POLITICAL RISK INSURANCE OVERVIEW FOR:

RIMS™
Golden Gate Chapter

01 What is it and why is it important?

02 Who uses it and why?

03 Who underwrites it and what does the current market look like?

04 Audience Q&A

January 19, 2023
City Club
San Francisco, CA

Gallagher
Insurance | Risk Management | Consulting

Global Structured Credit and Political Risk Team

Gallagher

Insurance | Risk Management | Consulting

What makes us different?

- Advisory & execution approach: advice crafted for competitive advantage to help our clients navigate complex market trends
- Experienced and diverse team with background in banking and insurance
- Knowledge and experience: (i) sectors: commodity, mining, telecoms, (ii) geographies: EM, Asia, developed markets, (iii) asset class: structured trade, asset backed, derivatives
- The diversity of our book gives us deep sector knowledge
- We do more than just transfer risk, we enable our clients to secure commercial opportunity.

Our NY, London, Stockholm, Dubai and AUS-NZ teams work closely across various sectors and have a strong team of

35

experienced specialists

Global representation with dedicated Structured Credit and Political Risk Insurance teams in 7 locations

Our brokers work alongside a dedicated claims team throughout a risk lifecycle, and our service is supported by an experienced risk consulting and analytics team

$1bn

Largest single policy placement made by our Structured Credit and Political Risk team

Team members with backgrounds in insurance, banking, corporate finance & public sector

Manage over

$2.6bn

of premium annually

All figures correct as at 31 December 2020.
Based on core Brokerage & Risk Management divisions' adjusted revenue for 12 month period.

Vantage Group

Jamie Brache, VP & Senior Underwriter

- Jamie Brache joins the **Vantage** Political Risk & Credit Insurance team as a Vice President and Senior Underwriter. He is passionate about using insurance to enable sustainable solutions to climate change. He is an international credit and finance leader with a 25-year track record. He brings extensive experience in the renewable sector. Most recently, he was an Insurance Programs Advisor to **New Energy Risk**—an MGA whose clients have unlocked over $2 billion for the development of new and renewable clean energy technologies.
- Formerly he was Deputy Global Head of **Zurich** Insurance's Credit and Political Risk group where he led teams of underwriters, in the US and London. He is experienced in renewable energy, infrastructure finance, trade finance and political risk underwriting.
- While Jamie has underwritten and financed transactions all over the world, his professional focus has been in Asia and Latin America. At the Overseas Private Investment Corporation (OPIC), now known as the **US International Development Finance Corporation (DFC)**, he underwrote for the Latin American team and later served as the Regional Manager for Asia and the Middle East where he and his team underwrote scores of power projects and other infrastructure projects. Jamie started his international career in Latin America, as a Peace Corps volunteer in Ecuador. He understands the cross-cultural issues that are key to getting deals done.
- Jamie holds a Master of Business Administration specializing in Public Management and International Finance from **Boston University** and a Bachelor of Arts degree in History and Latin American Studies from **Georgetown University** in Washington, DC.

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Political Risk & Credit Priorities

- ## GOVERNMENT AGENCIES
  - Public-private partnerships to share risks and expertise
  - Assisting in investment and development mandates
  - Multilateral Agencies, Export Credit Agencies, Development Institutions

- ## FINANCIAL INSTITUTIONS
  - Capital relief and exposure management
  - Able to deploy cover for complex, structured risks
  - Global Banks, Alternative Capital, Non-Bank Financial Institutions, Mobile Asset Financiers

- ## RENEWABLES & INFRASTRUCTURE
  - Infrastructure and project finance
  - Support for domestic and Int’l risks
  - Contractors, Infrastructure Developers

