not to invest, will affect the scale of impact and resulting liabilities should an attack occur. Technology to counter drone incursions is evolving in an attempt to keep pace with the threat; firms should assess their preparedness to respond to an incident, balancing investment in both mitigation and risk transfer in light of the potential for disproportionate impact.

How insurance will respond to drone attacks and incursions will depend on the attacker's intent, capabilities and the vulnerability of assets and operations. Business interruption is likely to be the most significant exposure – for airports and entertainment venues for example. It may be helpful to consider policy triggers that are ideologically agnostic to capture the full scope of drone incidents – from terrorist to malicious incidents – and, where appropriate, to accommodate the impacts resulting from the "threat of an attack" into a policy's coverage.

Case study: civil unrest in Chile

The outbreak of unrest in Santiago, Chile, in October 2019 took the world by surprise. The event that triggered the protests may have appeared trivial – a fractional increase in the subway fare. Yet it fed into widespread resentment over the rising costs of living amid wage stagnation and accumulating household debt. Students launched the protests and, within a week, many of their parents had joined them on the streets to call for large-scale political reform. The protests have not subsided entirely and their full impact is not yet clear. Nevertheless, the damage to property and the loss of business exceeds several billion dollars, and the central bank has cut its 2020 forecast for growth and investment.

Highly disruptive unrest has moved up in the risk registers of many global companies. Civil commotion impacted key markets in Europe, Africa, the Middle East and Southeast Asia in 2019, and there was widespread unrest in places that did not seem especially vulnerable to political violence. These events have challenged assumptions about the causes and drivers of unrest, and exposed significant political and socio-economic grievances among middle-classes.

Model of stability?

Chile had been regarded as a model of stability and wealth for Latin America and beyond for more than a decade. So the outbreak of violent and recurring anti-government demonstrations in its capital Santiago in October 2019 took the world by surprise. It also forced all kinds of organisations to reassess their global exposure to losses and disruption from this type of political violence.

The civil disorder seen in Santiago has shown that traditional indicators of unrest risk are insufficient. Measures of poverty and youth unemployment, for example, could not have predicted the middle-class uprising that occurred there. The declining purchasing power of the average household, and a sense of economic exclusion among recent graduates, proved more useful indicators.

Metrics that gauge middle-class grievances also illuminate the underlying causes and triggers of recent unrest in other advanced economies. This includes the 'yellow vest' movement in France, and the protest movement in Hong Kong. Economic stagnation has been among the primary drivers of this trend of heightened unrest risk in traditionally safe or stable places.

The broad economic impact of the COVID-19 pandemic, coupled with anger over how governments have handled the crisis, is likely to accelerate and deepen that trend.

Rioting cost billions in 2019

Rioting, looting and arson have caused billions of dollars in property damage and lost revenue in Santiago, Hong Kong and Paris in the last year. Thousands of local and global businesses have been affected by severe and repeated supply chain disruption, malicious destruction and theft, reduced productivity and loss of income. In Santiago, the retail sector has experienced extensive vandalism and looting, and the available data indicates that its travel and entertainment sectors have suffered extensively as well.

Globally, the potential for civil disorder in developed economies appears to be on the rise, and with it, the risk of sudden disruption and unforeseen costs. Feeding this trend is evidence of growing financial insecurity and pessimism among middle-class people in particular. Meanwhile, global connectivity has increased the speed at which unrest can occur and spread, making it all the more important that businesses assess their exposure and cover in times of relative quiet.

"Recent instances of civil unrest – specifically in Chile and Hong Kong – continue to impact the hospitality sector, with assets sustaining consequential damage and revenues declining in correlation with traveller confidence. With 3 in 5 economies exposed to civil unrest in 2020 – and a larger percentage of developed economies in this group – the hospitality sector needs to be proactive in managing its exposures and protecting its people and property."

Rick Miller
Aon Head of U.S. Property, Global

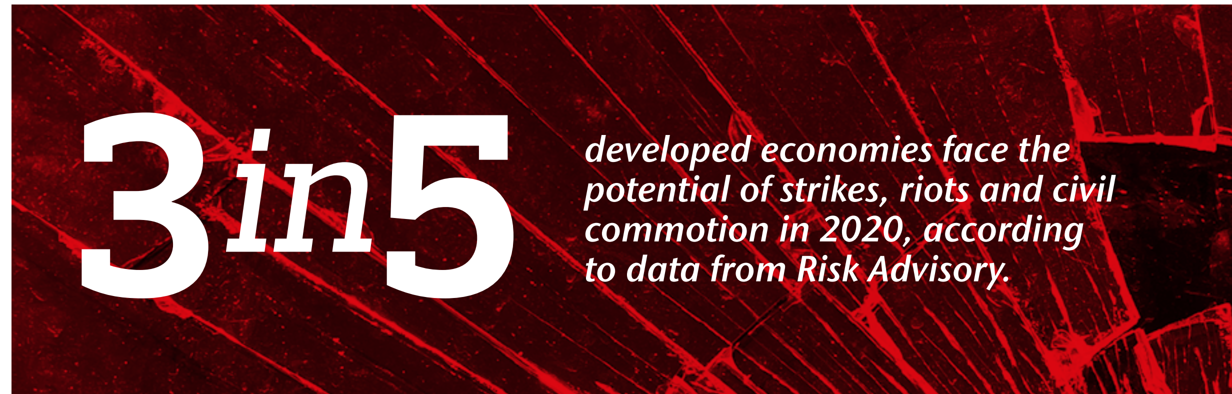
Risk considerations

Strikes and riots in 2019 caught many governments and businesses off-guard. Parts of Hong Kong, Paris and Santiago were shut down for large parts of the year, with businesses facing significant business interruption losses that were not necessarily the result of property damage.

The motivations of the three events vary considerably, but they are illustrative of the potentially significant and lasting damage such actions can have on business. In 2020, three in five developed economies will face the potential for strikes, riots and civil commotion and, as such, firms need to consider the potential for political, social and economic grievances to erupt and have a direct impact on their operations.

Across the three cities, the hospitality, retail and tourism sectors were most heavily impacted, but denial of access, business interruption and physical damage cost a variety of firms caught in the disturbances billions. Hong Kong's economy contracted by 3.2% in the third quarter, according to the island's Financial Secretary, while Chile has estimated economic losses in excess of USD 2 billion.

Firms operating in and around areas with the potential for civil disturbances – centres of government, historic public spaces and targets of public antipathy, as well as those typically considered targets of opportunity during riots



(retail spaces) – need to consider how to secure their people and premises in the immediate-term and relocate staff and operations in the event of extended disturbances.

Temporary protective measures for ground-level glazing and access points proved effective for many businesses in Paris, sustaining building and operations for the periods between widespread protests, as well as companies initiating business continuity management plans and stepping up operations in alternate locations. However, not all operations can be relocated in the short term, requiring a more robust effort to secure them for future operations. And while the removal of key assets, albeit temporarily, from a site may ensure protection, events may move too quickly to practically achieve this.

For their insurance coverage, firms with likely exposures should consider whether to utilise a property-terrorism programme as a vehicle to extend cover for both strikes, riots, civil commotion or the still broader political violence, to provide certainty of coverage for damage and business interruption across these events for the future. Where an insured may be the target of these events, consideration should be given to the potential for injuries to visitors, guests and employees should the violence breach their site, with the attendant casualty programme exposure.

Methodology

Risk ratings are awarded on a five-point scale, as shown below.

Risk levels represent assessments of the net level of risk across all the political violence (PV) typologies.

As a metric, they indicate the likelihood and impact of business exposure to PV events. The higher the rating, the greater the likelihood or impact of such events.

The risk levels indicate assessments of the frequency of occurrence and likelihood of exposure to PV events, as well as their impact to businesses. Assessments also take into account the impact of PV events upon the wider environment that in turn have a negative cumulative impact on risk.

Risk ratings will be higher if the threats in a given location are specifically or disproportionately targeting international commercial interests. For example, if a terrorist group is active and exclusively targeting commercial interests, the risk level may be greater than a location where terrorists are more active but show no intent to target commercial interests.

Peril typologies

Perils are marked on the map. We only assign perils when the risk rating is 'low' or higher.

- Terrorism and Sabotage (T&S)
- Strikes, Riots, Civil Commotion, Malicious Damage (SRCCMD)
- Insurrection, Revolution, Rebellion, Mutiny, Coup d'Etat, Civil War and War (IRRMCCW)

For ease of reference and readability, we use 'civil unrest' when referring to the SRCCMD peril, and 'terrorism' for T&S. For the same reason, we will usually refer to the specific risk when using the IRRMCCW peril. For example, we will refer to 'war, 'coup' or an 'insurrection' peril rather than 'IRRMCCW'.

The number of perils does not necessarily affect the risk level. A location with high levels of civil unrest may still score a severe risk rating if the impact of unrest is sufficiently severe. Equally, a severe terrorist threat (a high likelihood of attacks) may not equate to a severe risk level if we assess other factors mitigate the potential impact of attacks, and other perils may be low risk.

Assessments

The accompanying Terrorism & Political Violence Risk Map captures assessments of the probability and impact of events occurring along the spectrum of insurable terrorism political violence risk typologies. The location risk scores and identified perils are based upon analysis of proprietary empirical data from the preceding year, as well as open-source intelligence analysis of the intentions and capabilities of relevant actors, and of more systemic prevailing trends affecting security and stability around the world.

Assessments (ratings) draw upon empirical data on events (such as the Risk Advisory/Aon Terrorism Tracker database) as well as Risk Advisory's intelligence and political risk analysis. The analysis takes into account factors and assessments on political stability, conflict dynamics, activism, socio-economic factors, macroeconomic forecasts, government policy, the nature of political systems, defence spending and military activity, and other factors.

