

Political risk insurance Solutions for infrastructure developers and lenders

The opportunities

Many governments of emerging markets are turning to the private sector to finance, build and deliver essential services, including telecommunications, energy, transportation and water services.

Moreover, these governments are today demonstrating a new eagerness to hand over the reins of key infrastructure functions entirely, enabling private investors to develop and operate vital entities for 10, 20 or even 30 years. Consequently, private sector builders and contractors are responding with a vigor not seen since the early 1990s to seize opportunities in developing regions, most notably in Asia, Central and Eastern Europe, and Latin America.

Developers at risk

While offering enhanced opportunities, these projects also come with formidable political risks as infrastructure developers take on larger-scale and longer-term roles in projects. Consider:

- Abrupt changes in a host government, or a host government's mindset, can lead entities or agencies to breach contracts or expropriate a builder's or contractor's equipment and other assets in a developing market.
- The unlawful calling of guarantees and non-honoring of sovereign guarantees can cost an infrastructure developer its investment, in whole or in part.
- An act of war, civil strife, sabotage or terrorism can damage or destroy a developer's equipment or other physical assets.
- A currency crisis can leave the infrastructure developer unable to convert currency or transfer it out of the country.

Political risk solutions for infrastructure developers and lenders

Zurich customizes political risk insurance to help meet the needs of infrastructure developers operating in emerging markets and the financial institutions financing this development.

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

- **Expropriation coverage** offers insurance protection in the event of confiscation, expropriation, nationalization and other acts by a host government that deprive an infrastructure developer of the fundamental rights to its equipment or other assets and/or cause the lender financing development 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 business interruption 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 damages.
- **Currency inconvertibility coverage** offers insurance protection to infrastructure developers in the event of the inability to convert local currency to hard currency and repatriate converted currency. Consequently, coverage ensures the infrastructure developer's ability to remit dividends, capital and other payments — including loan payments.
- **Wrongful calling of bonds coverage** offers insurance protection if a contractor operating in an emerging market is subject to the unlawful calling of various types of guarantees, such as bid and performance bonds.

Coverages for capital markets bond issues, mobile assets and leasing are also available.

Why lenders lose too

When the fortunes of private infrastructure developers fall, their lenders suffer too.

The same risks faced by the contractors and builders developing infrastructure in emerging markets threaten the financial institutions that provide long-term loans for these endeavors. Expropriation of assets, currency inconvertibility, non-honoring of guarantees and other political risk-related losses can lead infrastructure developers to default on their loans — and leave uninsured lenders with scant recourse.

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

Experience, strength and relationships

Our experience, financial strength and relationships have made Zurich a leading underwriter of political risk insurance for infrastructure developers, multinationals, investors, 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. The 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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Some coverages are available at additional cost.

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