Credit and Political Risk Team

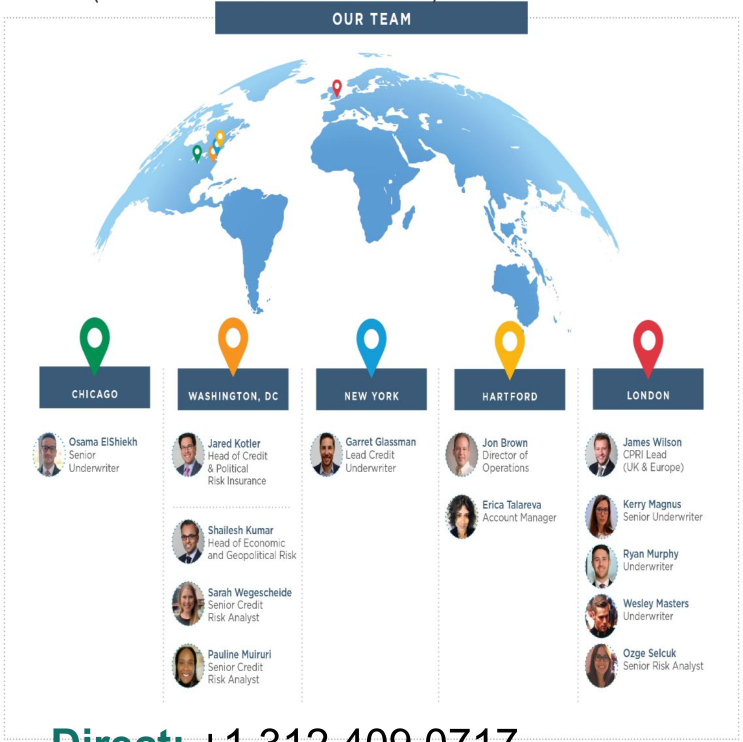
A Diverse Team with Experience in Government, Banking, Insurance (Both As Underwriters and Brokers) and Multilateral Financial Institutions

Snapshot on The Hartford' Credit and Political Risk Insurance Division:

- Leveraging on The Hartford's 200+ years of experience.
- Global team with diverse backgrounds, experiences and knowledge.
- Research-based approach to risk assessment.
- Nominated as one of the Best Trade Credit & Political Risk Insurance Underwriters for 2022 by Global Trade Review.

Osama Elshiekh, Senior Underwriter (Credit and Political Risk)

Osama is a Senior Underwriter based out of the Chicago office. Osama came to The Hartford after spending over 8 years at the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) where he was the Country Manager for the UAE. He brings in-depth experience in facilitating FDI and Trade for Emerging Markets. Osama has a BA in Accounting from the University of Medical Science and Technology and is a Chartered Financial Analyst Charterholder.



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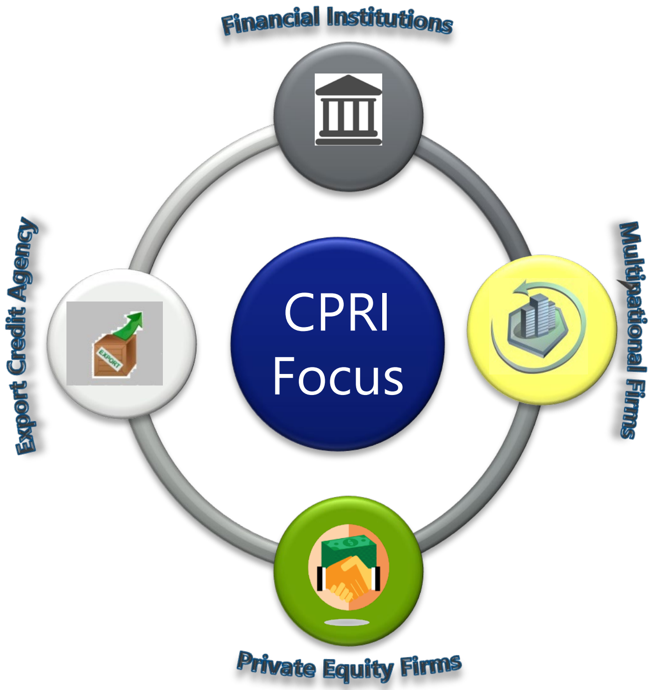
CPRI Vision



Give **Financial Institutions** a partner to help share the non-payment risk its Trade Finance divisions assume when lending to its largest clients located predominantly in emerging markets.