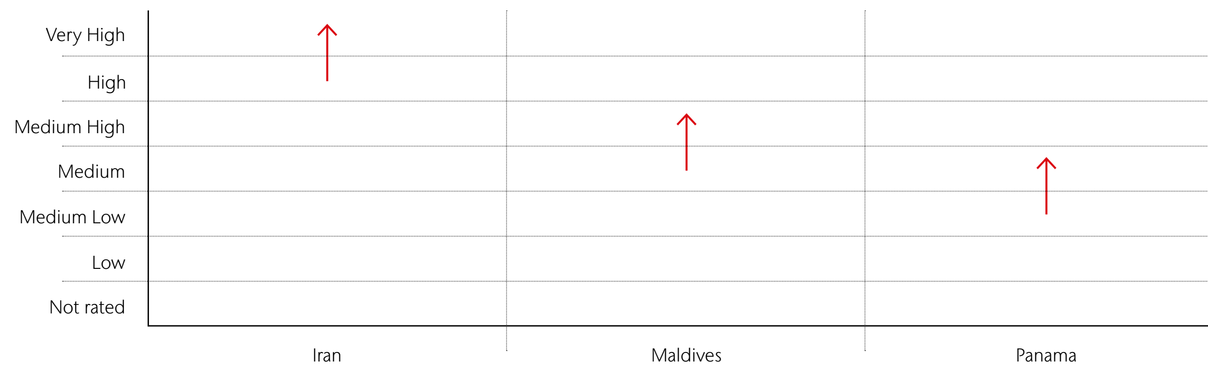
Five-point scale

In partnership with

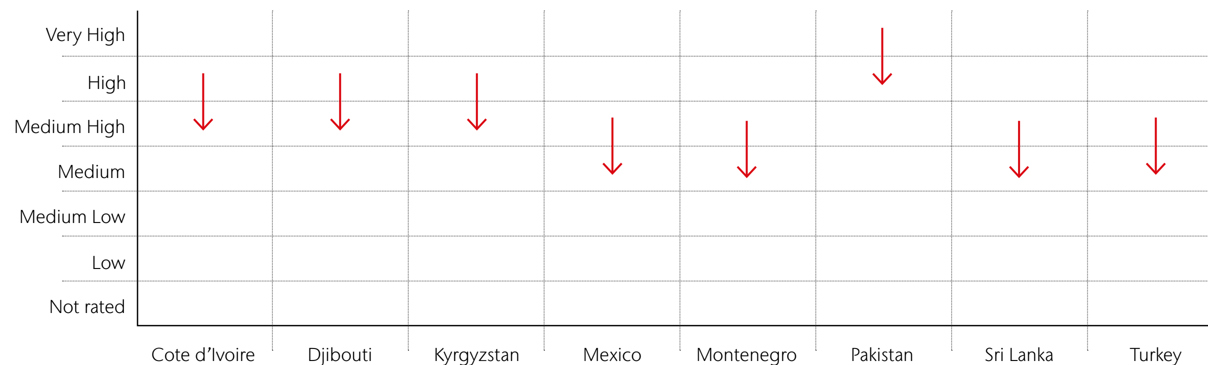
Political Risk

Political Risk 2019 country risk changes

Risk level deterioration



Risk level improvement



"Seven countries registered a change in the risk of political interference this year, linked to the recent increase in blockades, sanctions and the surge in resource nationalism."

High-level themes

01

Twelve countries have changed overall risk ratings this year – nine improved and three worsened. Overall, 19 countries currently have a Very High rating.

02

In terms of subsets of risk, 11 countries registered a change in exchange transfer, which is the risk of being unable to make hard currency payments due to the imposition of currency controls.
This illustrates one of our key themes of this year's Risk Maps, which is the recent rise in capital controls in order to cope with excessive volatility in currency movements, with Argentina the most obvious recent illustration.

03

Four countries registered a change in the risk of sovereign non-payment, namely Argentina, Angola, Djibouti and Togo, which reflects domestic specificities but also illustrates that the current boom in emerging market Eurobond issuance is increasing the risk of debt defaults.

04

It is noteworthy that seven countries registered a change in the risk of political interference this year, which directly reflects one of the central themes, namely the recent increase in business environment disruptions from blockades, sanctions and the surge in resource nationalism.

05

75% of the countries most exposed to climate disruption are emerging economies. Their supply chains are inherently weaker than more developed economies and as such are more likely to be affected by climate disruption. Of countries least prepared to respond to disruption, two-thirds are in Africa. When adding Central Asian economies to this list, it accounts for 75% of countries.

Persistent political instability

The Political Risk map and its supporting materials provide insights into changing political risks for businesses operating across non-EU and non-OECD countries. In today's complex geographical and economic environment, the map enables clients to identify and track the different sources and degrees of risk, allowing businesses to plan ahead and protect assets, contracts and loans that can be adversely affected in such economies by government action or inaction.

The Political Risk map highlights areas where political risk is prevalent and distills the sources of risk, such as political violence, institutional and regulatory risk and economic conditions. Persistent political instability and violence are undermining regional economic outlooks and their business environments more than ever in the Middle East, where continued wars in Syria and Libya have offered an opportunity for Russia and Turkey to become regional power brokers, as the U.S. has withdrawn its troops and effectively relinquished its role.

The COVID-19 pandemic will have a major impact on business in 2020 and affect all of our subsets of risk. The introduction of heavy fiscal stimulus packages will increase the risk of debt defaults and hence increase the risk of sovereign non-payment in many emerging markets. Of course, the G-20's suspension of debt payments for the poorest countries will help offset the boom in debt that will follow from public spending to address COVID-19

in frontier markets. However, the real concern is that private creditors have stayed on the side lines of the suspension, which means that the G-20's financing will be used by frontier markets to pay high interest to private creditors, squandering public money. Yet the United Nations has recently said that three central banks from the G20 are considering underwriting a special-purpose vehicle that would exchange the 77 poorest countries' debt for new concessional paper with issuance from the vehicle and backing from these central banks; that would be a major breakthrough. We are also likely to see a number of countries impose currency controls to cope with increased volatility, thereby increasing

exchange transfer risk. FX intervention is already on the cards in the Czech Republic and Russia. Obviously, we are also witnessing a huge increase in political interference, from civil liberties to business environment disruptions such as restaurants and pub closures, to food rationing and caps on the prices of the most sought-after goods such as sanitiser and masks. Perhaps more than anything, disruptions to the supply chain are increasing dramatically and were already visible when China was the epicentre of the COVID-19 pandemic in Q1. We could even see some businesses rethink global supply chains and return to domestic chains despite them resulting in higher costs.

Future backlash

Apart from COVID-19, we see three major drivers of risk determining the outlook for emerging market and frontier market investors in the next year. The first two drivers are political and illustrate that governments are increasingly resorting to measures that attempt to regulate market transactions. Indeed, populism is not the only backlash against globalisation; economically, we are seeing emerging and frontier market governments erecting barriers to trade and investment.

Hence our first driver concerns politically motivated trade restrictions. Saudi Arabia has imposed a blockade on Qatar, which we compare with U.S. sanctions against Iran. Clearly, sanctions are more effective if they encompass a large group of nations and if a global superpower leads the efforts. Also, sanctions can have a silver lining: to survive sanctions, Russia put its fiscal house in order and now sits on more than USD 500 billion in foreign exchange reserves.

"Populism is not the only backlash against globalisation; economically, we are seeing emerging and frontier market governments erecting barriers to trade and investment."

The second driver is political interference through government expropriation and contract change. Despite the threat of nationalisation implied by former Labour leader Jeremy Corbyn's 2019 failed U.K. general election campaign, in frontier and emerging markets (EMs) outright nationalisation has become less common. In EMs, political interference now takes indirect forms, such as increasing tax pressures, export restrictions, tougher local content requirements, more stringent regulatory requirements, contract reviews and a general increase in government involvement in the sector.

Following frontier and EM developments on an ongoing basis has never been more important. Firms need to have clear visibility of any potential political interference "hot spots". Continuum Economics' country scores and rankings provided by its Political Interference Risk indicator, and the World Bank Doing Business database's Enforcing Contracts indicators, highlighted the Democratic Republic of Congo, Bolivia and Russia, as all having seen recent increases in political interference.

The third driver is currency risk. The threat of currency depreciation is a permanent feature of investing in frontier/emerging markets, but 2019 was particularly tough for the Argentine peso. We examine the biggest currency fluctuations of the past three years, with an emphasis on 2019, while also predicting potential underperformers in 2020.

EXPROPRIATION

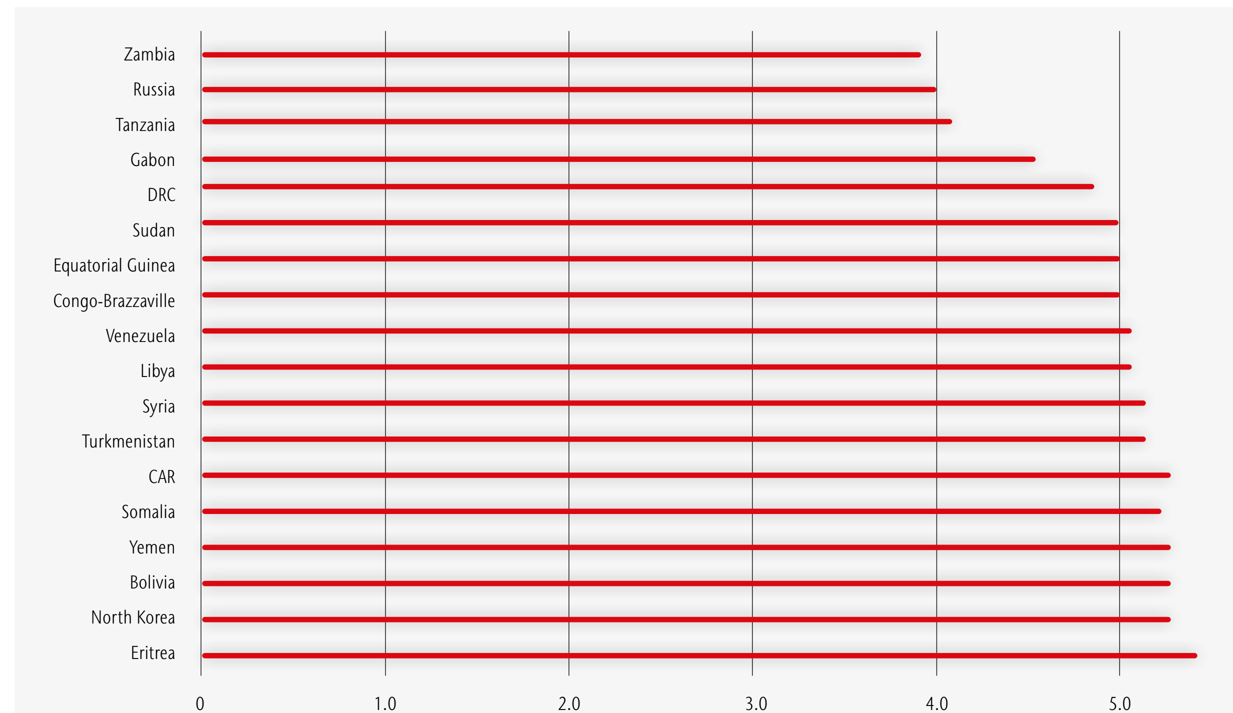
Policy continuity is one of the most important drivers of investment. While it is usually taken for granted in developed markets, in many EMs the uncertainty created by its absence deters investment. But beyond a relatively mild lack of policy continuity, the real concern for investors is political interference and especially contract expropriation. Investors are becoming frustrated with more complex forms of political interference. For instance, governments around the world have started to phase out the subsidies to solar and wind in the form of feed-in tariffs that were put in place when the cost of renewable energy was very high to ensure an adequate return to investors. In the People's Republic of China for example, the government announced a substantial cut in the feed-in-tariff in June 2018, and also imposed an installation cap on the solar PV projects that are eligible to the feed-in tariff. Under these circumstances, the People's Republic of China installed 44GW of solar PV in 2018, 17% lower than in 2018.

