

political risk insurance newsletter

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A Closer Look Inside the World of Political Risk Advisers

The community of political risk advisers is large and diverse. Its scope is not limited to perils typically covered by political risk insurers, and many advisory firms offer services that address business risks that have nothing directly to do with politics, like cybersecurity and fraud. Services and products also vary. Some firms are primarily monitors of global risk, but many offer bespoke analysis. Some are “hands-on” helpers when problems present themselves. In this edition we interview several representative firms about their services and their views that may be of interest to the political risk insurance and investment communities.

Inside: Maplecroft, with Charlotte Ingham

Charlotte Ingham is a Senior Political Risk Analyst at Maplecroft. Maplecroft’s risk analysis and mapping form a vital part of the risk management processes of multinational companies, financial institutions, governments and NGOs.

Q: What one fact that sets you apart from the competition would you like the market to know?

Charlotte Ingham (CI): Maplecroft’s risk analysis has its foundation in quantitative analysis. The indexing of key political, global, human rights, natural hazard and climate risks enables our clients to make highly informed decisions. A particular benefit of this approach is that it enables clients to make like-for-like comparisons when making business and investment deci-

sions, and to be able to put risks in the context of a company’s overall operations. With five years of data, we provide our clients with a detailed insight into recent trends. Our analysts use this data to ground their qualitative analysis.

Q: You take a comprehensive approach to the world of risk. Is there a benefit from this to the investor or underwriter who is primarily interested in political risk? Put another way, do you find, for example, that natural hazard risks and political risks are sometimes correlated?

CI: Maplecroft assesses natural hazard risk by examining the risk of an event, economic exposure to any such event and, crucially, levels of socio-economic resilience. Exposure to natural hazards

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Inside: Control Risks, with Iain Donald

Iain Donald is the Senior Vice President and Americas Director, Global Analysis, at Control Risks, an independent, global risk consultancy specializing in helping organizations manage political, integrity and security risks in complex and hostile environments. Control Risks supports clients by providing strategic consultancy, expert analysis and in-depth investigations, handling sensitive political issues and providing practical on-the-ground protection and support.

Q: How much of what you do involves helping clients to avoid problems of political and security risks, versus coping with problems as they start to crop up? Will you take on a client who comes to you for help only when they are in serious trouble?

Iain Donald (ID): Control Risks advocates a pro-active stance towards risk management; i.e. that clients adopt an enterprise-wide risk management program, with robust country risk assessment and

due diligence performed before they advance into a new market or make changes to their business in existing markets. This obviously puts an organization on the strongest possible footing and can help to address many prevalent risks, however the world is a dynamic place, particularly in the complex emerging and frontier markets where many of our clients are investing and operating. Control Risks is frequently engaged by clients who for a variety of reasons find themselves in acute risk or crisis situations. With our large global clients we may simultaneously help them plan entry to a complex new market, while assisting the closedown of a business in another (with all of the varied risks this attracts), and addressing the crisis caused by hostile government intervention in yet another. While we seek to build close, trusted and pro-active relationships with all clients, we will certainly examine all ways of helping a new client that finds itself in serious trouble. In fact Con-

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Inside: GPRA Group, with Jeremy Davis

Jeremy Davis is the Managing Director of GPRA Group. The GPRA Group, based in New York City, provides micro political risk assessment and trade development services to multinational clients operating or planning to operate in emerging markets.

Q: What one fact that sets you apart from the competition would you like the market to know?

Jeremy Davis (JD): The GPRA Group is probably best known for its focus on micro political risks—that is to say a focus on firm-specific and location-specific issues. While country risk or sovereign risk assessments have their place, our clients generally find that most macro analysis is too generic to be actionable. Our experience is in assessing local matters that may increase a company's costs, inhibit its achievement of business objectives or limit its ability to carry out its strategies. Examples may include corruption, regulatory restrictions, supply chain interruptions, labor strife and other local political struggles. Our goal is to recommend and often help implement a course of action that will mitigate these kinds of risks.

Q: You utilize “semantic analysis and social media trending tools (sentiment analysis)” in your work. Can you explain that in layman’s terms?