Help **Multinational Firms** remove some of the country risk, such as political violence risks, currency risks and business interruption risks, assumed when they invest in emerging market countries by providing best-in-class and bespoke insurance solutions.

Partner with **Private Equity Firms** to improve the risk profile of its large infrastructure investments in emerging markets.

Reinsure individual transactions for **Export Credit Agencies** around the world to relieve aggregate issues for these agencies.

What is Political Risk Insurance?

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PUBLIC & PRIVATE MARKET

Standard 4 point coverage

- Arbitration Award Default [Breach of Contract]
- Expropriation
- Currency Inconvertibility and/or Non-Transfer
- Political Violence, War and Civil War

+

Additional options

PUBLIC & PRIVATE MARKET

Offered coverage

- Non-honoring of Sovereign Obligation

PRIVATE MARKET ONLY

Additional coverage options:

- Licence Cancellation
- Selective Discrimination
- Forced Abandonment
- Forced Divestiture
- Import/Export Embargo

Enables Foreign Direct Investment into Emerging Markets

Products Offered by both Public and Private Markets

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Arbitration Award Default [Breach of Contract]	a dispute occurs under a contract leading to arbitration whereby an award is made in favor of the insured and the insured's counterparty fails to honor its obligations under the award
Expropriation	the host government expropriates, confiscates, nationalizes and/or takes other actions which deprive the Insured of all or part of its interest in an investment thereby preventing the Insured from carrying on normal business operations
Currency Inconvertibility and/or Non-transfer	the Insured is prevented or restricted from converting local currency to hard currency and/or remitting hard currency outside host country
Political Violence, War and Civil War	the cessation or disruption of the Insured's operations following physical loss or damage to a project resulting from rebellion, revolution, insurrection, riot, strike, civil commotion, sabotage, coup d'état, a malicious and/or terrorist act, war and/or civil war
Non-honoring of Sovereign Obligation	the Insured suffers a loss caused by the non-honoring of any payment obligations by sovereign, sub-sovereign, and/or state owned entities

Products Offered Exclusively by Private Market

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License Cancellation	a project is prevented from operating by the host government, either due to its cancellation or withdrawal of licences or concessions granted to the Insured or the implementation of any law having the same effect
Selective Discrimination	the host government imposes a law or import/export restriction which discriminates against the Insured but not locally owned entities with similar interest which prevents or restricts the operation of the project
Forced Abandonment	the Insured is advised by their own government to abandon a project following war, civil war, rebellion, revolution, insurrection, riot, strike, civil commotion, sabotage, coup d'état, a malicious and/or terrorist act
Forced Divestiture	the Insured is required by their own government to pull out of the host country – e.g. following a breakdown in relations between the insured's government and the host government
Import and Export Embargo	the host government prevents the Insured from either importing or exporting raw materials or finished product and/or services by the imposition of an embargo

Who can benefit from Political Risk Insurance?

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Companies with assets and investments in emerging markets

Multinationals with foreign subsidiaries

Private equity firms

Financial institutions

XYZ Co's Risk Factors Can Be Addressed

As noted in 10-K released 2/25/22:

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"We face special risks by doing business in international markets and developing markets, including currency and expropriation risks, which could increase our costs or reduce our revenues in these areas."

"Due to fluctuations in the insurance market, we may be unable to obtain and maintain our insurance coverages, and the insurance we obtain may not cover all risks we undertake. As a result, we may incur material uninsured or under-insured losses."

"We are exposed to trade credit risk in the ordinary course of our business activities."