Political interference in EMs now takes indirect forms, such as increasing tax pressures, export restrictions, tougher local content requirements, more stringent regulatory requirements, contract reviews and a general increase in government involvement in the sector. And while Corbyn made no secret of his plans, EM nationalisation often catches investors unaware. Hence, it is key to follow EM developments on an ongoing basis to have as much visibility as possible on the risk of increased political interference.

Worst performers

The latest update of our Political Interference Risk indicator shows Eritrea, North Korea and Bolivia as the worst performers. It is also useful to complement these findings with data on contract enforcement, provided by the World Bank's Doing Business database. On this basis, Timor-Leste and Bangladesh have the worst rankings, but the Central African Republic, Gabon and the Democratic Republic of Congo (DRC) are also poor performers in Africa. One point worth noting is that both indicators are compiled on a yearly basis and even then, they are very slow-moving. For instance, if we look at the contract enforcement database's sub-component on "time required to enforce a contract," out of 190 countries, only 37 have seen a change in its value between 2013 and 2019. In that sense, these indicators are more suggestive of relative positioning for cross-country comparisons than they are useful as time series. They rarely capture the most recent developments.

Aon Risk Map Political Interference score



Source: Continuum Economics & Aon

Note: Scores are out of six with six the worst. The score combines data on political risk, quality of governance, regulatory quality and property rights protection.

"Political interference in emerging markets is now taking increasingly indirect forms, including increasing tax pressures, export restrictions and tougher local content requirements."

Case study: The Democratic Republic of Congo

The Democratic Republic of Congo is Africa's biggest producer of copper and cobalt, both of which are critical materials for the production of electric vehicle batteries. Strategic as its resources may be for a global carbon-neutral economy, it has a long history of political interference and contract expropriation.

In June 2018, the DRC introduced a new mining code which:

- raised royalties from 2% up to 10% for minerals deemed strategic
- reduced exploitation licences from 30 to 25 years and allowed for only one renewal
- increased the state's non-dilutable equity stake from 5% to 10%, and increased it by a further 5% upon renewal
- declared that 10% of shares in a mining company must be held by Congolese citizens
- declared that mining companies must work only with Congolese-majority-owned suppliers of goods and services
- created a special 50% tax on excess profits
- cancelled a 10-year stability clause that offered protection for existing mining projects.

The last is the greatest point of contention for investors, as a tax 'stabilisation' provision is a key aspect of contracts. At the one end of the scale, there are stabilisation clauses that purport to 'freeze' the law entirely. At the other end are clauses that expressly contemplate or permit change, subject to requirements of compensation where the change adversely impacts the foreign investor. The 10-year clause was clearly advantageous to investors.

While the economic development implications of the code could potentially be positive (although how mining companies are supposed to use Congolese suppliers in highly technical areas they are not active in is somewhat problematic), the impact on investment has been negative: there have been no major investment decisions in DRC mines since 2017, with some projects put on maintenance and others struggling to obtain fresh funding. Production has slowed since the beginning of 2019.

A subsidiary of a main Chinese player in the copper-cobalt sector in Katanga currently mines between 10,000 and 13,000 tonnes of copper per month, compared to about 18,000 tonnes a year and a half ago. A British–Swiss multinational commodity trading and mining company announced the suspension of production at its Mutanda mine in August 2019 to pressure the government into offering it an escape clause from the 10% royalty on cobalt. More than the new mining code on its

> *"Energy projects can represent a significant percentage of country GDP and, as a result, projects can become flashpoints for nationalist debate. They have the potential to trigger changes in government policy, which can lead to expropriations, licence cancellations and contract 'reviews'."*
>
> Bruce Jefferis
> Aon's Head of Energy and Mining, Global

own, it is its combination with falling cobalt prices that is squeezing companies. For the British-Swiss multinational (who extended a USD 45 million loan to an Israeli diamond tycoon in 2009 solely to secure a controversial mining agreement in the DRC), the new mining code is a considerable imposition. And there seems to be little hope of its cancellation after DRC President Félix Tshisekedi made it clear in March 2019 he would maintain it.

Case study: Bolivia

Bolivia is one of the worst offenders on political interference with a score of 5.4. It is worth reflecting on its outlook given recent political changes and the fact that Bolivia is home to half the world's lithium reserves, a key component in the climate-neutral global economy.

Ex-President Evo Morales was determined to make exploration and industrialisation of lithium conditional on a joint venture, in which the public sector company YLC would hold 51% of equity – an approach that was clearly not favourable to multinational corporations. His attempts to make deals with corporations from the U.S., Canada and South Korea failed. An agreement was finally signed with a German firm in December 2018. Yet in a classic case of contract expropriation, on November 4 2019, Morales cancelled the agreement after weeks of protests from local civic committees. The cancellation did not prevent Morales from being ousted by a military coup in November.

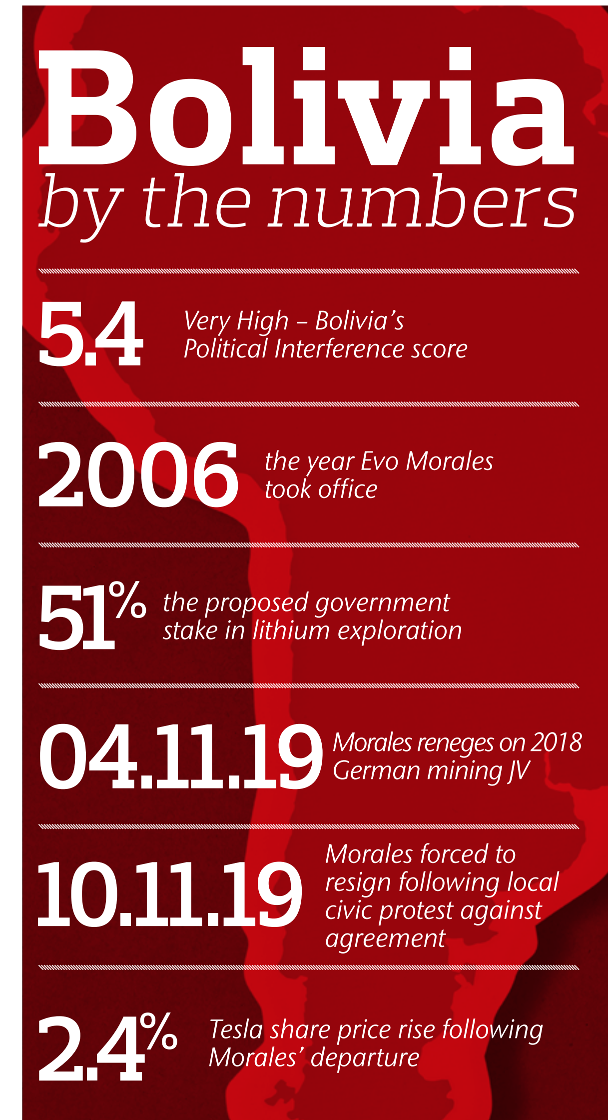
Given that Morales stood for nationalisation of hydrocarbons and the mining sector since he first took office in 2006, his removal begs the question of whether a new regime might be more accommodative to investors. After all, shares in Tesla, whose cars are powered by lithium batteries, rose 2.4% after the coup. Morales will not run in upcoming, but COVID-19 delayed, elections but his Movement Towards Socialism party will. The centre-right opposition's platform is essentially a reversal of all the major initiatives of the Morales presidency. The transitional government's Minister of the Economy also suggested that he would consider privatising public sector companies. Boliviana de Aviacion has already been privatised, suggesting that natural resources could come next. The opposition is less supportive of the indigenous population that Morales stood for and is likely to be soft on foreign investors.

The questions are:

1. Will the Movement Towards Socialism party win the elections?

2. How long will the investor-friendly regime last?

On balance, the upcoming reduction in political interference will be more than offset by a jump in political uncertainty and political violence. The indigenous protests triggered by Morales' overthrow are not about to unwind and, in this perspective, we are a long way from Bolivia becoming an investment hotspot.



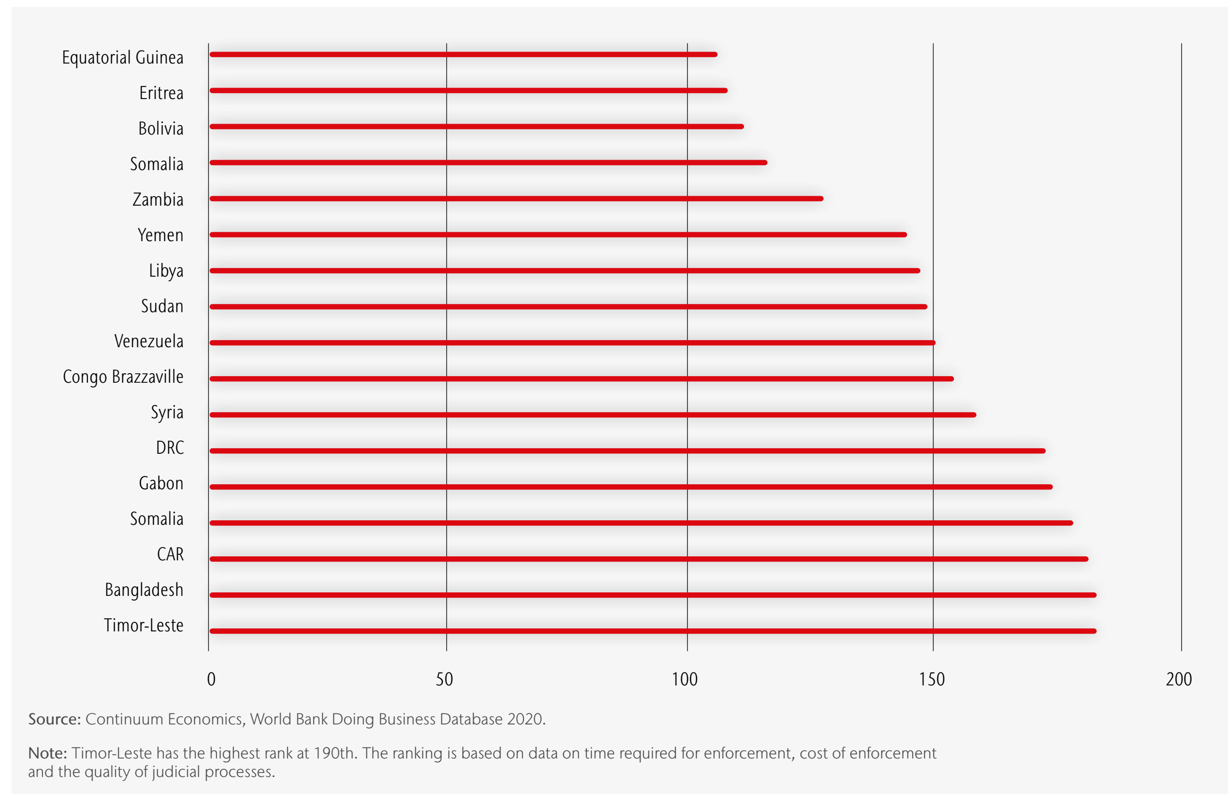
Case study: Russia

If the house arrest of Michael Calvey, the U.S. head of one of Russia's biggest buyout funds which is locked in a dispute relating to a portfolio company, is not enough to dissuade investors from targeting Russia, then political interference is a close second. The threat of interference is bad enough when it comes to domestic companies (see the politically motivated expropriations of Yukos in 2003-6 or Bashneft in 2014-17).