JD: Semantic analysis refers to the ability to extract meaning from data. The vast amount of information that we receive from the field needs to be quickly analyzed, categorized and cross referenced with other information so that we can spot trends and develop insights that serve our client’s interests. Semantic software tools automate this process giving us the ability to build maps (or graphs or networks) linking documents to people, to companies, to places, to products, to events, to geographies, to... whatever.

Social media trending tools analyze content and intent using publicly available data from various social platforms. For example, Twitter and Facebook played a central role in the events leading up to the Arab Spring by quickly framing and disseminating the core message of dissent. Twitter trending tools were used to identify both the content of each message (sentiment analysis) as well as the context of each message via hashtags. This enables analysts to understand the relative importance and impact of each event on a minute-to-minute basis.

Q: Beyond the political risk categories underwriters typically insure against (currency convertibility, expropriation, political violence, and non-honoring of sovereign obligations), what are some other political risks that you try to focus investors’ attention on?

JD: Political risk extends to legal issues (e.g., the rule of law, the regulatory environment), social issues (e.g., education, poverty, crime), resource issues (e.g., water and logging rights) and economic issues (e.g., the influence of a grey/black market or protectionist measures). These can have a significant impact on the ability of a company to succeed in a given region.

Q: The best analysis is only valuable if it gets to the right people who know what to do with it. How can you be sure that is

happening?

JD: One of the ways that we address this issue is to offer training to top and mid-level executives and risk managers on how to absorb, interpret and use the information that we provide. Of course this has to be customized for each client in order to accommodate their experience levels, skills and expectations.

Q: What weight do you give to BITs and MITs when they are applicable to an investment decision?

JD: We do, of course, assess bilateral treaties to the extent that they affect our clients’ investment plans on matters of taxes, property rights, transparency of national laws, corruption, reform programs, dispute resolution, performance requirements or the movement of foreign personnel.

We are less concerned about multilateral investment treaties, as efforts to liberalize the international investment environment have largely failed to materialize. There is a perception among host countries that while MIT’s would benefit investors, they would provide little in return in the way of concessions or additional responsibilities.

Q: Supply chain risks are getting increasing attention. Do you see a trend toward pulling manufacturing back to home or nearby countries, or at least trimming the number of offshore suppliers, for economic or policy reasons?

JD: Rather than abandoning their global supply chain strategies, our clients are looking to mitigate those risks by taking steps that will lessen the likelihood that their supply chains will be disrupted. This includes increased due diligence of suppliers, greater attention to foreign regulatory issues and an increase in supply chain disruption and political risk insurance coverage.

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More about GPRA Group:

Our human networks gather local political, regulatory and business intelligence in developing regions of the world and analyze it in the context of the prevailing macro environment. We consult with local, regional and national leaders from business, government and civil society and apply a structured due diligence, assessment and monitoring process to anticipate in-country conditions. Our objective is to help our clients develop highly actionable plans to manage an array of political and commercial risks.

Customized services are available for:

- *Exporters, multinationals and foreign direct investors*
 - *Political and trade risk insurance providers*
 - *Financial institutions*
 - *Private investment groups*
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Inside: GPRA Group, with Jeremy Davis (cont'd)

Q: What sources of political risk or instability that are not in the daily press do you think investors should be thinking about?

JD: Climate change has become a major issue in the boardrooms of multinationals, and investors are increasingly requiring corporations to develop effective sustainability programs. In 2008, Goldman Sachs identified a potential global water shortage in the 21st century as a greater global risk than food shortages and depleted energy supplies. Only 1% of the earth's water is usable by humans and given population and climate pressures, there is a high correlation between this type of natural hazard and political risk. Water, for example, is a local product, meaning it is generally difficult to transport and needs to be used close to its source. Industries that

Only 1% of the earth's water is usable by humans and given population and climate pressures, there is a high correlation between this type of natural hazard and political risk.

use large amounts of water in the extraction or production process, like mining, need to engage with local civil society leaders on political and social issues that extend from access rights to labor rela-

tions. At the same time, policy issues around conservation and water quality frequently need to be addressed at the regional and national levels. In addition to water, food and energy, we also track risks stemming from environmental challenges in the forestry and fishing industries.

