



Surety, Credit and Political Risk

Emerging markets spotlight

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Surety, Credit and Political Risk: Emerging markets spotlight

Welcome to the inaugural edition of *Emerging markets spotlight*, a newsletter dedicated to Zurich producers of Credit and Political Risk business. The Trade Credit and Political Risk business is a dynamic one, particularly in our current economic climate. We are passionate about the business and know that you are, too, so we want to inform you of Zurich's substantial capabilities, our desire for the business and ways we can grow together. If you have items of interest for *Emerging markets spotlight*, please contact us and we will look to include those items in a future newsletter.

Jerry Haley

Customer and Distribution Management

President's message



We are excited about the launch of *Emerging markets spotlight* as a way for Zurich to share with you some of the people, product information

and trends that make this business so interesting.

The global economic situation in the first half of 2009 has created numerous challenges for Credit and Political Risk

businesses. Nonetheless I am pleased to say that with your support and the commitment of our Zurich team across the globe we are on target to achieve another year of exciting growth and expansion. From a production perspective the key to success in 2009 has been our global expansion program, where we have worked hard to grow our footprint and get closer to our brokers and customers. Profitability has remained strong despite the impact of the credit crisis. While working to meet our customers' needs we have heightened the emphasis on rigorous risk management and underwriting selection to adapt to changing risk conditions in the market.

While it is difficult to forecast with certainty what the second half of 2009 will bring, I remain confident that Zurich has a great team in place across the globe to help you meet the Political Risk and Trade Credit insurance needs of our customers. Thank you for your continued support of Zurich.

Dan Riordan

Zurich Surety, Credit and Political Risk overview

In 2008 Zurich combined two separate businesses into one and formed the Zurich

Surety, Credit and Political Risk business unit. The Credit and Political Risk team, formerly known as Emerging Markets Solutions, is a global network based in Washington, DC with offices in New York, Miami, London, Paris, Barcelona, Frankfurt, Zurich, Hong Kong, Beijing, Singapore, Tokyo and Sydney. Zurich is the leading global provider of Trade Credit and Political Risk insurance and delivers exceptional financial strength, market leading capacity and unparalleled responsiveness, innovation, and knowledge.

Credit and Political Risk segments

Zurich offers Trade Credit and Political Risk insurance programs to help customers confidently transact business worldwide. Zurich focuses on customers in the following segments:

- Banks and financial institutions
- Multinational corporations
- Construction companies and infrastructure developers
- Export credit agencies and multilateral agencies

Surety, Credit and Political Risk news

Frederic Louat has become chief underwriting officer for Greater China and South East Asia for Zurich's non-life business. He was global director for Trade Credit insurance before becoming Asia-Pacific regional manager. Many of you know Frederic and recognize his strong market knowledge and contributions to the success of the Credit and Political Risk group. Please join us in wishing Frederic continued success in his new role at Zurich.

Zurich's Surety, Credit and Political Risk group announced the appointment of **David H. Anderson** as regional manager for Asia-Pacific. In this role, Dave will direct business operations for the group throughout the region, continuing to expand the group's presence throughout Asia-Pacific. Anderson joined Zurich in August 2002. He most recently served as vice president and deputy regional manager – Asia-Pacific, where he established and developed Zurich Surety, Credit and Political Risk's Australian and Singapore offices and provided underwriting guidance to regional underwriters. Dave will be based in Hong Kong. Dan Riordan, president of Surety, Credit and Political Risk stated, "Through our offices in Beijing, Hong Kong, Singapore, Sydney and Tokyo, we have been creating closer ties to our customers throughout this region and David's role will reinforce our strategic expansion and commitment to this market. "

We are pleased to announce that **Richard Abizaid** of our Washington, DC office will transfer to Singapore and become part of our Asia-Pacific team. Richard will be charged with increasing our presence in the Singapore and the Southeast Asia

market. Richard joined Zurich in March 2008 from OPIC where he served as the Director of Eurasia.

Mike Bond, well known to many of you for his years of leadership in Credit and Political Risk at Zurich, has transitioned to a new role within the group. Mike is leading the expansion of the international surety strategy at Zurich with a particular emphasis on Latin America and Asia-Pacific. The need for surety products is growing globally and Zurich is well positioned to meet customers' needs for surety bonds. Mike said, "I am really excited about this new role because of the opportunities and challenges that exist for Zurich and our customers, but I will miss the Credit and Political Risk market as I enjoyed my experiences there."