In August 2018, presidential aide Andrei Belousov floated the idea of imposing a new USD 7.5 billion tax on some of the country's largest industrial companies. While these plans were shelved, they highlight risks for foreign investors, especially as Belousov was appointed First Deputy Prime Minister in January 2020. Meanwhile, the government approved a tax reform of the oil sector in the 2019-21 budget, which will gradually eliminate export duties on oil and gas by 2024 and replace them with mineral extraction taxes. But this is undermined by a complex mechanism for subsidising domestic refining and consumption of fuel. Finally, Russia does not score well on contract enforcement, albeit with a slightly better 4.0 ranking than the 5+ posted by most of the underperformers in this category. Hence, it is no surprise that net foreign investment flows plummeted from USD 32.5 billion in 2016 to USD 8.8 billion in 2018. Although they rebounded to USD 26.9 billion in 2019 amid the fading risk of new sanctions from the U.S., 2020 could be trickier as investors fear the risk of a resumption of sanctions in the context of the U.S. election.

Crucially, investors in Russia are up against major obstacles unless they enjoy a special relationship with the state. This is evident from the government's proposal in November of two investment regimes: a general one and one for specific projects. Under the former, investors are guaranteed a three-year grace period before either any regulations that could worsen the conditions for investment or changes in tariffs and basic taxes

Aon Risk Map Political Interference score



Source: Continuum Economics, World Bank Doing Business Database 2020.

Note: Timor-Leste has the highest rank at 190th. The ranking is based on data on time required for enforcement, cost of enforcement and the quality of judicial processes.

can apply to them. Under the second regime, which would apply to projects worth at least USD 786 million in which more than USD 157 million of a company's own money is invested, the terms would be fixed for at least six years or, in the event of profits being reinvested, for 15-20 years. Under this specific project regime, if the state violates its conditions, it will be liable to compensate the investor from the state budget.

Given that nearly 75% of new investment projects are launched by big business, the main beneficiaries would be state-friendly capitalists and state monopolies, though state control over their investment projects will grow only with the help of exemptions and subsidies. Also in terms of procurement, the state gives special exemptions that award the largest contracts to a group of oligarchs. For instance, this group has won major contracts such as the Kerch bridge to Crimea or the Power of Siberia gas pipeline to China.

Effectively, there are barriers to entry for foreign investors in natural resources, the financial sector and the media. Foreign investment in sectors of "national interest" is increasingly at risk. Two examples are the sovereign internet law, which came into force in December 2019 and gives Russia the right to cut its part of the internet, and the bill to ban foreigners from owning more than 20 percent of internet companies. It remains unclear what falls under national interests; the government could at any moment declare that a company is significant for Russia's internet infrastructure and force it to change ownership structure.

Overall, there are some contradictions between the introduction of special investment regimes/ efforts to advance in international ratings (despite a mediocre score on enforcing contracts, Russia's overall score and position in the Doing Business survey have systematically improved since 2013) and a steady flow of protective and restrictive initiatives (such as the government's proposal of a shorter stay in Russia to determine tax residency). For instance, the government has promised not to raise taxes, yet last year it introduced some obligatory business tariffs that are not included in the tax code itself, such as new labelling requirements or changes to the Platon toll system affecting truck transport, whose fees will increase significantly in the next two years.

Therefore, the main factors behind Russia's poor investment climate seem to be insecure property rights, weak rule of law and the exploitative attitude towards business of a substantial part of the public administration, in particular law-enforcement agencies, none of which are fully taken into account by surveys like Doing Business. These shortcomings cannot be compensated for by prudent macro policies, low and relatively simple taxation or simplification in business registration, property registration and court procedures.

Other political interference hotspots

Among the other countries where risks are on the rise, Venezuela, Tanzania and Zambia stand out. In Venezuela, investors' real challenge now is to avoid getting caught up in the competition between various military-backed factions, as 2019's political instability means that there is no official government with which to plead. The scale of political interference is illustrated by the seizure of the gold assets of a Canadian miner Rusoro Mining in 2011 following the nationalisation of the gold industry by then President Hugo Chavez. The case was finally settled in October 2018 in the miner's favour after a seven-year legal battle. Crucially, Venezuela withdrew from the World Bank's International Centre for Settlement of Investment Disputes in 2012, which has increased the risks of operating in the country dramatically.

In Tanzania and Zambia, national elections this year and in 2021, respectively, mean that recent changes in mining regulations are unlikely to be reversed in the next couple of years. In Tanzania, we have seen a crackdown on foreign investors similar to the one in the DRC. The Mining Local Content Regulations of 2018 demand that a mining company gives at least 16% of the free carried interest in the capital of the company to the government and 5% of a firm engaged in mining must be owned by an indigenous company. The regulations also hike taxes on mineral exports and impose an export ban on unprocessed minerals to promote local value-added industries. Net foreign direct investment inflows have continuously declined from USD 2.1 billion in 2013 to USD 1.1 billion in 2018.

In Zambia, in September 2018, the government increased the sliding 4-6% scale for royalties by 1.5 percentage points and introduced a new 10% tax when the price of copper exceeds USD 7,500 per tonne. Examples of expropriation abound, with the government recently appointing a provisional liquidator to run a UK mining conglomerate's copper and mining subsidiary. Meanwhile, a Canadian copper producer has been involved in a dispute with the Zambia Revenue Authority since March 2018, which claimed that the producer had not paid customs duties amounting to USD 5.8 billion for five years.

Finally, one country to monitor in 2020 will be South Africa, as mining companies challenge key provisions of the revised mining code. Apart from local procurement rules and the licensing process for some minerals, the legal challenge will focus on whether black economic empowerment (BEE) transactions should be recognised even after the black shareholders have exited. BEE requires the divestiture of equity by mining operators to allow historically disadvantaged persons to access the sector.

Risk considerations

One option is to avoid the problem altogether and only invest in jurisdictions that are more welcoming of overseas investment in the mining sector, such as Ethiopia, the Ivory Coast, Botswana, or Ecuador.

If businesses choose to invest regardless, they must keep abreast of geopolitical risk on an ongoing basis. They should look for agreements with strong contractual protection in terms of stabilisation provisions.

Firms should also focus their efforts on host countries with strong bilateral investment treaties with the investor's country of origin, as they usually include protection from expropriation without compensation.

Foreign investors should demand international arbitration within mining contracts. Ultimately, their rights can be enforced through treaties that provide for disputes to be resolved by way of international arbitration – usually by the International Centre for Settlement of Investment Disputes.

Beyond the typical risk of political instability, one of the characteristics of emerging markets is elevated currency risk. Wide fluctuations in currency values imply a lack of predictability of revenues and costs for companies and investors in emerging markets (EM) and therefore limit appetite. Understandably, currency risk is also a bugbear of EM governments, who are increasingly attempting to slow the substantial capital flight that can follow market shocks through the imposition of capital controls. However these capital controls can also greatly diminish the investment attractiveness of the EM administering them.

Consequently, investors need to have maximum visibility on currency risk and the potential for capital controls.

"Wide fluctuations in currency values imply a lack of predictability of revenues and costs for investors in emerging markets and therefore limit appetite."

Analysis of 2019 returns

In 2019, the currency with the largest appreciation was the Russian ruble. The currency's increase in value has been driven by three factors: 1) market relief over resilience to sanctions, 2) record-high levels of demand for Russian sovereign debt boosting portfolio inflows and 3) Russia's fiscal fortress, which has involved prioritising stability over growth to reduce its external vulnerability. Indeed, Russia has FX reserves above USD 500 billion, allowing it to cover its external debt dollar for dollar in cash. Inflation under 4% has also been a factor, as well as a healthy current account surplus.

Interestingly, the two currencies with the largest depreciation in 2019 are also the ones with the largest depreciation over the last three years, suggesting long-term structural weaknesses are behind the currencies' decline in value. They are the Argentine peso and the Turkish lira – they are followed by the Chilean peso, which is a new entrant to the bottom three (the third-worst performer over the last three years was the Brazilian real).

Case study: Argentina

With Argentina now in default, the market is busy trying to assess just how hard Argentina's "hard default" will be. The market is in an optimistic mood and believes that there will be an agreement in late June or July, but we warn that international litigation is still possible — the longer it takes to reach an agreement, the more likely it becomes that the dispute results in international litigation. Additionally, even in the optimistic scenario in which there is an agreement soon, Argentina will still need to deal with the debt owed to the IMF and other international financial institutions.

Before the current crisis, which started in 2018, Argentina's financing structure was a cause of concern because the country was being financed almost entirely by portfolio flows, reflecting foreign investors' short-term attitude. At the time, economists warned that a shift in expectations would likely lead to a currency and debt crisis. The feedback loop of asset losses was triggered by the Central Bank's fight against market forces that were initially trying to price the effects of a serious drought.

"The 20% plunge in the peso against the dollar after the primary election impaired the country's ability to pay back its obligations further."

As investors started panic-selling, the Argentine peso lost value, yields jumped, making it even harder for the government to service its debt. Similarly, because of the depreciation in the real exchange rate (inflation averaged 53.8% in 2019), Argentine gross domestic product (GDP) measured in USD fell by nearly half over the past two years, resulting in the debt-to-GDP ratio reaching 92% in the third quarter of 2019, the latest available figure. To avoid further foreign exchange depreciation, President Mauricio Macri imposed unpopular capital controls to preserve foreign reserve coffers, which had shrunk to USD 43 billion, and agreed to austere IMF-imposed monetary policy, based on a zero increase in the money supply, in exchange for a USD 57 billion bailout.