Solar Power Project Finance use case

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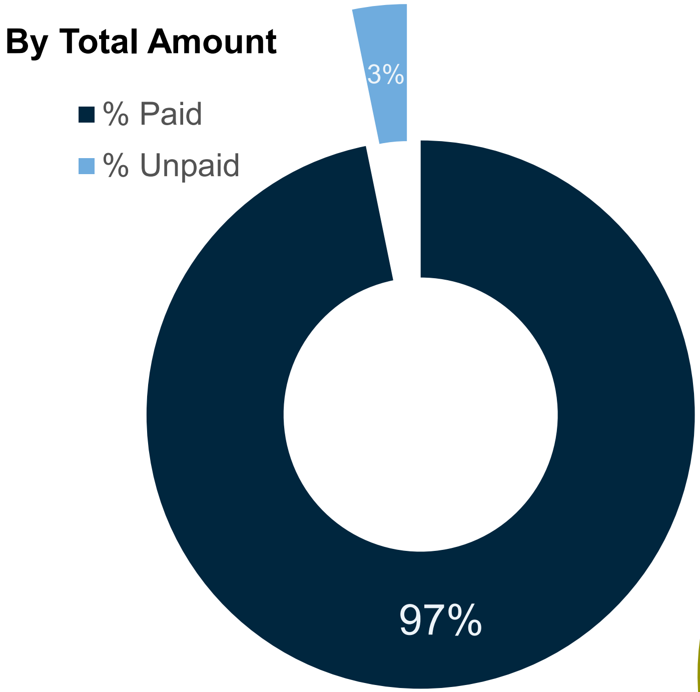
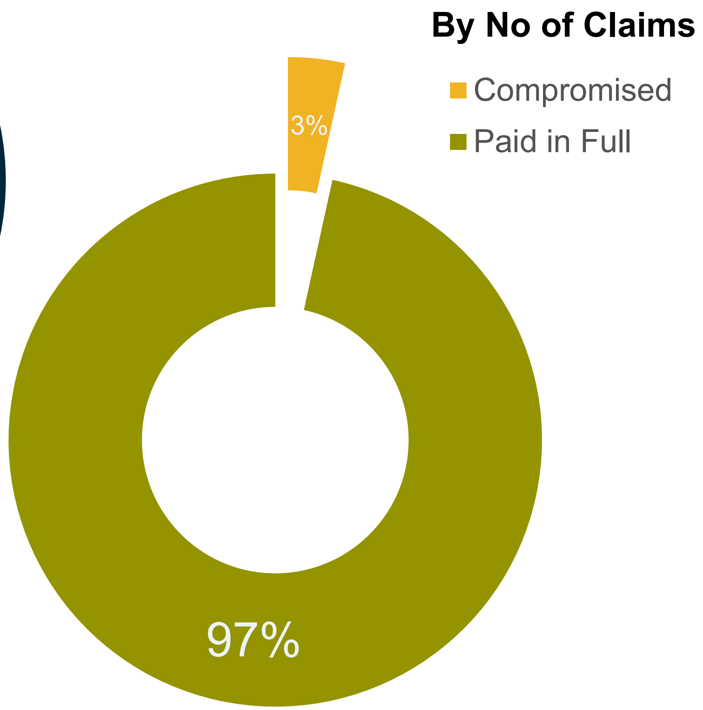
- Client building a solar power plant in Taiwan
- Equity investors concerned over escalating tensions with the PRC (war & expropriation) and wouldn't commit LP funds without PRI
- Equity investors exposure close to $40,000,000
- Structured policy with 100% indemnity on the expropriation, 10% retention on the political violence & war
- Structured a 5 year policy which steps in value with each year's reassessment of net asset value
- Pricing was 0.35% per annum!

