



# **Aon Political Risk**

## **Political Risk Insurance and PPP**

**14 December 2004**

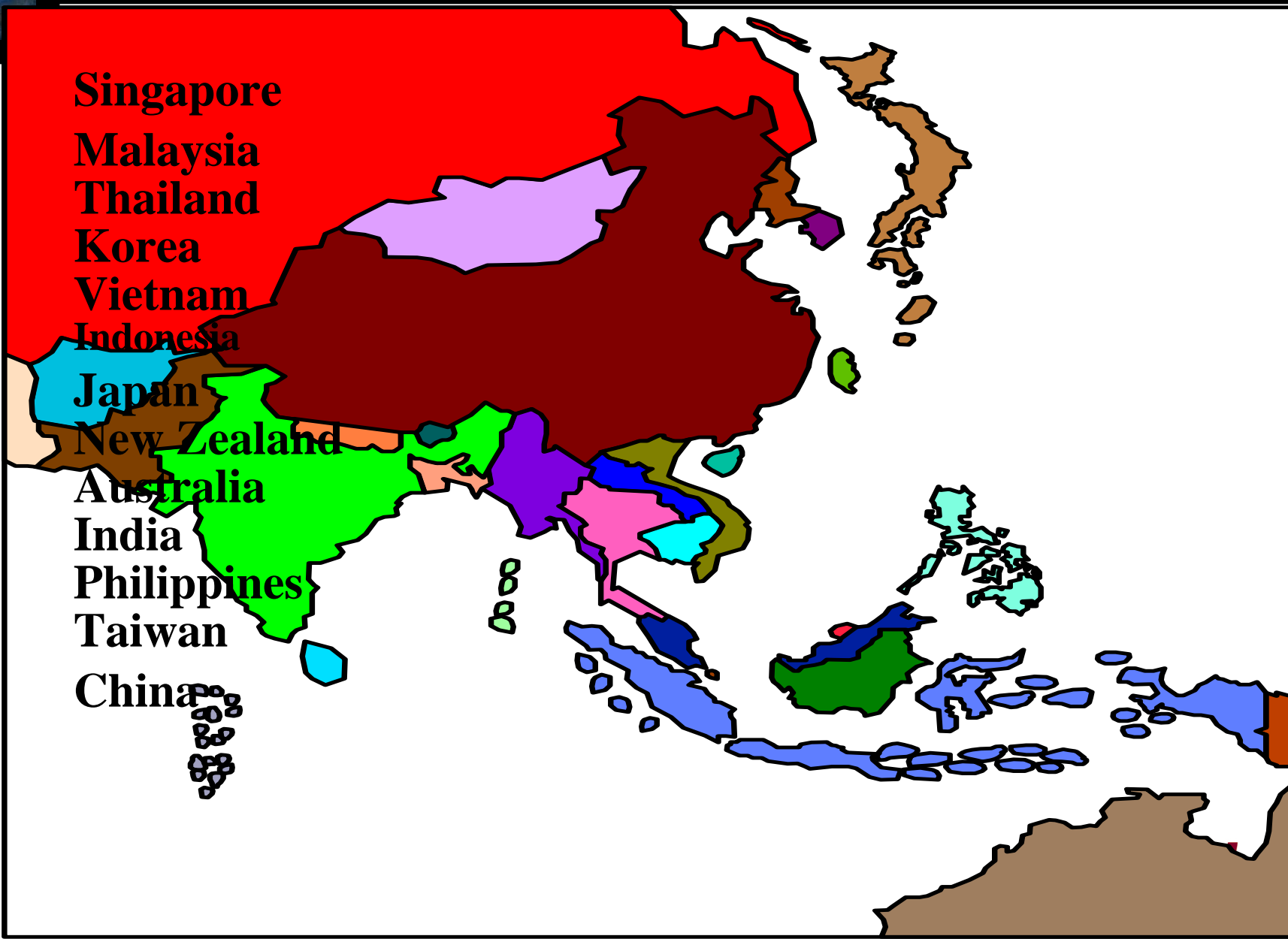


# Aon Trade Credit / Political Risk

- Aon is a “family of specialized brokers” following a merger of broking firms in 1994.
- Aon Corporation – HQ in Chicago / Rotterdam
- Listed in NYSE and London SX
- USD\$20Billion capitalization / Fortune 500
- Aon Trade Credit / Political Risk (Global)
  - 55 offices in 33 countries
  - 600 specialists in TCI and PRI
  - Handle USD\$700mm of premium



# Aon Trade Credit in Asia





# Features of Political Risk

- **Equity (Investment) Form**
  - Confiscation, Expropriation, and Nationalization
  - Currency Inconvertibility / Exchange Transfer
  - Cancellation of Import / Export Licence
  - Political Violence, War, Riots
- **Lenders (Bank) Form**
  - Non Payment as a result of a political event
- **Contract Frustration**
- **Breach of Contract / Arbitration Award Default**



# Commercial vs. Political Risk

- **Commercial / Sponsor Risk**
  - Poor performance of project assets
  - Bankrupt of principal offtaker
  - Fall in demand or over supply
  - Currency devaluation
- **Political Risk**
  - Government imposed restriction
  - Inconvertibility
  - Expropriation
  - Breach of Contract / Arbitration Award Default
  - Political Violence, War, Terrorism



# Political Risk and Project Finance

- **Basic Elements / Risk Sharing - 3P**
  - **Sound contract**
    - Business Plan / Financial Obligations
    - Social economic impact