The unexpectedly large margin of victory of populist Alberto Fernandez in August's primary election, which was followed by his election as president, caused another collapse in the currency as he promised to boost social spending while markets feared that his relations with the IMF would be even more strained than those of his predecessor. The 20% plunge in the peso against the dollar after the primary election impaired the country's ability to pay back its obligations further. Fernandez has maintained capital controls and even added a dual exchange rate regime through the establishment of a 30% tax on USD purchases,

except for intermediate imports. Increasingly tighter capital controls have slowed the depreciation of the official USD/ARS exchange rate and significantly reduced volatility, while the multiple unofficial measures trade over 50% weaker than the official rate. We expect the Central Bank of Argentina to continue letting the peso slide throughout the year, to USD/ARS 85 by year-end.

Case study: Turkey

In the wake of the 2018 lira crisis, which had already knocked nearly 30% off its value, the Turkish government clamped down on financial markets in 2019 with new rules and regulations. The changes – including restrictions on foreign exchange and reserve requirements intended to stimulate lending – were meant to stabilise the lira and spark a recovery. Yet with continued, if slightly milder depreciation of 11% in 2019, it seems these changes and the aggressive 1200 basis point in interest rate cuts in 2019 (which have since been extended by another 75bps to 11.25%, just below the annual inflation rate) did not convince most foreign investors to adopt long-term positions especially given ongoing central bank intervention on the FX market.

Another structural factor in the 2019 depreciation was the dismissal of central bank governor Murat Cetinkaya by President Recep Tayyip Erdogan, a move that did away with any pretence of central bank independence. On the upside, depreciation had a silver lining: it allowed Turkish exports to become more competitive and contributed to 2019's current account adjustment.

Case study: Chile

As for the Chilean peso, it has been battered by an extended period of social unrest since October, which was triggered by a rise in subway fares. Under the "Chicago Boys," a group of pro-business economic advisors who reached high positions within the country's government, Chile became the IMF's poster child of successful neo-liberal economic development in the eighties, resulting in record-breaking growth rates and political stability, at least by Latin American standards.

Although Chile's income inequality has declined over time, it remains high compared to international standards and successive governments failed to tackle high-income inequality. Along with Mexico, Chile has the worst income inequality of the Organisation for Economic Cooperation and Development's (OECD) 36 members. The top 10 percent of the wealthiest households own 57.7 percent of the total net wealth, according to the OECD.

Yet it is important to note that the unrest is not completely down to inequality. Inequality is a powder keg that only blows up if frustrations are not channelled into civic action. Chile ranks

the lowest in the OECD on civic engagement, as measured by the OECD's Better Life Index, suggesting little public engagement in decision making, which is the result of despair about the possibility of achieving change.

Overall, the extent of the peso's depreciation is best explained by the unexpected nature of the unrest, considering that Chile was widely viewed as one of the most stable countries in Latin America. To contain the unrest, the government planned to increase the fiscal deficit to historically high levels, proposed a pension bill that is even more redistributive than past proposals carried by left-wing governments, and agreed to potentially change the constitution, which dates back to the dictatorship of Augusto Pinochet. After the initial period of unrest, the peso continued to weaken, and although December saw a recovery, the currency has not got off to a good start in 2020 as investors realise that the episode is probably going to be a turning point for the country. With a busy political agenda and the impact of COVID-19, uncertainty will very likely persist.

"Foreign exchange remittance restrictions, or shortages of foreign exchange, can prevent the payment of dividends or the repayment of loans, the threat of which can reduce the attractiveness of investing in emerging markets. Financial institutions can mitigate against the risk of the introduction of a law, order or decree which prevents, restricts or controls access to hard currency leading to the frustration of loan or financing agreements. Political risk coverage is a tried and tested mitigant against currency moratorium and sovereign-dictated exchange transfer restrictions in emerging markets"

Joel Sulkes,
Aon's Head of Financial Institutions, Global

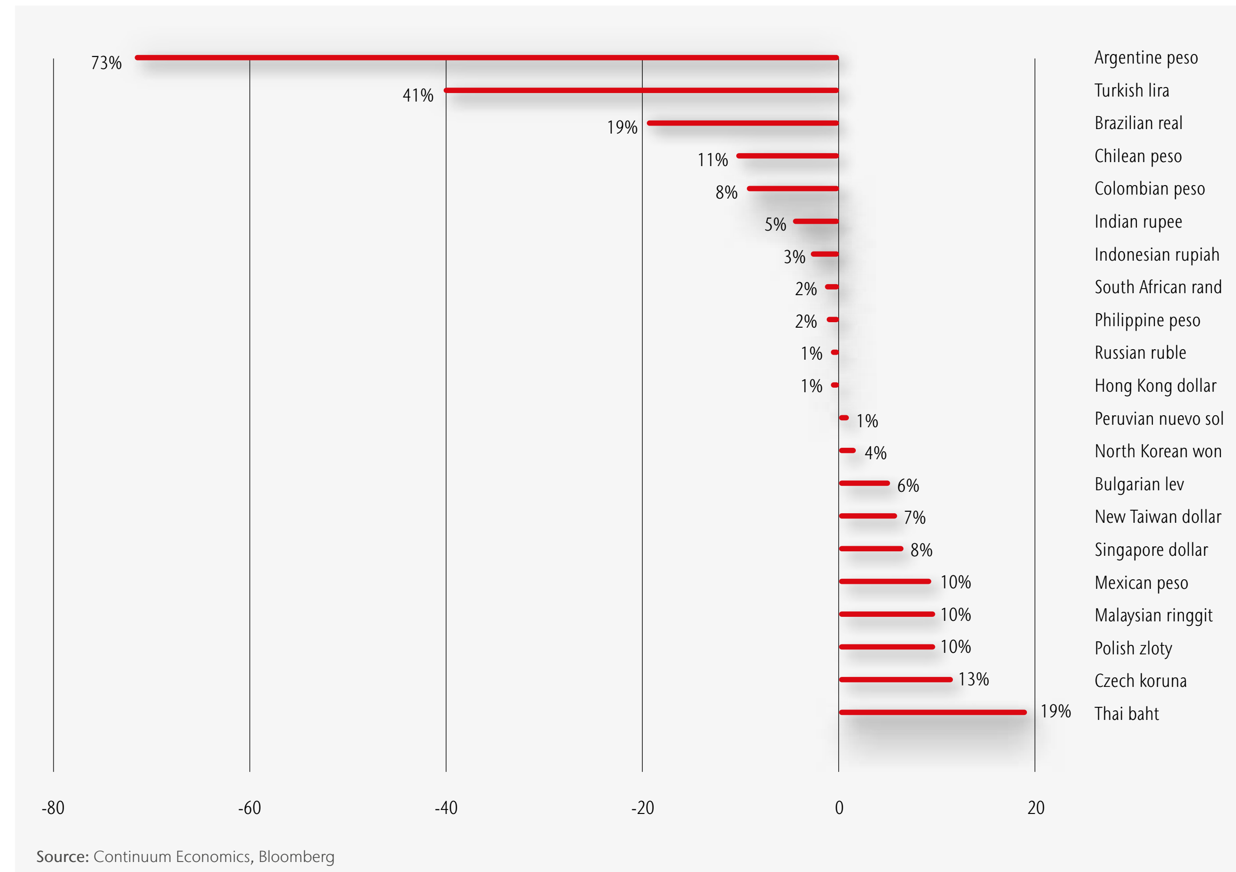
Global outlook

This year, the reversal of USD strength provides a supportive backdrop for EM currency outperformers, the Brazilian real and the Russian ruble. Yet the ongoing domestic China slowdown will affect fundamentals negatively in other EMs and social unrest will also weigh on their credit ratings.

Within emerging Asia, most currencies face weakening pressures alongside the Chinese yuan due to slowing China fundamentals, even as we become more optimistic about U.S.-China trade. Yet dollar weakness will limit any excessive movements. The Indian rupee is likely to remain under pressure due to fragile domestic economic conditions but a demand-side stimulus can help the currency to return to 70 rupees against the dollar in the coming months. Meanwhile, the Indonesian rupiah will likely weaken further, but more concrete trade resolutions should help it to recover to 14,100 to the dollar by the end of 2020.

For Latin American currencies, the external backdrop is more supportive now, with the first phase of the U.S./China trade deal and the approval of the United States-Mexico-Canada Agreement (USMCA) in Q1 2020 helping Latin American FX in general and the Mexican peso in particular. We are optimistic that the market will return to bet on Brazil's growth and we expect a 2.5% gain in the real even as Brazil's positive interest rate spread falls further. The China slowdown could hurt

Best and worst EM spot returns in the last three years %

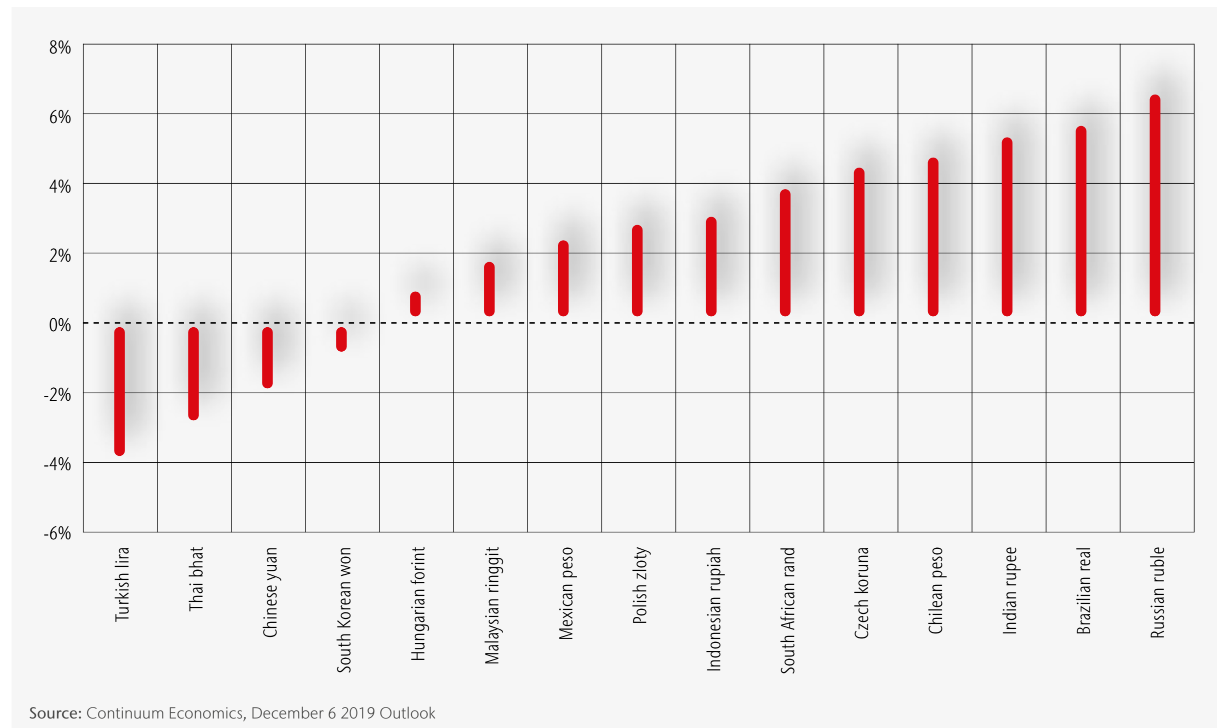


Source: Continuum Economics, Bloomberg

commodity-linked currencies like the Colombian peso and Peruvian sol while social unrest will put Colombia ratings at risk and populist policies may continue to hold Argentina back.