Claims – Market Data 2007-2020

Comprehensive Non-Payment Claims by regulated financial entities 2007 – 2020	
Total Amount Claimed:	$ 3,753,470,551
Total Amount Paid:	$ 3,633,104,370
Total Claims:	578
Compromised Claims * **:	15





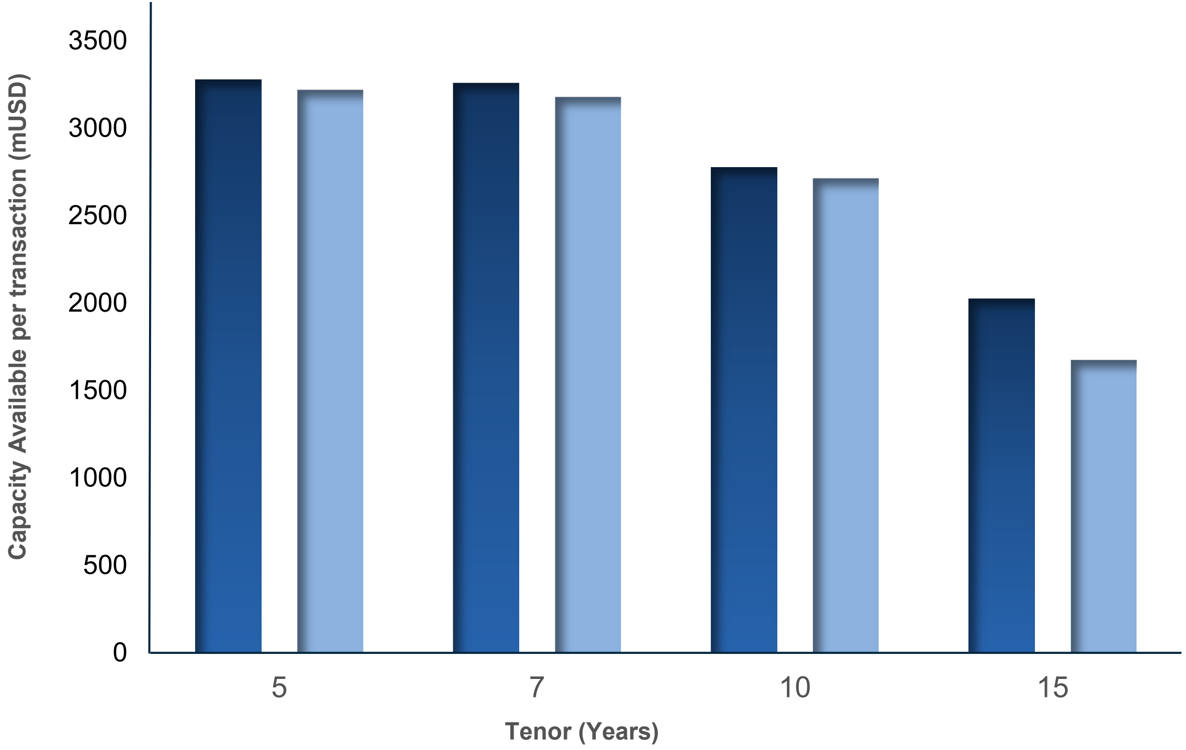
* of the compromised claims, 44% of the amount claimed was still paid to the insured as a result of settlements.

**of the compromised claims, for all 15, or 100%, the reason for the dispute/settlement was due to the non-fulfilment by the insured entity of an obligation or term under the policy within the Insured's control

Data supplied by the markets 8 leading CPRI brokers

Gallagher European Risk Services

Available Capacity in the Private Market (by tenor)



A few insurers will go beyond 15 years, but wider longer term private market participation often requires Multilateral/ECA support