    - Recourse (limited or otherwise)
  - **Bank participation**
    - Viability of the project and cash flow
    - Government support
    - Commercial viability
  - **Political Risk**
    - Public Insurers / Private Insurers
    - Capacity and capabilities
    - Indemnity vs. Guarantees



# Market Capacity / Capabilities

- **Lloyds Market Capacity**
  - Contract Frustration – USD\$200M
  - Confiscation – USD\$300M
  - Tenor of 3 year to 5 years
- **Private Market Capacity**
  - Contract Frustration – USD\$300M
  - Confiscation – USD\$500M
  - Longer tenor depending on individual treaties
- **Public Market Capacity** (ECA / Multilaterals)
  - Supportive of long tenor projects (esp. G2G)
  - Environmental / social economic issues
  - DD on the flow and use of funds



# Public Private Partnership at Work

## Case Study 1

- **Chinese / Indonesian Pulp Project**
  - USD\$700M / 10 years
  - China EXIM providing finance / taking the full commercial risk
  - Political Risk: Confiscation, Exchange Transfer
  - Environmental issues under discussion
  - Bridging cover layered over 5 - 10 years by private market.
  - Sinosure covering the gap
  - Multilateral participation in Y3





# Public Private Partnership at Work

## Case Study 2

- **Malaysia / Turkey Mass Housing Project**
  - G2G participation of USD\$500M / 7 years
  - Bank participation subject to PRI
  - Offtaker: TOKI (take or pay contract)
  - Political Risk Insurance: Contract Frustration
  - Private Market: USD\$200M / 5 years
  - Public Market: USD\$300M / 7 years.

