

Political risk insurance Solutions for the hospitality industry

The opportunities

As emerging markets work hard to lure business and tourism, the ability to offer Western-style accommodations makes their job significantly easier. Consequently, hospitality enterprises are finding their services in high demand. Many are expanding into developing economies, notably Asia, Central and Eastern Europe, and Latin America, where growth potential far outpaces that of developed markets.

Hospitality providers at risk

The high-growth opportunities of emerging markets, however, are often accompanied by high risks. Political risks are a grave concern; world events repeatedly underscore the dangers and volatility inherent in developing economies around the world.

The political risk exposures of hotel and resort chains can be unusually complex because of the numerous forms their interests in emerging markets take — from franchise-style ventures managed through local joint venture companies to direct equity investments. In addition, hotels and resorts are often heavily invested in management fees, contracts, goods and services, and brand support in the regions in which they operate. Any of these investments can be threatened by a wide range of politically-related perils. Consider:

- Political violence, including acts of war, terrorism, revolution, insurrection, riot, sabotage or civil disturbance, can damage or destroy properties and/or force hospitality providers to cease operation.

- Actions by, or changes in, the host government could render an enterprise unable to convert local currency or transfer currency out of the country.
- In-country assets could be confiscated or expropriated by the local government.

Many hotels and resorts previously self-insured these exposures. However, heightened global tensions, coupled with the availability of political risk programs that expressly address the potentially catastrophic exposures hospitality providers face in emerging regions, make it prudent to seek reliable, long-term political risk insurance instead.

Political risk solutions for the hospitality industry

Zurich tailors political risk insurance to meet the complex needs of hotel and resort enterprises in emerging markets. Our coverage allows a hospitality business to insure multiple forms of investment against a spectrum of political risks in each country in which it operates — all in a single policy.

This single-policy approach represents a significant advance over the alternative practice of securing political risk coverage country by country, with individual policies and coverage limits for each country. Rather, Zurich's approach enables a hotel or resort chain to manage its political risks in one comprehensive, cost-effective policy, with terms up to 15 years and capacity up to US \$150 million.

Coverages include:

- **Expropriation coverage** provides insurance protection in the event of confiscation, expropriation, nationalization and other acts by a host government that deprive a hospitality enterprise of the fundamental right to its investment. Coverage also extends to "creeping expropriation," a series of acts that have an expropriatory effect over time.
- **Political violence coverage** provides insurance protection in the event of losses resulting from damage or destruction of assets or the business interruption a hotel or resort suffers as a result of such damage as a terrorist act, war, revolution, insurrection, civil unrest or sabotage. Replacement cost compensation is provided for damaged assets. Compensation for loans is calculated based on the amount in default as a result of such damage or business interruption.

- **Currency inconvertibility coverage** provides insurance protection to hotels or resorts in the event of the inability to convert local currency to hard currency and repatriate converted currency. Consequently, coverage ensures the company's ability to remit dividends, capital and other payments — including loan payments.

Zurich's single political risk policy also markedly streamlines coverage administration.

Experience, strength and relationships

Our experience, financial strength and relationships have made Zurich a leading underwriter of political risk insurance for hospitality enterprises, investors, multinationals, infrastructure developers, exporters and international financial institutions 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. This, and other relationships we have forged with private insurers, export credit agencies, multilateral organizations and international banks, may enhance the products we offer our qualified 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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