Q: Insurance against political violence typically tries to draw a line between acts that are "politically motivated" and those that have some other motivation, such as labor strife or theft. Some organizations that deem themselves "revolutionary" also seem to be involved in extortion, kidnapping, or other criminal activities. How would you draw the line?

JD: What counts is where the insurance company draws the line. We can try to negotiate how we would like it defined prior to the execution of the policy but we cannot predict the specific circumstances of each politically violent act before the fact. Our goal is to try to eliminate any gaps between what a commercial property policy would cover and what a PRI policy would cover. It would be unfair to see both carriers claiming an exclusion so we would have to go to bat for our client to bring it to some resolution and, hopefully, get that done by reasonable negotiation rather have to resort to arbitration.

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Inside: Maplecroft, with Charlotte Ingham (cont'd)

isn't correlated to political risk, as such events obviously occur independently. However, resilience to natural hazards is closely correlated to political risk, particularly issues such as governance, societal resilience (adaptive capacity, education and so forth). Countries with strong governance and high levels of societal resilience are able to "bounce back" much more quickly from natural hazard events. Furthermore, natural hazard events in countries with low resilience may exacerbate political risk trends, undermining the economy and regime stability for example.

Q: Beyond the political risk categories underwriters typically insure against (currency convertibility, expropriation, political violence, and non-honoring of sovereign obligations), what are some political risks that you try to focus investors' attention on?

CI: Governance risks, particularly with regard to corruption are a key risk for investors, particularly those based in the US and UK due to the Foreign Corrupt Practices Act and Bribery Act respectively. As such, we have developed a Corruption Risk Index, which assesses the frequency, duration, coverage and severity of incidents of corruption, as well as taking into account levels of impunity. In addition to immediate, dynamic political risks such as this we examine longer term, structural political risk factors which have implications for a country's long term growth potential such as infrastructure readiness, resource security and human rights risk.

Q: Investors who disregard environmental, social and govern-

[R]esilience to natural hazards is closely correlated to political risk ... natural hazard events in countries with low resilience may exacerbate political risk trends, undermining the economy and undermining regime stability ..."

ance issues may enjoy a short-term competitive advantage. Is there hard evidence that that advantage is likely to turn into a long-term disadvantage, or is good citizenship just a good idea for investors whose home governments and shareholders care about these things?

CI: Businesses that disregard environmental, social and governance (ESG) issues purely in order to win short-term gains will reduce their capacity for long-term value creation. Business actions that, for example, violate the internationally recognized rights of workers, flout anti-corruption laws or cause environmental harm are likely to result in significant economic, reputational and legal damage, each of which will have a substantial impact on a business's bottom line. Businesses are increasingly acknowledging the need to ensure that their actions are beneficial to all stakeholders in order to continue producing profits for shareholders in the long term. ESG risk analysis is a fundamental part of this process. Good corporate

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Inside: Control Risks, with Iain Donald (cont'd)

Control Risks finds its roots in exactly that kind of situation; we were founded in 1975 as a kidnap for ransom response consultancy.

Q: How much of your political risk analysis work is associated with investment in the planning stage?

ID: We estimate we do about half our work with clients who have already been invested or operating in a country for some time. Clients in this latter group have normally found that something significant in their risk profile has changed and feel the need for a complete evaluation of their business environment. It may be that something has changed in the political realm (for example, the arrival of a new government hostile to their interests) or that there are legislative or regulatory modifications in the wind that threaten profitability (for the extractive sectors the review of royalty regimes is often cause for concern). In other situations there may have been little material change in the political situation, but the client is altering the way they do business—perhaps through expansion, contraction, or a change in the business model—and this creates new risk exposures. Because Control Risks's specialist consulting practices operate in an integrated manner, globally, we are able to leverage investigative expertise alongside our political risk analysis, which affords us an ability to map our client's risk exposures to a high degree of detail at the local level, which is critical given some of the fluid frontier markets in which we operate.