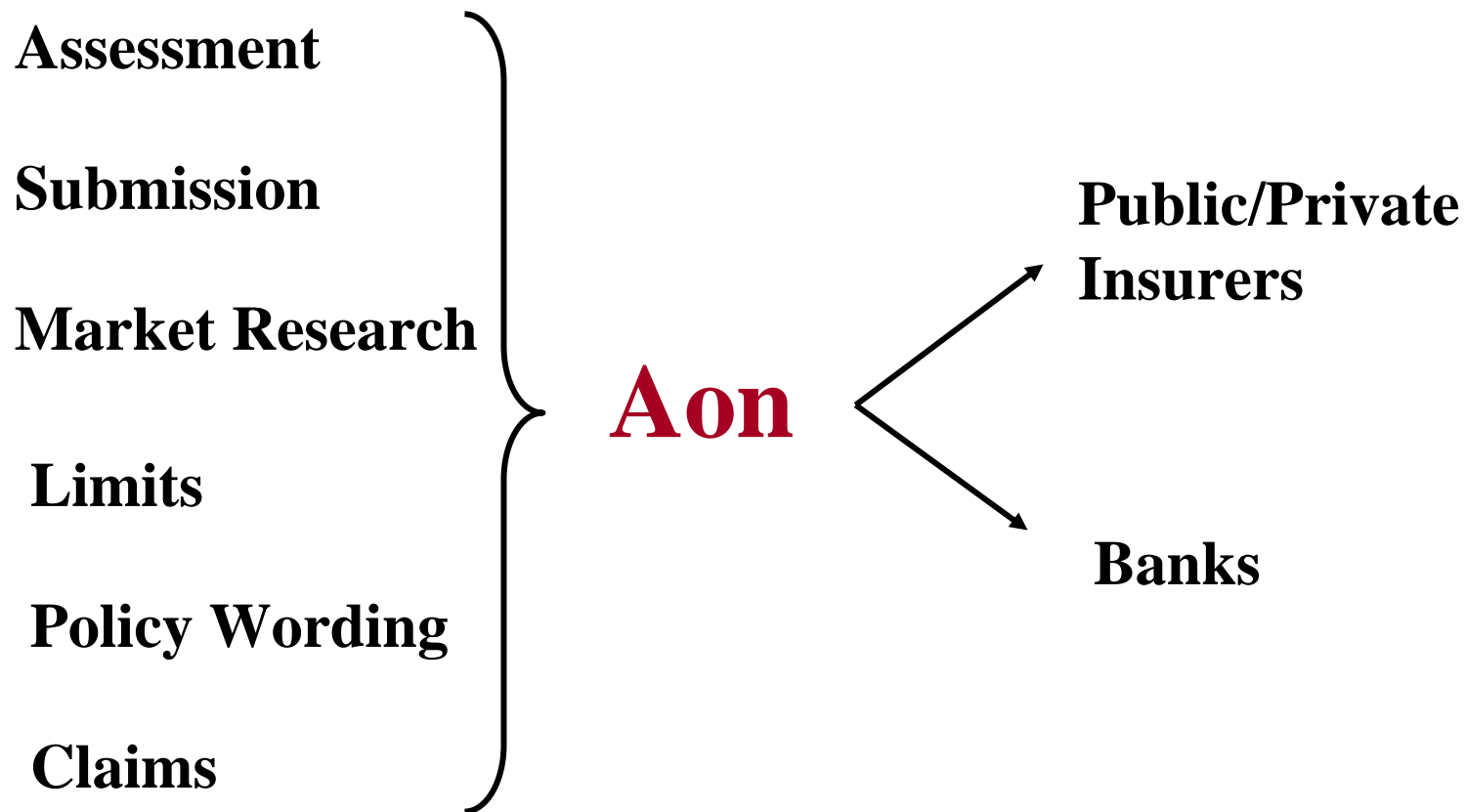


# Project Finance / 3P

- **Post Asian Financial Crisis in 97 has opened opportunities for risk mitigation instruments**
- **Chinese Wall (banks vs. insurance) is slowly crumbling – more opportunities.**
  - Indemnity vs. Guarantees
  - Waiting Period
- **Is there a GAP?**
  - Capacity and tenor
  - Counter Party Risk



# Aon's Role as Risk Architect





# What Aon aim to achieve?

- Blend of Innovation and Tradition
- Unlock capital
- Innovative solutions
- Provided you with depth of resources not available anywhere else from a single source.
- Ability to bring all participants together.



# Aon Political Risk

## Thank you!

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