Once again, *Trade Finance* magazine's readers have honored Zurich's Surety, Credit and Political Risk group with top awards in the publication's annual poll. For the eighth consecutive year the group was named "Best Private Insurer" and for the first time they have been named "Best Trade Insurer in Asia." Zurich accepted the awards at two awards dinners, one in *Trade Finance's* home base of London attended by **Paul Sanders, Lila Granda** and **Nuria Gorog**; and the other in Hong Kong attended by **David Anderson, Clive Mok, Ken Wu** and **Dennis Eucogco**. Thank you to all of our brokers and customers who recognize Zurich and we will continue to work every day to earn your trust and continued support.

Product focus: Non-Honoring

By Ed Moeller

Non-honoring insurance protects our customers against the non-honoring of payment obligations by sovereign, sub-sovereign and/or state-owned entities in emerging markets. The non-honoring policy covers sovereign obligations in the following forms:

- Direct Sovereign Obligation – The borrower is the sovereign federal government, usually the Ministry of Finance.
- Sovereign Guarantee - The sovereign federal government offers its guarantee on the contractual payment obligations of a government borrower. The borrower might be a government ministry below the Ministry of Finance, a state-owned enterprise (SOE) or other government entity. This structure is often used to enhance the overall creditworthiness of the transaction as compared to a direct loan to the borrower without a guarantee.
- Sub Sovereign Payment Obligation – The borrower is a sovereign entity but at a level below the Ministry of Finance, for example, a state, regional or municipal government or a lower level federal ministry. There is no higher level sovereign guarantee included in the structure.

- SOE Payment Obligation (State Owned Enterprise or State Owned Bank) – The borrower is a state-owned enterprise or state-owned bank, meaning that it is majority owned and/or controlled by the sovereign.

The following transactions are just a few examples of structures that Zurich can cover against non-honoring risks:

- A bank that lends money directly to Angola's Ministry of Finance to support a water project
- A construction firm with a payment obligation from Dominican Republic's Ministry of Health with a guarantee from the Ministry of Finance
- An exporter of drilling equipment with a payment obligation under a sales contract to a state-owned oil company
- A bank confirming a letter of credit issued by the State Bank of India

Each transaction is unique and requires varying levels of due diligence, structuring and risk mitigation. Some of the things we consider when underwriting a non-honoring transaction include economic, political and business trends, country ratings, transaction structure, strength of documentation and industry. Because of our broad market experience and global presence, Zurich's Credit and Political Risk team is highly adaptive and capable of evaluating complex transactions in emerging markets around the globe.

The global recession and subsequent downgrading of many countries have boosted demand for Zurich's Non-Honoring insurance as customers seek to mitigate country risk and manage exposure. Where banks have pulled back from riskier classes of business, the secured nature of export finance, along with historically low default rates, have encouraged banks to focus more on sovereign borrowers. These trends in the banking market, along with a reduction in bank syndications, have resulted in an increase in interest in buying Non-Honoring coverage from the insurance market. In addition to some of the trends in the banking market, foreign governments are increasing investments in large infrastructure and energy projects as they implement policies for sustainable growth to counter the current economic downturn. As governments seek financing overseas for such projects, new opportunities arise for banks and exporters, who may seek to mitigate their risk with insurance. Despite the challenging underwriting environment, Zurich continues to provide Non-Honoring insurance and other risk mitigating instruments tailored to meet the needs of our customers.

If you would like to learn more about Zurich's Non-Honoring insurance, please contact any one of our regional offices.

Country review: China

By Christa Watson

China has a sound external financial position with foreign exchange reserves of approximately \$2 trillion. According to the IMF, China accounted for a third of global expansion last year. China's GDP grew 7.9 percent in the second quarter of 2009 and it recently overtook Japan as the world's second-largest stock market by value.

The record \$585 billion government stimulus package has effectively boosted China's growth particularly through infrastructure investment, causing many to revise their annual outlook for the country upwards. The stimulus money is an effort to spur domestic demand, specifically in the retail and automotive sectors. Retail sales have grown 15 percent yoy in June while car sales grew 48 percent yoy in June, 18 percent yoy in 1H09.

As the government spends heavily on infrastructure, railways and power grids, imports for the first half of the year have been dominated mostly by commodities, as the government sought to take advantage of lower prices. Industrial output grew 10.7 percent in June yoy, growth this year coming from cement, steel products and motor vehicles. Crude steel production rose to a record in the first half of the year due to demand from builders and carmakers. Manufacturing has expanded for four months and is currently the biggest sector for FDI, followed by equipment, raw materials, transportation, retail and real estate.