EMEA FX continues to display divergence, with the Russian ruble outperforming based on a high inflation-adjusted policy rate and investments from the National Wealth Fund. While current account weakness should be less supportive than in 2019, that should be offset by a slight easing in the fiscal rule based on a USD 5 per barrel increase in the benchmark oil price. The Turkish lira is the underperformer given negative real rates and continued volatility. Negative real rates will expose the lira to occasional "risk-off" episodes, with the premium no longer compensating for the multiple risks of investing in the lira. The negative rates make investing in the lira less attractive than in other emerging markets with positive real interest rates. We also expect a sharp worsening in external balances that could follow a powerful recovery in domestic demand and increased geopolitical vulnerabilities, both of which should start pressuring the lira.

Our forecasted 1Y total returns by end-2020 (vs. USD)



Source: Continuum Economics, December 6 2019 Outlook

Implications of FX fluctuations

Unpredictable fluctuations of currencies mean that businesses stand to lose or gain dramatically from currency movements. Unexpected political events reflected in currency valuations could eat away at revenues and increase costs. In a recent survey of 200 chief financial officers and nearly 300 treasurers conducted by HSBC, 70% of CFOs said that their company suffered reduced earnings in the prior two years due to avoidable, unhedged FX risk; 58% of CFOs in larger businesses said that FX risk management is one of two risks that currently occupy the largest proportion of their time; and 51% said that FX is the risk that their organisation is least well-equipped to deal with. Transaction risks are the main short-term risk associated with currency fluctuations. These occur because of timing differences between a contractual commitment and actual cash flows.

If a business manufactures a product in China and sells it in the UK for a price set in pounds and the payment terms allow the buyer to pay days or weeks later, the business's cash flow will be exposed to currency fluctuations while it waits for settlement. However, for an investor concerned with the long-term horizon, it is worth bearing in mind that the average economic cycle lasts about a decade, during which currencies generally go from boom to bust, appreciating as the economy gets stronger until they top out. In that long-term perspective and if the investor has deep enough pockets, there is some sense in sitting out the depreciation episodes. In addition, having exposure to a variety of different currencies reduces the correlation between assets and therefore the impact of one single currency's depreciation on overall profits.

Implications of FX controls

Another risk faced by businesses is the imposition of capital controls, which causes a deterioration in the ease of doing business. Measures include exchange controls that prevent or limit the buying and selling of national currency at the market rate, a Tobin tax, restrictions on the capital account, and limits on the repatriation of export proceeds. There is evidence that increasing levels of capital controls reduce foreign direct investments, with stronger evidence for East Asia and Latin America.

Meanwhile, a December 2019 Bloomberg survey found that capital controls are the greatest barrier to accessing India's financial markets, with 37% citing it as their main concern.

Do capital controls have the desired effect on asset prices? The easiest way to check is to compare identical assets trading domestically and abroad, for example domestic stocks and American Depository Receipts (ADRs), where shares of non-U.S. corporations are traded in the U.S. while the underlying shares trade in the domestic market of the issuer. Assuming expected return arbitrage across markets, the percentage price discount between the underlying shares in an EM and the corresponding ADR in New York (the cross-market premium) can be attributed to transaction costs including the capital control (for instance a 3% Tobin tax), as the international investor demands a compensating yield premium (a 3% price discount) from the stock in the EM. Research by Eduardo Levy Yeyati found exactly that in data on Chile and Argentina during periods of capital controls, with the ADR premium rising and declining as a reflection of the intensity of capital flows. As suggested by the ADR case, while investors can find a way to circumvent controls, in some cases it can come at a high cost, as the cross-market premium rises with the severity of the capital control.

With the IMF's recent about-face on its policy on currency controls, where it now accepts selective and timely FX controls in EMs, investors are increasingly concerned that controls will be implemented by weak EM countries.

Indeed, the IMF now believes FX controls can be effective in stabilising the economy in EMs with shallower capital markets, less FX liquidity and large capital flow compared to the size and depth of the financial sector. Turkey for instance has used several unorthodox measures – currency forwards, swaps, and providing access to reserve requirements – to help its corporates manage their heavy reliance on foreign exchange. Thailand, whose bhat was the best performing Asian currency in 2019, is also reportedly contemplating capital controls.

Risk considerations

FX volatility can be a significant challenge for firms operating in emerging markets, particularly when it comes to the transfer of funds, foreign currency shortages and the value of underlying agreements. As such, firms investing or operating in countries with a history – or potential – for significant currency volatility should be aware of the potential implications of government-enforced controls on FX.

While political risk coverage is unable to provide a direct hedge to FX volatility, it is able to provide coverage for currency and convertibility risks associated with government interventions that affect currency liquidity and transfer.

Interventions can include currency moratoria, remittance restrictions and limits on the payment of dividends or loans – all of which can serve to reduce the attractiveness of EM investments.

There is appetite within the political risk insurance market for these kinds of exposures and we would encourage firms to consider coverage to mitigate against political moves that frustrate their investments, cashflow or investment position.

"Sanctions – be they economic or financial – can place pressure on already stressed global supply chains and disrupting international trade, and often with little notice. Detained vessels or shipments, an inability to repatriate crew, unexecuted deals and insurance coverage challenges are just some of the consequences associated with sanctions."

Lee Meyrick, Aon's Head of Marine, Global

SANCTIONS

What determines the effectiveness of sanctions, embargoes or blockades? While Qatar has managed to avoid too much of an economic hit from a Saudi Arabia-led blockade, the imposition of U.S. sanctions has hurt growth in Iran (Figure 1). Sanctions that encompass large groups of nations (by agreement or pressure) are more effective than embargoes or blockades that involve only a handful of countries. Sanctions are also more effective if a global superpower leads the effort (e.g. the U.S.), rather than a regional player (e.g. Saudi Arabia).

The outcome of the U.S. presidential election in November 2020 will undoubtedly influence the focus of sanctions globally. The result will have more of an impact on Iran than other countries that currently face broad U.S. sanctions. While North Korea and Syria are dependent on their regimes compromising first, hopes that a Democrat president in the White House will lead to the withdrawal of sanctions against Cuba and Venezuela appear overly optimistic. Domestic issues are the bigger focus for Joe Biden and he would be wise to play the traditional foreign policy long game.

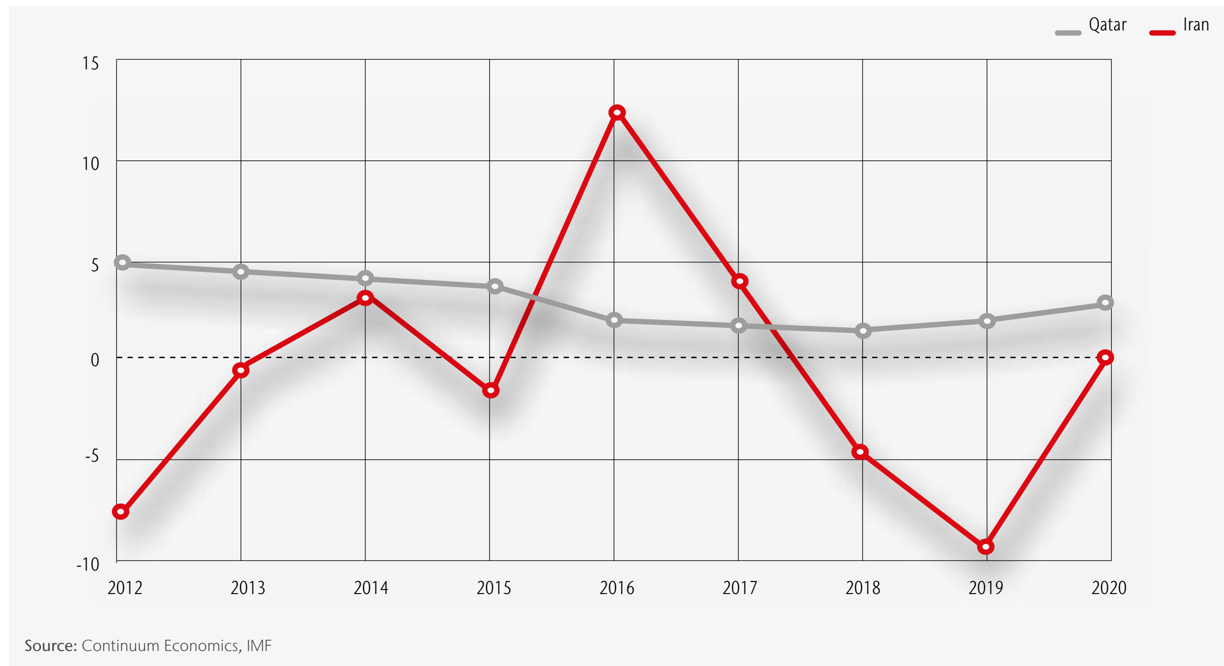
Case study: Qatar's resilience and Iran's challenges

Why does the impact of sanctions differ from country to country? A three-year trade blockade has not dented Qatar's GDP, but the reimposition of U.S. sanctions on Iran has caused the Iranian economy to plunge. The blockade on Qatar also did not cause a spike in inflation, whereas U.S. sanctions have helped reignite inflation in Iran.

Saudi Arabia led a multi-country blockade on Qatar in June 2017, when diplomatic and economic ties were cut. A key concern had been Qatar's alleged support for terrorism and fears that it had violated a 2014 agreement with Gulf Co-operation Council members. The boldness of the blockade also came in the context of support from within the U.S. administration, which did not materialise into action. Historians also point to a double decade desire on the part of Qatar to distance itself from Saudi influence over the direction of foreign policy, which made a clash inevitable at some stage.

In Qatar's case, Saudi Arabia directed the blockade, with additional participation from UAE, Bahrain and Egypt. In practical terms, Qatar businesses could no longer export or import to these countries, while the impact on Saudi and UAE companies was mitigated by the modest size of exports to Qatar relative to their GDP. This then prompted a selloff in the Qatar equity market and initial uncertainty about debt servicing.