Q: How can you make sure your advice gets to the right people in client firms?

ID: We are constantly working on improved ways to deliver our analysis to clients; the days of dropping an 80 page report on a client's desk and expecting it to be digested are long gone. In my experience not clarifying the preferred mode of receiving the analysis, as well as nature of the audience are the key means of "dissemination failure." Nowadays, even for long pieces of research and analysis, we offer clients at the very least a debrief (either web-based or in-person), and preferably a "risk workshop" to work through a structured process which maps the results of our analysis onto the client's business and translates into practical risk mitigation strategies. Many of our clients choose to retain us through our "PRIME" service, which enables them to engage directly with our analysts through the year on political risk matters of interest to them.

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Q: What sources of political risk or instability that are not in the daily press do you think investors should be thinking about? For example, are water rights or food scarcity things you think we should be tracking closely?

More about Control Risks:

Control Risks delivers a range of solutions to support clients in gaining insight into their risk profile, including:

Risk Consulting and Analysis. *Analysts work with clients in a highly tailored manner to define and quantify the specific macro and micro country risks they face.*

PRIME. *This retained advisory service provides insightful analysis of political developments in emerging markets, as well as flexible access to Control Risks' expert analysis team to help clients assess their political and business environment, often in emerging markets.*

Country Risk Forecast. *This is an online subscription product, which provides daily updates of political and security risk developments in some 200 countries worldwide.*

RiskMap. *This is a critical assessment, published annually, of the political and security issues that will challenge global organizations in the forthcoming year.*

ID: Yes, these are items of concern when taking a "futures" risk view out to say 2013, but I would not say they necessarily require weekly tracking; perhaps trends on an annual basis are useful to track. Specific geographies in which there are acute issues may warrant more frequent attention. We are also tracking the macro trends of global urbanization, the youth population bulge that will appear between now and 2030, and the potential for these to coincide with clusters of highly religious populations to create civil unrest in partly-governed city spaces out of the immediate governance view of national authorities. There is a correlation between incidences of civil unrest and areas of densely packed, youthful populations and indicators suggest this will increase.

Q: Do you play a role in helping a company deal with a threatened expropriation? Is there often a "back-channel" way to deal with such threats? Can you give us some examples?

ID: Yes we do. Supported by detailed micro-analysis of the manner in which an expropriation may take place in a given country and industry, we create specific corporate crisis management plans to govern responses to such a developing situation, as well as project or site-specific contingency plans aimed at safeguarding staff, assets, finances and corporate reputation. While expropriation events themselves are typically extremely hard to manage or influence, most successful strategies involve effective engagement with influential stakeholders. We help profile those through the use of intelligence, and design effective strategies by applying "power maps" that track patterns of influence.

Q: Can you give me some examples of how "hands-on" you are in dealing with physical and personnel security matters?

ID: We provide executive protection and security advisory/management services, to the highest standards and according to a

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Inside: Control Risks, with Iain Donald (cont'd)

consistent framework, globally. We are probably the "go-to" organization for practical risk management support in some of the world's most hostile and complex environments.

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Q: What is your relationship with the Kidnap and Ransom insurance market? How does that work?

ID: This is the origin of Control Risks. We were founded as a K&R response consultancy in 1975 and continue to provide these services globally through our partnership with the Hiscox syndicate at Lloyd's, for whom we are the exclusive responder on special risk policies.

Q: Political violence insurance policies exclude coverage when an insured or the foreign enterprise fails to take all reasonable measures to protect or preserve property. Do you think that the standard should be satisfied if a client and local managers take all measures pursuant to your advice about security?

ID: There are certain policies where our advice is written into the warranties, though this is obviously very much to the discretion of the underwriter. Irrespective of whether we have provided advice or not, I think the key word there is "reasonable": all companies should enshrine a culture of risk assessment and due diligence into their market entry and general operational processes; however, the required standard will vary greatly based on geography and the activity being pursued. ■

Inside: Maplecroft, with Charlotte Ingham (cont'd)

citizenship is not simply an issue of compliance—it is a way of doing business that can help to ensure sustainable value creation.

