



# Surety, Credit and Political Risk

Emerging markets spotlight

## Surety, Credit and Political Risk: *Emerging markets spotlight*

### Issue 2 Spring 2010

Also in this issue

Dan Riordan named president of Specialty Products

Mike Bond to lead International Surety, Credit and Political Risk

Surety, Credit and Political Risk news

Product focus:  
Contract Frustration

Zurich announces alliance with KEIC

Zurich Excess of Loss team

Employee highlight:  
Nuria Gorog

Welcome to the spring edition of *Emerging markets spotlight*, a newsletter dedicated to Zurich producers of Credit and Political Risk business. The year 2009 presented serious challenges in the credit and political risk insurance world and Zurich was no exception. Zurich paid claims in 2009 as a result of the credit crisis, but we were again able to demonstrate to our customers and brokers that a political risk or credit insurance policy with Zurich really does deliver when it matters. Zurich's financial position is very strong, with a surplus of \$29.7 billion at the end of 2009, and **S&P** recently revised Zurich's rating to **AA-stable**. Thank you for your continued support and we look forward to growing with you in 2010.

*Jerry Haley,  
Customer and Distribution Management*

### Dan Riordan named president of Specialty Products



Zurich has named **Daniel W. Riordan**

president of its North America Commercial Specialty Products business unit. Riordan most recently served as head of Zurich's Surety, Credit and Political Risk group.

"Our Specialty Products business is an important part of Zurich in North America's overall portfolio of customer-focused products and services. We are confident Dan will be a strong leader of the Specialty Products business unit, as well as a key addition to the Zurich North America Commercial senior staff and Global Specialties leadership team," said **Mike Foley**, CEO of Zurich North America Commercial. "He has a proven track record of successfully growing each business he has led at Zurich and I look to him to continue this success with Specialty Products."

"It is a great honor being named to this position," Riordan said. "I look forward to building on the robust success of the Specialty Products business unit."

The Surety, Credit and Political Risk Group reports to the president of Specialty Products, so Dan will remain actively engaged in the Credit and Political Risk business.

### Mike Bond to head new International Surety, Credit and Political Risk group

**Mike Bond** has been named executive vice president of International Surety, Credit and Political Risk. He will be responsible for management of our Trade Credit insurance, Political Risk insurance and International Surety business.

He has been senior vice president International Surety since 2008, focusing on the expansion of Zurich North America Commercial's International Surety initiative. Mike stated, "I am excited to work again with my many friends and colleagues in Credit and Political Risk." He will report to Dan Riordan and will be a member of Specialty Products' senior leadership team.

Mike joined what was then Zurich's Emerging Markets Solutions in 1998 as a senior underwriter and was subsequently promoted to vice president for the group in Continental Europe. In 2005 he was named senior vice president and chief operating officer for the unit.

The existing Credit and Political Risk senior leadership team remains in place and consists of:

- Anne Marie Thurber**, Managing Director, Washington, D.C.
- Lila Granda**, Regional Manager, Americas, Washington, D.C.
- Paul Sanders**, Regional Manager, United Kingdom, London
- Nuria Gorog**, Regional Manager, Continental Europe, Paris
- Dave Anderson**, Regional Manager, Asia Pacific, Singapore
- John Pellew**, Manager Excess of Loss Credit, New York, NY
- Jerry Haley**, Customer and Distribution Management, Owings Mills, MD

## Surety, Credit and Political Risk news

In Asia Pacific, Zurich's Singapore office was bolstered by the relocation of **Richard Abizaid** from the Washington office and **Tim Warren** from the London office. They join **Dave Anderson**, regional manager for Asia-Pacific, making Singapore Zurich's largest office in Asia-Pac for credit and political risk. The wider Singaporean political risk and credit market is quickly gaining critical mass in terms of underwriters and brokers, and large placements have been achieved.

\* \* \*

**Lila Granda**, Regional Manager of the Americas team, announced that **Eric Jowett** has joined Zurich as a senior underwriter in the D.C.office. Eric comes to Zurich from OPIC, where he worked in the insurance and finance departments.