Bank lending has also increased dramatically, encouraged by interest rate cuts and reserve requirements as the government has tried to promote economic growth. Banks have extended funding to borrowers in the belief that cash flow problems are short term and will reverse themselves as the economy recovers.

Other opportunities for investment lie in clean energy as China boosts subsidies for solar, wind and nuclear power. In 2008, China became the world's second largest wind market in terms of new capacity. According to the estimate by the U.S. Commerce Department, China's clean energy market could reach US\$186 billion in 2010 and US\$555 billion in 2020.

Experts agree that China's role in the world economy will continue to grow in importance. Zurich is well positioned and prepared to work with customers to help manage their political risk and trade credit risk in China.

Zurich provides Trade Credit insurance for carbon credit hydroelectric project

"Green" project designed to help meet growing demand for electricity in Chile

Zurich's Surety, Credit and Political Risk group recently completed an interesting program by providing Trade Credit insurance for a hydroelectric power plant in Chile. CQuest Capital, which is advancing funds to the project against delivery of carbon credits to be generated from the project, engaged Alliant Emerging Markets to develop an insurance program to mitigate the political and counterparty default risks in the transaction. The insurance solution, a Trade Credit insurance policy customized to meet CQuest Capital's specific requirements, was provided by Zurich.

The \$29-million Hidromaule S.A. project is a 19-megawatt run-of-the-river hydro electric project that will help address a growing need for electricity in Chile, reducing the country's reliance on imports and diesel generated power. The International Finance Corporation is providing nearly \$21.7 million in debt financing to the project.

The project is currently being registered by the Executive Board of the United Nations Framework Convention on Climate as a Clean Development Mechanism project. This qualifies it to sell Certified Emissions Reductions (CERs) under the Kyoto Protocol. It is anticipated that Hidromaule S.A. will generate 50,000 CERs annually from 2008 through 2012, generating an estimated nearly \$1 million in additional revenue to the project each year.

Under the Kyoto protocol – an international treaty created to reduce greenhouse gas (GHG) emissions linked to global warming – certain types of projects are eligible for carbon credits based on the level of greenhouse gases reduced. The protocol provides the means to monetize the environmental benefits of reducing GHGs and sell the emissions credits. Zurich's Trade Credit policy insures against the risk of non-payment following non-delivery of the anticipated CERs.

"We are pleased to be an integral part of this environmentally sensitive project," said Daniel Riordan, president of Zurich's Surety, Credit and Political Risk unit. "Zurich is committed to working with companies in emerging markets to support investment in alternative energy projects. Trade credit coverage offers a level of protection needed for private investors developing efficient power sources."

Zurich has established a market-focused global climate initiative to understand the emerging weather, financial and regulatory risks associated with climate change and to develop products and services that help customers cope with these risks.

The initiative associated with climate change has three main elements: an internal Climate Office responsible for developing and implementing Zurich's global climate change strategy; a Climate Change Advisory Council to advise Zurich's management on strategic and operational issues associated with climate change; and an Applied Research Program with organizations and institutions that can bring multi-disciplinary expertise to bear on the issues.

The Zurich team involved in the project included **Jamie Brache, Lila Granda, and Ed Coppola.**

Employee highlight

Emerging markets spotlight will take the opportunity to introduce you, or perhaps reintroduce you, to key members of the team who are involved in the management, underwriting and production of the Credit and Political Risk business here at Zurich.



Lila Granda

Senior vice president and regional manager for the Americas - Washington, D.C.

Lila Granda is responsible for the management and underwriting of Credit and Political Risk business in the Americas region of Zurich Surety, Credit and Political Risk. She assumed her current position in July of 2008. Lila joined Zurich in October 1999 as a senior underwriter and in 2001 was promoted to assistant vice president for political risk insurance. In 2004, Lila accepted a two-year assignment to manage Zurich Surety, Credit and Political Risk's office in Barcelona.

After returning to Washington in 2006, Lila was named vice president and deputy regional manager for the Americas. Prior to joining Zurich, Lila was regional manager for insurance for South America at the Overseas Private Investment Corporation (OPIC). At OPIC, Lila also served as a senior investment insurance officer and international economist.

Lila holds an M.B.A. and a B.A. from the University of Michigan.

Political Risk insurance

All Zurich political risk and trade credit insurance policies feature non-cancelable limits.

Expropriation (CEN)

Protects against confiscation, expropriation, nationalization and other acts by a host government that deprive investors of fundamental rights of ownership and control, including 'creeping expropriation'.