Good corporate citizenship is not simply an issue of compliance—it is a way of doing business that can help to ensure sustainable value creation.

Evidence of the way in which failure to observe good ESG practices may place companies at a long term disadvantage can be observed by examining the growing risk of resource nationalism. Companies with poor ESG records are particularly vulnerable to resource nationalism, increasing the likelihood that governments, often spurred by public pressure, will implement measures to recoup extra value from these activities. Central to managing the risk of resource nationalism is a company conducting itself in a manner which enables it to build a compelling narrative with a country's host government about the value that extractives investments create on multiple fronts, including tax revenue, job creation and regional development.

Q: Supply chain risks are getting increasing attention. Do you see a trend toward pulling manufacturing back to home or nearby countries, or at least trimming the number of offshore suppliers, for economic or policy reasons?

CI: There have been a number of headline cases—General Electric for example—reshoring some of their manufacturing activities in the US. The increasing cost of labor in countries such as China and Brazil is a central factor in this move. However, the majority of the multinationals involved in this process are only bringing back some

of their production, and their simultaneous expansion in other regions balances out the impact. Furthermore, to escape the persistent crisis in the eurozone, and the continuing slow recovery in the US, we see many companies looking out, not in, with key growth economies in South and Southeast Asia continuing to thrive, while Latin American economies also perform well. It is not simply a matter of companies seeking to benefit from cost advantages, but also turning their attention to the growing middle class which provides a key consumer base at a time when demand remains low in the West.

Q: In your political risk analysis, how far out do you try to look? Is that client-driven?

CI: As standard, we provide clients with short (within the next quarter), medium (18 months to 3 years) and long term forecasts. In bespoke reports, depending on the client's requirements, we tailor these outlooks to key concerns for their operations: for example, the lifecycle of an investment or project or the anticipated passing of new legislation. For particularly volatile circumstances, Maplecroft can undertake scenario planning to enable clients to navigate their way through opaque operating environments. ■

More about Maplecroft:

Our multi-award-winning Global Risks Portfolio combines expert analysis of risks at local, country, issue, and sector level, with rigorously researched quantitative risk indices and state-of-the-art mapping technology. These resources provide horizon scanning solutions that enable global organizations to identify and monitor the full range of extra-financial risks to their operations, supply chains, investments and assets.

Inside: Exclusive Analysis, with Simon Sole

Simon Sole is the Chief Executive Officer of Exclusive Analysis. Exclusive Analysis, recently acquired by IHS, is a specialist intelligence company that forecasts commercially relevant political and violent risks worldwide. Leveraging a unique global source network of over 1,000 human sources and a highly systemized intelligence methodology, Exclusive Analysis delivers accurate, decision-ready forecasts to business leaders across the world.

Q: What one fact that sets you apart from the competition would you like the market to know?

Simon Sole (SS): We forecast. These forecasts are precise and take a transparent position. We draw on our core methodologies for influence mapping, indicator identification, intelligence collection, qualitative forecasting for political risk, scenario analysis and modelling to deliver tailored solutions for clients' specific needs

Q: How much of your political risk analysis work is associated with investment in the planning stage, as opposed to existing ventures?

SS: Our analysis work is used at a variety of investment levels. We have been involved in the due diligence, initial country entry planning and scenario planning stages. Sometimes this analysis requires 5-10 year forecasts or even over the proposed lifetime of the project. Our bespoke work for existing ventures could include business continuity planning, strategic planning around potential regulatory or political risks changes such as elections or event violent risk assessments.

We draw on our core methodologies for influence mapping, indicator identification, intelligence collection, qualitative forecasting for political risk, scenario analysis and modelling to deliver tailored solutions for clients' specific needs.

Q: What does it mean when you say that your forecasts are "decision-ready"? Can you give an example? When you say that "forecasting is all we do" does that mean that you do not recommend courses of action to your clients?