\* \* \*

Zurich is active in the political risk and credit insurance marketplace and is sponsoring the following conferences in 2010. Please plan to stop by and visit us at one of these industry events:

- Structured Trade and Export Finance in Asia, **Shanghai**, May
- Agency and Development Finance, **Washington, D.C.**, June
- Global Export Finance, **Europe**, October

\* \* \*

## 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**

## Product Focus – Contract Frustration

By **Nuria Gorog**

Emerging markets are key for capital goods exporters and contractors involved in strategic sectors such as power, water or transportation and globally for infrastructure developers. These markets represent excellent opportunities for profitable growth. However, commercial and political risks can jeopardize the execution of the international contracts and cause unexpected losses.

Zurich covers the failure of the contract to perform for the duration of the waiting period due to unilateral termination, non payment or non honoring of arbitration award by the buyer (public or private) when the obligor does not have the right to do so under the commercial contract. In addition, political risks as embargo, license cancellation and political violence are standard perils insured through Zurich's Contract Frustration Insurance (CF).

As an additional coverage, the unfair calling of bonds by a public beneficiary and linked to the commercial contracts (advance payment bonds, performance

*(continued on page 3)*

bonds, retention bonds) can be added to the CF protection. The call of the bonds due to political events is also covered under the policy.

When underwriting CF, Zurich pays special attention to the quality of the transaction documentation and to the experience of the insured in the country and with the obligor. Pricing depends on the country/obligor risk and the features of the transaction.

The limit of liability is set clearly in the policy and follows the estimated risk curve provided by the insured. This curve can be updated during the life span of the policy in order to match the real exposure and risk. The policy conditions are tailor-made in order to match each specific commercial contract.

The premium is calculated on the monthly, quarterly or semi-annual exposure depending on the structure of the risk curve. Compensation is evaluated as follows:

- In case of CF pre-shipment or before obtaining the provisional acceptance of the works by the buyer, compensation is based on the incurred cost by the Insured as detailed in the policy plus the lost profit amount up to 10 percent of the incurred costs.
- In case of CF post-shipment, where the insured has accomplished its contractual obligations, compensation is the amount invoiced plus the interest generated to the date of loss and other charges paid by the insured on the buyer's behalf as per the contract.

Zurich has recently covered among other contracts the following projects against Contract Frustration:

- Construction of two power plants in South Africa – USD 150 million line
- Construction of electric transmission lines in Bahrain – USD 28 million line
- Deliveries of equipment for nuclear power plants in China – USD 8,5 million line
- Construction of water plants in several countries as Panama, United Arab Emirates, Egypt, Saudi Arabia - several millions USD related to different contracts

Zurich CF capacities per contract are the largest in the private market : up to USD 150 million for a tenor of up to 15 years in the case of public buyers and USD 50 million and for a tenor of up to seven years in case of private buyers.

*If you would like to learn more about Zurich's Contract Frustration Insurance, please contact any one of our regional offices.*

## Zurich announces alliance with Korea Export Insurance Corporation

### *Memorandum of Understanding supports Korean exports and investments in markets throughout the world*

Zurich has completed a Memorandum of Understanding (MOU) with the Korea Export Insurance Corporation (KEIC), a leading export insurance agency supported by the Ministry of Commerce, Industry and Energy of the Korean government. This MOU establishes a framework for a public/private collaboration that is anticipated to enhance opportunities for Korean investors, exporters and contractors and promote international trade in established and emerging markets across the world.

"Zurich's broad experience and capabilities, and KEIC's depth of knowledge on matters relating to export transactions make this a very effective public/private collaboration which strengthens the ability of both parties to serve the needs of companies operating in markets across the globe," said **Daniel Riordan**, president of Zurich's Specialty Products unit. "In this instance, Zurich's ability to support KEIC in political risk, credit insurance as well as surety bonds will enable it to support its Korean customers in a more meaningful way."

Under the terms of the MOU, Zurich and KEIC will work jointly to leverage and enhance existing political risk, export credit insurance and surety capabilities in order to better serve the needs of Korean investors, exporters and contractors. Zurich will provide reinsurance, co-insurance, and surety facilities in conjunction with KEIC to help facilitate international trade and manage the risks associated with these transactions.

"Korean companies continue to expand their investments and operations in international markets," said KEIC President **Ryu Chang-moo**. "This MOU with Zurich enables KEIC to fulfill our mission to support Korean exports, overseas investment, and other overseas business activities".