Political Violence (PV)

Protects physical assets and replaces lost income from damage caused by politically motivated violent acts, including war, revolution, insurrection, civil strife, sabotage and terrorism. Coverage can not be on a standalone basis.

Currency Inconvertibility (CI)

Protects against the inability to convert local currency to hard currency and repatriate converted currency.

Non-Honoring (NH)

Protects against non-payment of financial obligations of sovereign governments, state-owned enterprises (SOE) and other quasi-sovereign entities.

Arbitration Award Default (AAD):

Protects against the failure of a sovereign entity to honor an arbitration award issued against it pursuant to a specific contract related to the insured investment. Typically combined with coverage for CEN.

Contract Frustration - Pre Shipment and Post Shipment (Public Buyer):

Protects a supplier against the frustration of a contract with a buyer prior to shipment caused by named political risk perils and the failure of the buyer to make payments in respect of the completed shipments.

Contract Frustration - Pre Shipment (Private Buyer)

Protects the insured against costs incurred when the insured or the buyer is prevented from fulfilling its obligations under a contract as a result of specified perils, which can include: government law, order, decree or regulation, embargo, license cancellation and political violence.

Wrongful Calling

Provides protection when bonds (such as bid bonds, performance bonds, advance payment bonds or warranty bonds) posted by the insured in favor of a sovereign buyer to support the insured's contractual obligations are wrongfully called by the buyer.

Fair Calling

Provides protection when bonds posted by the insured to a sovereign buyer are called with cause by the buyer as a result of specified political events that cause the insured to default on its contractual obligations.

Comprehensive Contractors Plant Insurance (CCPE)

Protects the insured's assets (such as equipment and trucks) against a broad scope of perils, including expropriation, export license cancellation, embargo, forced abandonment and political violence.

Forced Abandonment

The insured is required by the insured's home government (by an official directive) to abandon a project as a result of certain kinds of political violence. Typically, this coverage is only applicable to equity interests.

License Cancellation

Protects the insured when licenses that are fundamental to the operation of a project are cancelled by the host government without cause, resulting in the termination of the project.

Non-Repossession

Protects the insured when specified political acts in the host country prevent the insured from exercising its contractual rights to repossess and re-export the insured assets, most commonly aircraft.

In the United States, insurance coverages underwritten by individual member companies of Zurich in North America, including Zurich American Insurance Company. Certain coverages not available in all states. Some coverages may be written on a nonadmitted basis through licensed surplus lines brokers. For information about the ratings of Zurich American Insurance Company, access the ratings section on www.zurichna.com. For more complete financial information about the Zurich Financial Services Group and ratings for Zurich Insurance Company, access www.zurich.com.

Trade Credit insurance

Single Debtor Trade

Non-payment coverage of trade receivables due to commercial or political events. Coverage is available for domestic or export sales.

Key Account (Multi-Debtor)

Non-payment coverage of trade related receivables due to commercial or political events. Coverage is available for domestic and export sales. These programs typically feature named account coverage for two to ten debtors.

Excess of Loss (Multi-Debtor)

Protection from losses associated with the non-payment of trade related receivables by the insured's customers due to commercial or political events. Coverage is available for both U.S. domestic and export sales. These programs typically feature a discretionary credit limit, deductible and non-qualifying loss.

Pre-Shipment Financing (Private Debtor)

Coverage for the non-delivery of pre-paid goods and subsequent non-return of the advance payment by the supplier due to commercial or political events.

Bank to Bank LC

Non-payment coverage for the confirmation or refinancing of letters of credit due to commercial or political events.

Buyer Credit

Coverage for loans made by a financial institution to importers supporting a trade transaction due to commercial or political events, e.g., loan made by an international bank located in the United States to an importer or heavy machinery in Brazil for the purchase of a specified number of machines.

Supplier Credit

Non-payment coverage for loans to suppliers for the purpose of trade finance.

Receivable Purchase Facility

Non-payment coverage for a financial institution discounting or buying corporate account receivables under a secured credit facility due to commercial or political events.

Structured Trade Finance

Non-payment coverage for pre-export financing involving repayment through export proceeds, asset-backed finance and other forms of secured lending.

Surety bonds

Contact Surety – North America

Performance and payment bonds for well qualified construction firms with surety program needs in North America.

Commercial Surety

License and Permit, Court Fiduciary and other miscellaneous surety obligations for Fortune 2,000 entities.

International Surety

Contract and commercial surety bonds for multinational firms based in Asia and Latin America that require large capacity surety programs in North America or internationally.

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