Iran and Qatar Annual GDP Growth (%)

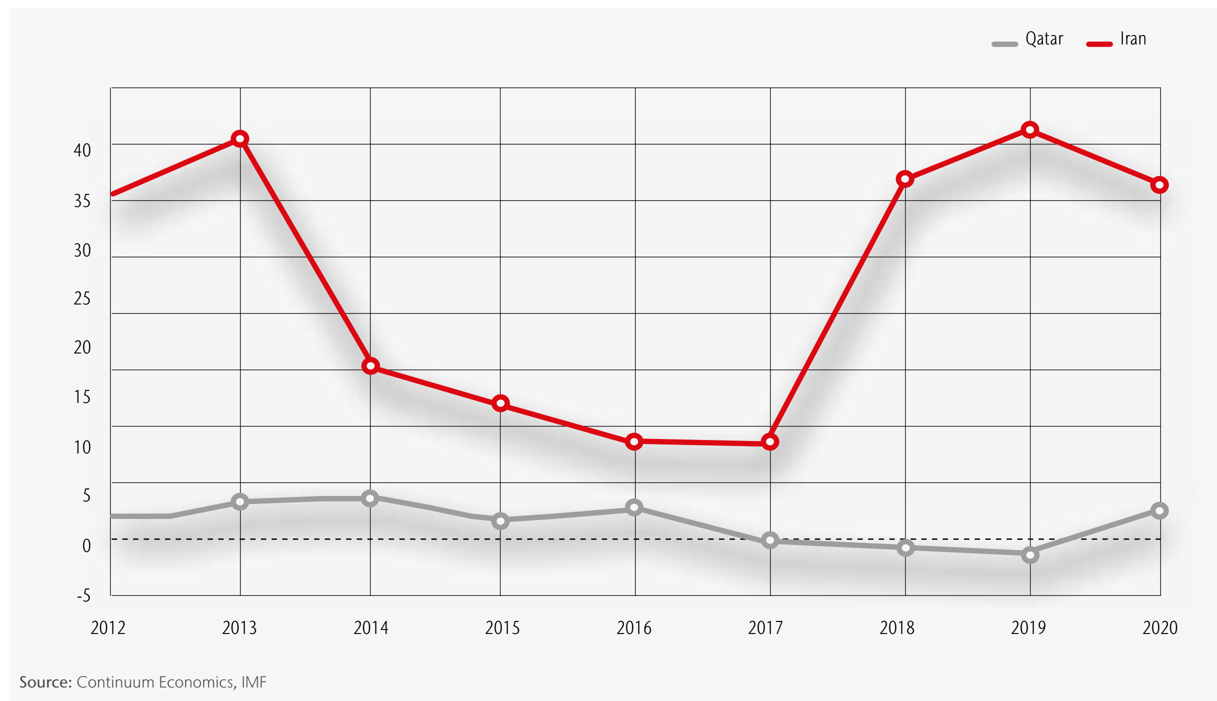


Source: Continuum Economics, IMF

"A three-year trade blockade has not dented Qatar's GDP, but the reimposition of U.S. sanctions on Iran has caused the Iranian economy to plunge."

However, Turkey, Iran and other countries were willing to pick up the slack in trade, services and transport links as a means to exert greater regional influence (Turkey has also been active in construction for the 2022 FIFA World Cup venues in Qatar). This meant that the blockage on trade, services and transport links merely prompted a reorientation. Qatar has also benefitted from the switch in energy demand from oil/coal to gas, as Qatar's major export is natural gas.

Iran and Qatar annual inflation (%)



Source: Continuum Economics, IMF

Finally, the U.S. is neutral in the dispute, as the global superpower has other priorities in the Middle East. Additionally, the presence of a large U.S. military base in Qatar protects the country from a true military blockade, while the rest of the developed world has followed the U.S.'s neutrality. In essence, Qatar only faced embargoes from a small group of countries. This prompted a rebound in foreign deposits and foreign bank loans to the Qatar financial system in 2018, after the net outflows were seen in 2017 in the immediate aftermath of the blockade (the Qatari central bank's foreign currency reserve rundown had offset the outflows). Net foreign investment and portfolio flow had been less impacted in 2017.

Economic blockades or large-scale embargoes are rare, with only three military-led partial blockades, though a number of arms embargoes do exist:

- A coordinated blockade of Armenia by Turkey and Azerbaijan since the Nagorno-Karabakh War in 1988.
- A partial blockade of the Gaza Strip up to the present day by Egypt and Israel
- Yemen's partial blockage by a Saudi coalition.

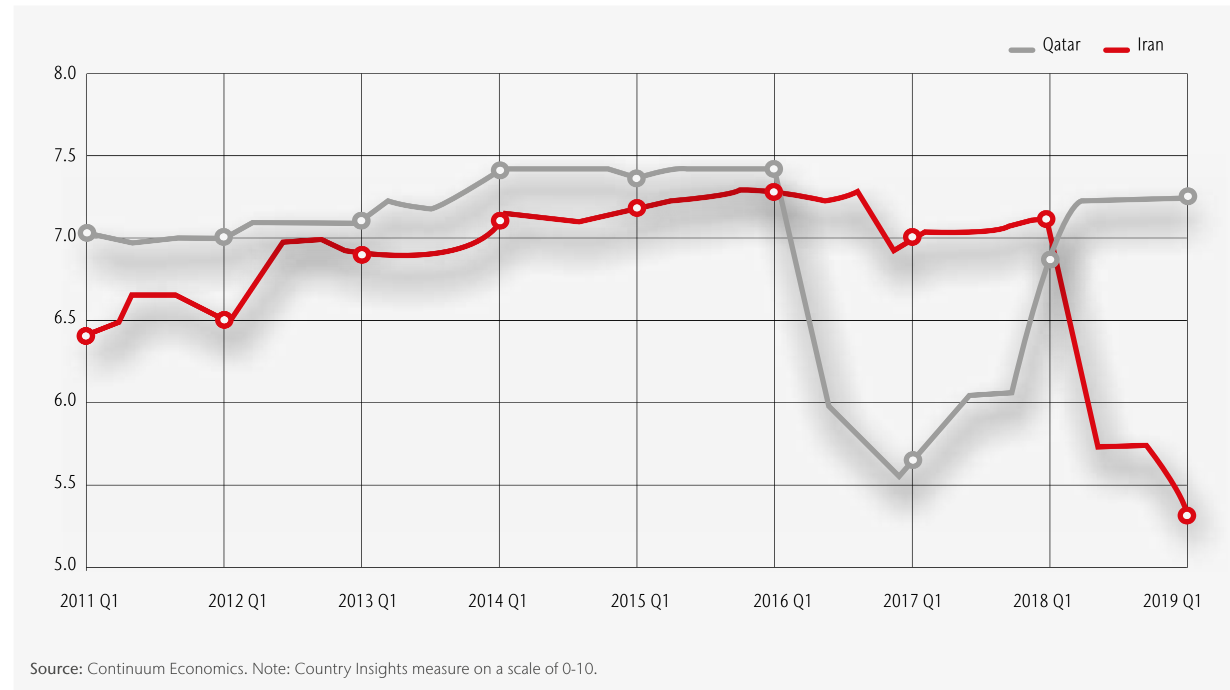
Due to their larger size, the economic effects on the blockading countries have been modest. However, the political effects have paralysed the Gulf Cooperation Council and undermined Saudi Arabia's regional aspirations.

Meanwhile, the U.S. reimposed sanctions on Iran in November 2018 in a bid to limit its support for militant groups in the region and its development of ballistic missiles. The move has hurt Iran, despite the EU giving clearance for EU companies to still work with Iran following the U.S.' decision to pull out of the Iran nuclear deal in May that year.

The EU put a payment mechanism (Instrument in Support of Trade Exchanges) in place to allow EU companies to exchange goods with Iranian companies without requiring direct transfers of money between the EU and Iran. This was designed to act as an economic shield against U.S. sanctions on Iran. However, the potential loss of access to the lucrative U.S. economy was more threatening for EU companies, which curtailed exports and imports with Iran. Meanwhile, financial sanctions threatened EU companies' access to USD-centric global financial markets. This also impeded EU companies' investment in Iran.

The EU's clearance for EU companies amounted to nothing more than a political gesture. Companies and countries outside of the EU also felt the force of these sanctions as well, which shrunk Iran's oil exports dramatically. In practical terms, a firm outside of the U.S. could choose whether to export to Iran, but doing so meant being cut off from, not only the U.S. export market, but also from financing in the USD-based banking system and capital markets. Companies and investors decided the easiest choice was to curtail exports and imports from Iran. In turn, this hurt Iran's oil-based economy, government revenue and, subsequently, non-oil economy.

Iran and Qatar External Pillar Score



Source: Continuum Economics. Note: Country Insights measure on a scale of 0-10.

The future forecast

What does the future hold for Iran and Qatar, as well as other countries facing large-scale U.S. sanctions (Cuba, North Korea, Sudan, Syria, and Venezuela)? The answer largely depends on how each country's political situation develops and whether there is momentum towards compromise, de-escalation and peace. North Korea prompted hopes of an agreement with the U.S. that would generate a path toward peace. However, talks with the U.S. have stalled, despite the two summits between the leaders of the U.S. and North Korea. The North Korean leadership remains concerned that the de-escalation process is slow and controlled, rather than abrupt. Over the next one

to two years, sporadic discussions remain the most probable outcome, with intermittent tension that falls short of escalation (e.g. North Korea resuming long-range missile testing and/or nuclear tests).

Iran faces the possible reimposition of UN sanctions if the dispute resolution with France, Germany and the UK does not succeed. U.S. policy in the lead up to the presidential election will remain focused on the use of sanctions to weaken Iran. Elections in November this year will be significant and while sanctions and tensions may remain, the U.S. has no appetite for another Middle East war.

The partial blockade on Qatar is unlikely to change in the coming years, as Qatar has been able to redirect trade and travel links and wants to showcase the economy during the 2022 World Cup. At the same time, Saudi Arabia does not want to lose face and will be reluctant to change course.

"U.S. policy in the lead up to the presidential election will remain focused on the use of sanctions to weaken Iran."

Political risk: available coverages

Embargo

coverage against the introduction of or changes to a law that restricts imports and/or exports, making it impossible for the insured to meet their obligations under their insured contract.

Law, Order & Decree

coverage against legal and regulatory measures that restrict the insured's ability to meet its obligations under its insured contract, including acts of confiscation, nationalisation, expropriation by the local government.

Licence Cancellation

Coverage against changes to licence conditions that limit the insured's ability to meet contractual obligations outlined in the insured contract.

Non-Certification

coverage against the non-issuance of documentation required for the payment of invoices due under its insured contract.

"Businesses must carry out appropriate due diligence concerning sanctions when dealing with third parties and suppliers, as well as when acquiring new businesses."

Meanwhile, Syria's sanctions will likely remain in place, as the Assad regime has the upper hand in the civil war but is not yet strong enough to push for peace. Russia and Turkey's desire for influence in Syrian affairs further complicate the Syrian situation.