## Zurich Excess of Loss team completes exciting first year

Zurich first entered the Political Risk and Credit insurance market in late 1997 with the goal to become the leading insurer in our chosen markets. Since then we are proud to have become the leading global private provider of political risk and trade credit insurance. The Zurich strategy has always been focused on customers and how we can help customers manage their risks with political risk and credit insurance solutions. A key part of that strategy has been to grow on a geographic focus and a product line focus.

Two years ago customers and brokers asked Zurich to expand our capabilities to include Excess of Loss Credit insurance solutions, so in late 2008 we initiated our Excess of Loss expansion strategy. Based on what you told us, the strategy included delivering the Zurich financial strength, securing the right talent to lead the initiative, building the right product platform and delivering those products in a way that meets customers' needs. We are delighted to report substantial progress in all of these key areas.

The Zurich Excess of Loss team was created and staffed based in New York. The team is led by **John Pellew**, an industry veteran with the product know-how and knowledge of customers' needs that is essential in the marketplace. John commented, "As we developed our products we made certain to listen to our customers and brokers along the way. It has been an exciting and challenging process."

The team includes **Jennifer Tran** who joined Zurich in 2008 as senior underwriter along with John to help lead the initiative. **Todd Lynady** started with the team in September, 2009 in a senior underwriting position, moving from his role as business development manager. Now in the first quarter of 2010 two new members have joined, **Tom Constantine**, underwriting specialist, and **Francesca Vanasco**, Trade Credit underwriter. John Pellew stated, "I am delighted with the quality and capabilities of our Excess of Loss team. They are customer focused and extremely capable."

A start up organization has much work to do to establish itself in the competitive insurance marketplace. The 2009 year was vital as we implemented our strategies.

Due to your strong support, the Zurich Excess of Loss group produced premium results that exceeded our expectations.

One item that many of you have asked for is an **admitted credit insurance product**. We are pleased to report much progress has been made and Zurich now has the excess of loss credit insurance product filed and approved in 21 states (see the list below). Continued work will follow to secure admitted status in all 50 states. We will update you periodically with updates to this list.

Arizona	North Carolina
Connecticut	Ohio
Delaware	Oregon
Illinois	Pennsylvania
Indiana	Rhode Island
Kansas	South Carolina
Kentucky	Texas
Maryland	Washington
Massachusetts	West Virginia
New Jersey	Wisconsin
New York (free trade zone)	

### Employee highlight

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

#### **Nuria Gorog**

Vice President and Regional Manager for Continental Europe – Paris

**Nuria Gorog** joined Zurich Surety, Credit and Political Risk in January 2007 as vice president and regional manager for Continental Europe. She manages a team of underwriters located in Paris, Barcelona, Frankfurt and Zurich. Prior to joining Zurich, Nuria served a chief underwriting manager, Continental Europe and Americas, for Unistrat Coface. Previously, Nuria was business development manager, political risk and insurance credit, in the in-house insurance broker of Natixis (Cauri).



## 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](http://www.zurichna.com). For more complete financial information about the Zurich Financial Services Group and ratings for Zurich Insurance Company, access [www.zurich.com](http://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, i.e. 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 who require large capacity surety programs in North America or internationally.

## Contact Information

**Mike Bond**, Executive Vice President, International Surety, Credit and Political Risk, Washington, DC, +1 (202) 585-3101, Michael.bond@zurich.com

**Anne Marie Thurber**, Managing Director, Washington, DC, +1 (202) 585-3104, annemarie.thurber@zurich.com

**Lila Granda**, Regional Manager, Americas, Washington, DC, +1 (202) 585-3112, lila.granda@zurich.com

**Paul Sanders**, Regional Manager, United Kingdom, London, +44 207 648 3085, paul.sanders@zurich.com

**Nuria Gorog**, Regional Manager, Continental Europe, Paris, +33 155 90 4514, nuria.gorog@zurich.com

**Dave Anderson**, Regional Manager, Asia Pacific, Singapore, +65 6236 2453, david.anderson@zurich.com

**John Pellew**, Manager Excess of Loss Credit, New York, NY, +1 (212) 553 5348, john.pellew@zurich.com

**Jerry Haley**, Customer and Distribution Management, Owings Mills, MD, +1 (410) 559-8723, gerald.haley@zurichna.com