SS: We do not recommend any course of action to our clients. We provide the information as an independent unbiased third party. It is up to the clients to make the business decisions. Unlike a think

More about Exclusive Analysis:

Since 2003, Exclusive Analysis has been at the forefront of developing cutting edge political risk forecasting methodologies, intelligence tools, and above all a unique team of global forecasters bound by a core ethos: Be Trusted and Be Right.

Foresight is a suite of customizable online political and violent risk forecasting products. Key features include a global database of over 500,000 risk relevant incidents and over 12,000 briefs reported against specific risk indicators; intelligence driven sub-sovereign risk scores that can be integrated with in-house systems and powerful geo-streaming and customizable risk types that reduce information overload.

tank, we have no political agenda either. Clients trust us as we are not trying to sell any other services, nor do we trade on our own accounts. Our independence allows us to access areas of intelligence that others cannot.

Our forecasts are aimed to provide actionable information for our clients. They are written in a concise, accessible language. Client should be able to read them and be informed enough to make a decision. That means we pay attention to how we phrase things. Terms like 'clash' or 'tension' do not provide clarity to a situation. We believe that the language of risk should be precise because that adds the most value for clients. We deliver precise forecasts to our clients and enable them to make important business-changing decisions. We take transparent positions rather than hedge our views.

For example: Egypt - CURRENCY RISKS - The IMF is unlikely to grant Egypt a loan before June 2013, without which there is a severe risk of uncontrolled currency depreciation.

Q: In the intelligence field, dissemination, not collection, collusion, or analysis, is often the greatest source of failure. In your experience as political risk advisors, is that also the case? How can you make sure your advice gets to the right people in client firms?

SS: We wholeheartedly agree. Dissemination = value. Our streaming facility, for instance, enables clients to select what they want to receive and when they want to receive it. Clients can use all of the advanced metadata in our online intelligence platform, the Foresight Suite, to create their own forward-looking intelligence updates, and to choose when they want to receive them. They are in control, and have full and transparent access to all of the advanced flagging we use.

There are also many means of dissemination. The market needs integrated solutions and that is what we provide. We map forward-looking intelligence. We enable clients to upload and visualize their assets and exposures in a mapping interface that has risk ratings for war, terrorism, civil unrest and overall political violence for every 500 square meters on the planet, and to interrogate geocoded analytical content at the same time. We maintain over 4000 dynamic metrics that can be embedded within in-house risk management systems and processes. Our forthcoming portfolio analytics application enables clients to perform instant analytics on an entire portfolio of assets in a browser.

Q: What are some indicators that tell you it is time for a client to simply shut down and flee from a site rather than try to maintain a defense against physical threats? Have there been cases where the security situation is so severe that you advised a client to close down operations and flee?

SS: We do not recommend any course of action to our clients. We provide the information as an independent unbiased third party, and our forecasts are clear, specific and actionable. We also scale the delivery of intelligence through asset-specific risk ratings and peril-specific metrics, in order to enable clients to assess our forward-looking intelligence against their own internal risk tolerance. But it is up to the clients to make the business decisions.

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Inside: Kroll Advisory Solutions, with Betsy Blumenthal

Betsy Blumenthal is the Senior Managing Director and San Francisco Office Head of Kroll Advisory Solutions. Kroll's clients include Fortune 500 companies, financial institutions, law firms, non-profits, academic institutions, and local, state and federal government agencies.

Q: When a client is proposing an international investment or transaction, what is the scope of your due diligence on their behalf?

Betsy Blumenthal (BB): Typically, a client retains Kroll to assist with pre-transaction research with a focus on information that falls outside of the scope of accountants, bankers and lawyers: the backgrounds of management and other key executives, potential business issues such as Foreign Corrupt Practices Act (FCPA) exposure, or an independent read on key customers. We also help clients who are contemplating new market entry and need to understand local laws and customs in order to assess the potential for bribery and corruption risk.

Q: Same question, but with respect to their existing investments.

BB: When Kroll is asked to look at existing investments, it is usually because a potential issue has been brought to the attention of our client. For instance, we may be asked to help a client understand the risk associated with a large volume of vendor relationships. We also offer programmatic diligence and compliance products that allow our clients to understand the risk profiles of their third party relationships and identify those that may require some level of due diligence. Or it could be that new legislation puts the spot light on certain issues such as FCPA and the client needs to look at existing investments.