Concerning Cuba, a second term for the current U.S. administration would likely mean that tensions between the two countries continue to escalate, albeit gradually. U.S. voter registration data show that Republicans are adding more net voters than Democrats in the key swing state of Florida, and GOP strategists agree with the current policy of being tougher on Cuba. However, opinion polls in Florida show that Cuba is not a top political issue, even for Cuban-Americans. The U.S. administration's toughness could be tactical. While Joe Biden may take a more conciliatory attitude to sanctions on Cuba, this will probably not be a priority in his agenda, and we would not expect him to use up their political muscle on this issue.

Venezuela is a higher priority for the U.S. administration than Cuba, and in a second term, the current U.S. administration would likely toughen sanctions on companies involved in any business related to the government and state-owned companies. Joe Biden will not recognise Nicolas Maduro's presidency, and would most likely support targeted sanctions against government officials of the Maduro administration. Therefore, the question is about broader economic sanctions. The recently passed VERDAD act, which codifies many of the current U.S. sanctions on Venezuela, proves that there is bipartisan support for the U.S. to take a more active role in the Venezuela crisis. With a Democrat in office, we would also expect the U.S. to seek greater coordination with Latin American countries to support a regime transition.

Risk considerations

Businesses need to identify potential vulnerabilities in this area and then quantify their exposure.

Sanctions are – generally – a predictable risk to business but are nevertheless one that can have a significant and lasting impact on existing and future investment opportunities and returns. While the blockade of Qatar by the Gulf Cooperation Council is unlikely to have scared off investors in Qatar's economy – most notably its sizable energy sector – the U.S.' re-imposition of sanctions on Iran has had a far more dramatic impact. Other sanctions regimes – such as those facing Cuba, North Korea and Syria – have been similarly dramatic in terms of their impact on investor appetite. Investors need to closely monitor global sanctions – particularly those regimes where the U.S. is participating.

Exporters, corporates, banks, financiers, fund managers and private equity firms with assets in high risk environments should all be evaluating their political risk insurance. Industries most affected by current sanctions include aviation, construction, power, energy and marine. Boards should have clear oversight of their global operations to ensure they are not doing business with any sanctioned individuals or organisations. Multinational clients should look to their compliance teams to keep them up-to-date with and abiding by any sanctions that affect their current operations. Businesses must carry out appropriate due diligence concerning sanctions when dealing with third parties and suppliers, as well as when acquiring new businesses.

Political risk insurance is able to provide a degree of certainty for firms facing the imposition of

"There is market appetite for risks linked to sanctions exposure, and firms operating in at-risk countries should consider whether such coverage can provide them with a degree of protection for their investments and cashflow."

sanctions, with coverages able to respond to political actions that impact firms' ability to conduct business. It is worth noting that coverage is not available for countries where sanctions – and associated restrictions – are already in force.

Political risk coverage is available to protect business against embargoes imposed on the export and/or import of commodities, goods or finance; provide coverage against expropriation risk – a common retaliatory measure where sanctions are imposed – and licence or concession cancellation, which would see a firm losing exploration or operational rights within a sanctioned country.

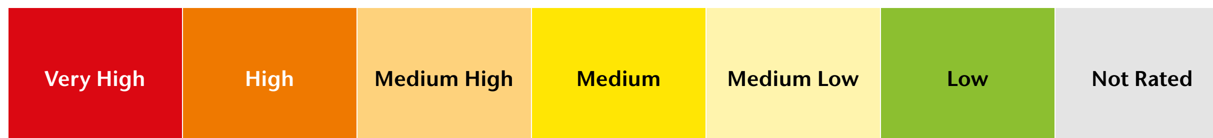
When operating in challenging countries, such as Qatar, insurance has an important role to play as it can protect a firm's assets and investments. In terms of optimising project finance capital, insurers can help by releasing capital or allowing clients to lend from existing capital. They can also provide cover protecting balance sheet investment, cash flows and sovereign counterparties. Contractual cover focuses on the risks surrounding sanctions, including licences, import/export, trade disruption and embargoes.

Methodology

Risk ratings are awarded on a seven-point scale, as shown below.

- The Aon Political Risk Map measures political risk in 163 locations and territories.
- Risk ratings are standardised across each location, on a seven-point scale ranging from low to very high, with all risks updated once per quarter.
- Location ratings reflect a combination of analysis by Aon Risk Solutions and Continuum Economics –a global macroeconomic analysis and advisory firm.
- European Union and Organisation for Economic Cooperation and Development member countries are not rated in the map.
- Continuum Economics (formerly Roubini Global Economics) is the international market-leading service for independent economic research powered by 4Cast and Roubini Global Economics.
- Its research combines expert insight with systematic analysis to translate economic, market and policy signals into actionable intelligence for a wide range of financial, corporate and policy professionals.
- This holistic approach uncovers opportunities and risks before they come to the attention of markets, helping clients arrive at better decisions in a timelier manner.
- Continuum Economics' quantitative approach allows CE and its partners to track changes in countries systematically, providing for more meaningful cross-location comparisons, and most importantly allows each political risk to be decomposed to the various elements that drive that risk.

Seven-point scale



Overall location rating

The overall rating captures an aggregate view of risk within the location. It is calculated as a simple average of six core risk measures ("risk icons"):

- Political Violence
- Exchange Transfer
- Sovereign Non-Payment
- Political Interference
- Supply Chain Disruption
- Legal & Regulatory

Political Violence
The risk of strikes, riots, civil commotion, sabotage, terrorism, malicious damage, war, civil war, rebellion, revolution, insurrection, a hostile act by a belligerent power, mutiny or a coup d'etat.

Exchange Transfer
The risk of being unable to make hard currency payments as a result of the imposition of local currency controls.

Sovereign Non-Payment
The risk of failure of a foreign government or government entity to honour its obligations in connection with loans or other financial commitments.

Political Interference
The risk of host government intervention in the economy or other policy areas that negatively affect overseas business interests; e.g. nationalisation and expropriation.

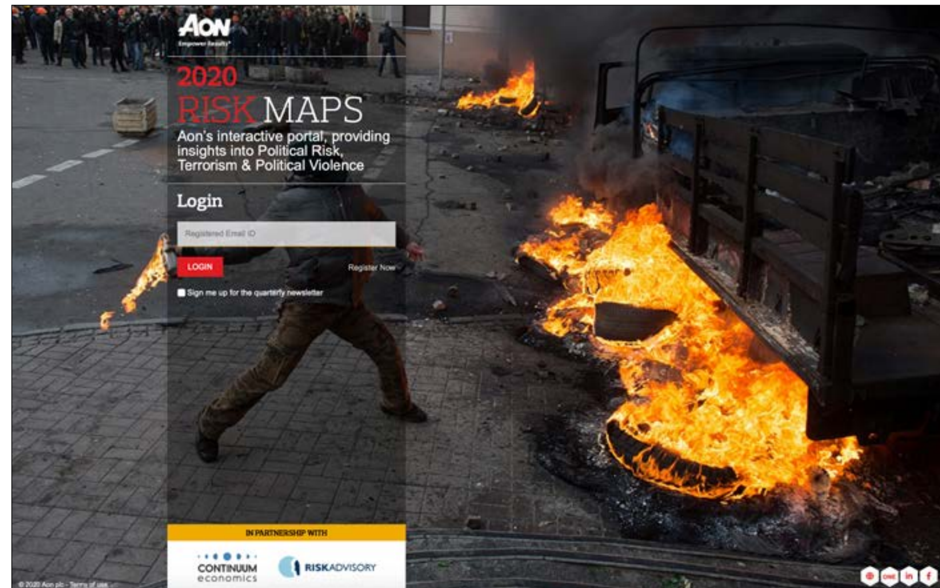
Supply Chain Disruption
The risk of disruption to the flow of goods and/or services into or out of a location as a result of political, social, economic or environmental instability.

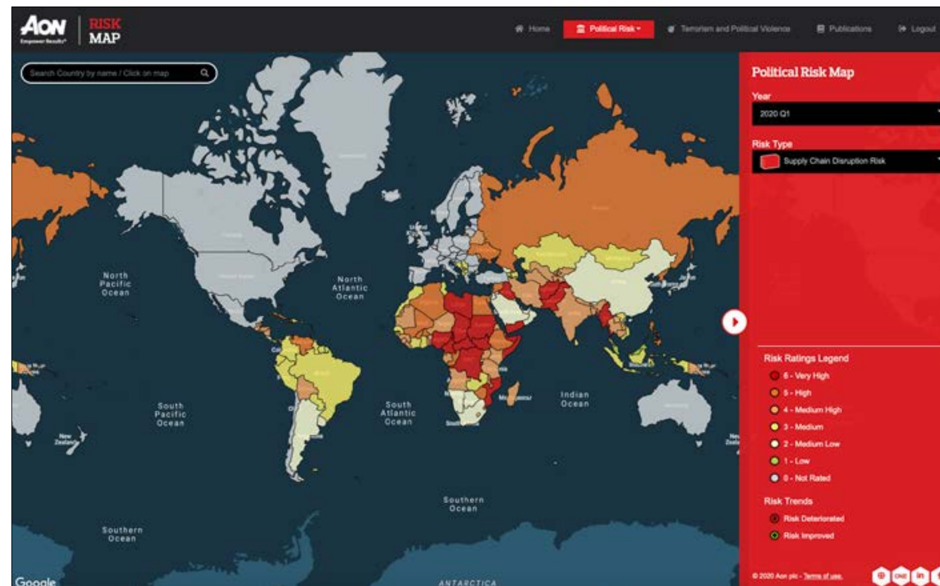
Legal and Regulatory Risk
The risk of financial or reputational loss as a result of difficulties in complying with a host location's laws, regulations or codes.

Map portal

Aon's Risk Maps portal is freely accessible to all those interested in the issues of political risk, terrorism and political violence and their potential impact on global operations.

Follow the link below to access the interactive website. https://www.riskmaps.aon.co.uk/





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To maximize the value of these insights, the Risk Maps can be accessed via:

A portal – to access an interactive map of risks for each country and generate tailored reports

A web page – to access key findings and videos, as well as the downloadable full report

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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About The Risk Advisory Group

The Aon Terrorism and Political Violence map represents detailed empirical and intelligence-based assessments on terrorism threats and political violence risks. The map has been produced in conjunction with The Risk Advisory Group since 2007.

The Risk Advisory Group is a leading, independent global risk management consultancy that helps businesses grow whilst protecting their people, their assets and their brands. By providing facts, intelligence and analysis, The Risk Advisory Group helps its clients negotiate complex and uncertain environments to choose the right opportunities, in the right markets, with the right partners.

For further information on The Risk Advisory Group, please visit **www.riskadvisory.com.**

About Continuum

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