

Political risk insurance Solutions for mining companies

The opportunities

Many emerging market countries are rich in mineral resources such as coal, gold, bauxite or copper, but lack the financial resources and technical expertise to efficiently and safely develop their mineral wealth. Consequently, governments are often eager to grant international mining companies long-term concessions in order to develop these mineral resources. Developing an ore body into a producing mine presents significant technological, logistical and financial risks, which mining companies are experienced at managing. Mining companies face the challenge of effectively managing the myriad political risks of developing a mine in an emerging market.

Mining companies at risk

While mining projects in emerging markets may offer enhanced opportunities, political risks increase as they become larger in scale and longer in life. Consider:

- Abrupt changes in a host government, or a host government's mindset, could lead entities or agencies to breach contracts, cancel concession agreements or expropriate a mining company's equipment or other assets.
- An act of war, civil strife, sabotage or terrorism could damage or destroy a mining company's equipment or other physical assets.
- A currency crisis could leave the mining company unable to convert currency or transfer it out of the country.

Political risk solutions for mining companies

Zurich customizes political risk insurance to help meet the needs of mining companies operating in emerging markets and the financial institutions financing these projects.

Mirroring the long-term commitments mining companies and lenders are making in emerging markets, Zurich provides a long-term commitment of its own: We extend political risk coverage terms up to 15 years, with capacity of up to \$150 million per transaction. Coverages can expressly address the significant political risks that go hand-in-hand with mining, providing:

- **Expropriation coverage** offers insurance protection in the event of confiscation, expropriation, nationalization and other acts by a host government that deprive a mining company of its fundamental rights to its venture, mined material, equipment or other assets and/or cause the lender financing the mine to face a loan default. "Creeping expropriation," a series of acts that ultimately have an expropriatory effect, and losses arising from breach of contract by the host government, or non-honoring of sovereign guarantees, can be included as well.
- **Political violence coverage** offers insurance protection in the event of losses resulting from damage or destruction of assets, or consequent business interruption losses resulting from asset damage, caused by political violence such as war, revolution, insurrection, civil unrest, terrorism and sabotage. Replacement cost compensation is provided for equity investments. Compensation for loans is calculated based on the amount in default as a result of political violence or business interruption.

Why Lenders Lose Too

When the fortunes of mining companies fall, their lenders suffer too.

The same risks faced by mining companies doing business in emerging markets threaten the financial institutions that provide long-term loans for these projects. Expropriation of assets, currency inconvertibility and other political risk-related losses can lead mining companies to default on their loans - and leave uninsured lenders with scant recourse.

Consequently, it has become standard practice for financial institutions to support long-term loans for mining projects in emerging markets with sound political risk insurance. Policies typically parallel the term of the loan and can be tailored for a particular project or portfolio.

- **Currency inconvertibility coverage** offers insurance protection to mining companies in the event of the inability to convert local currency to hard currency and repatriate converted currency and/or protects any offshore proceeds from sale of the ore. Consequently, coverage helps companies remit dividends, capital and other payments - including loan payments.

Other coverages available may include license cancellation, revocation of concession, export or import embargo, forced abandonment and contractor's comprehensive plant and equipment (CCPE).

Experience, strength and relationships

Zurich's experience, financial strength and relationships have made it a leading underwriter of political risk insurance for mining companies doing business in emerging markets.

Zurich's in-depth understanding of the dynamics of business in emerging markets enables us to develop products that address the needs of companies pursuing opportunities in developing economies.

Zurich is a member of the Berne Union, an international union of credit and investment insurers, as well as ICISA, an international association of trade credit insurers and surety bond providers. The relationships we have forged with private insurers, export credit agencies, multilateral organizations and

international banks may enhance the products we offer our customers. These collaborations may also elevate our ability to help mitigate losses for our clients.

Zurich holds ratings of AA- (negative) from Standard & Poor's and A (stable) from A.M. Best.* These strong financial ratings are central to our ability to help our customers feel more secure when conducting business in emerging markets.

*Ratings as of June 30, 2009. For more information about ratings and financial information about Zurich American Insurance Company, visit www.zurichna.com.

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Some coverages are available at additional cost.

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