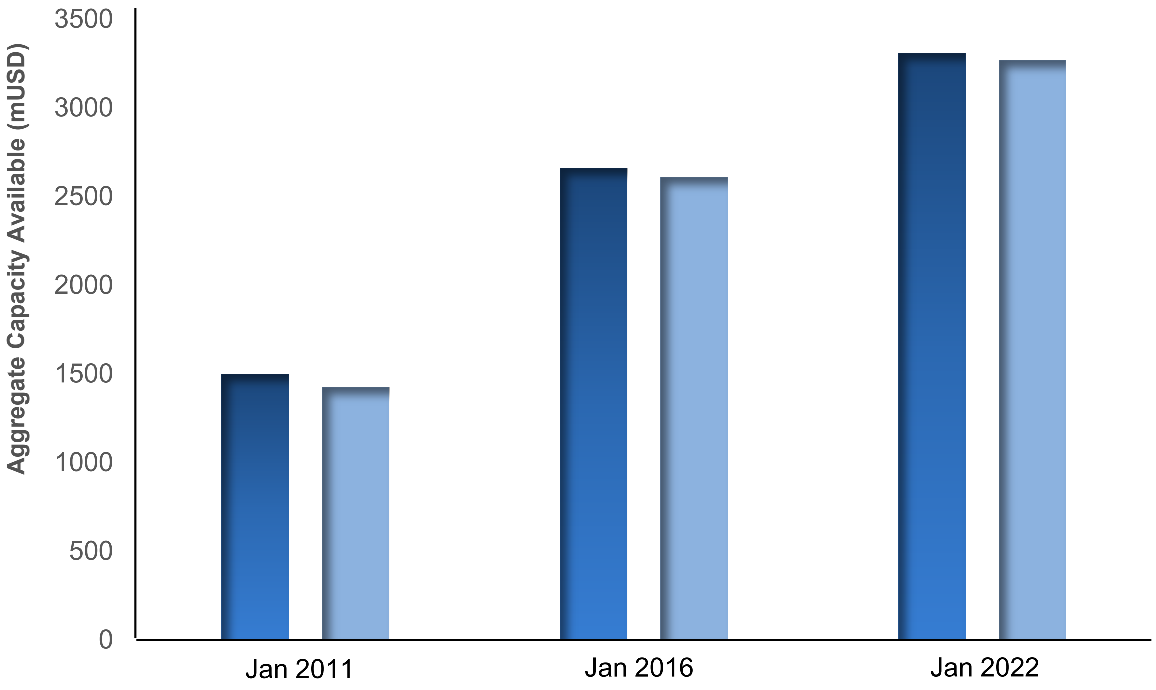
***Political Risk** capacity*

***Contract Frustration** capacity*

Source: Gallagher Jan 2022 Market Report

Private Market Capacity

10 years of Growth



Figures show the aggregate available capacity per transaction (mUSD) across the private insurance market for policy periods of more to 10 years

- ***Political Risk*** *capacity available for loss caused by government frustration and/or political perils including: expropriation, confiscation, nationalization, deprivation, forced abandonment, forced divestiture*

- ***Contract Frustration*** *capacity available for loss caused by non-payment where the Insured's trading counterparty is a government or sub-government entity*

Source: Gallagher Jan 2022 Market Report

The Private Market

Lloyd's: 33 Syndicates
All carry the Lloyd's S&P A+ / Fitch AA- / AM Best A rating

Companies: 19 individually rated companies

Rating Environment: Minimum rating of 'A-'

Rating Agencies: AM Best, Standard & Poor's, Moody's and Fitch

Insurers: Largely multi-line with a diverse product portfolio

Public Sector: Multilaterals and Export Credit Agencies

Multilaterals

World Bank	USA	African Development Bank	Islamic Development Bank

Export Credit Agencies

USA	Canada	UK	Australia

High Level MIGA vs. Private Market comparison

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MIGA

- World Bank Ownership
- Longer application period
- Longer decision timeframe
- Inflexible cover, terms and pricing
- Individual market
- Indemnity – 90% for all perils
- *Rapidly abandoning support for fossil fuels and other projects deemed “non-sustainable”*

Private Market

- Publicly or privately owned entities
- Shorter application period
- Shorter decision timeframe
- Flexible cover, terms and pricing
- 50+ insurers, highly competitive
- Indemnity – 100% for all perils excluding Currency Inconvertibility

Thank you!

Marc D. Wagman, Managing Director
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