Q: Beyond what underwriters' typically insure against, what are some "political risks" that you try to focus investors' attention on?

BB: Human capital, labor unrest, corruption in general.

...we have an increased number of clients in China and India retaining us to look at westerners. The issues remain the same...

Q: Are there some political risks that investors going overseas tend to neglect, or to put it differently, that often don't get sufficient attention?

BB: If the client is not worldly, they will make assumptions about the business practices that should not be made. These may pertain to taxes, workers conditions and labor.

Q: Do you work for clients in "developing" countries investing in the United States or Europe? What are their major concerns?

BB: In the last 2 years we have noticed that we have an increased number of clients in China and India retaining us to look at westerners. The issues remain the same and I think the feeling is that while the culture, for instance, in the US is not notoriously corrupt, there are many corrupt business people and politicians.

More about Kroll Advisory Solutions:

Our team is a unique, market-leading mix of investigators, investigative accountants, and cyber experts with experiences drawn from the law, law enforcement, intelligence, cyber security and journalism. Through offices in the world's major centers, Kroll provides dedicated resources needed to address even the most complicated, multi-jurisdictional information-gathering issue. We assist clients in making strategic decisions by uncovering facts and activities, past and present, that are critical to the success of a deal or the ongoing operations of a business.

Q: What can you do to help investors keep clear of FCPA problems in countries where corruption is endemic, or at least prevalent in their industries? Do you suggest specific ways for an investor to comply with the FCPA and still operate successfully in corrupt environments? For example?

BB: We do suggest that clients have robust, unambiguous compliance programs in place which include some level of due diligence on vendors. Practically speaking it is not reasonable to expect corporations to pay thousands of dollars to look at each vendor; however, it is reasonable to expect them to have given some thought to the risk and to do some level of research on the riskiest vendors/agents.

Q: Other than blatant misdeeds, what are some indicators that a prospective partner or counterparty may be unreliable or undesirable?

BB: If family members are employed by the company, if they change auditing firms often and if the firm is questionable. And if there is a lot of turnover in personnel.

Q: High performance goals can sometimes lead to employees cutting corners, lying, or worse, with adverse consequences for the company. Do you have advice for managers about setting goals for their overseas projects without inviting these kinds of problems?

BB: I would say the same applies to domestic US companies as to non-US companies, and that is to not set unreasonable goals and set people up for being dishonest.

Q: You help companies when they suspect wrongdoing within their own ranks. Do you also advise them how to avoid such situations, other than vetting hires from the outset?

BB: Yes, we do. The advice ranges from making sure that when employees are brought on they sign documents acknowledging the company's privacy policy to regular training and setting up a whistleblower hot line.

Q: Just how "hands-on" are you prepared to be in helping clients with threats to their facilities and personnel?

BB: We are 24/7 and are very responsive.

Q: Have there been cases where the security situation is so severe that you advised a client to close down operations and flee?

BB: Yes, recently in Mexico and Afghanistan. ■

Inside: Exclusive Analysis, with Simon Sole (cont'd)

Q: How do you know when a country's long-entrenched political order is about to crumble?

SS: Our analysts always try to see what we call "the red car." If someone is looking at a traffic jam, then they see lots of cars. By focusing on the entity, the traffic jam, many analysts miss the indicator of change hidden amongst the general noise. This indicator is what we have dubbed "the red car."

By making sure that analysts have resources such as sources on the ground, country and sector expertise as well as an understanding of not only one country but the region, our team has been able to pick out red cars around the world.

Our correct forecast in October 2010 that Mubarak would be ousted by civil unrest was something only Exclusive Analysis was saying at the time. It is because we were in the cafes of Cairo and not the palaces of Mubarak that we were able to arrive at this forecast. The MENA team was able to find the red car and therefore successfully forecast a long-entrenched political order about to crumble.

The idea that a given risk was 'impossible to see coming' tells us more about the analyst and the analysis community making the statement than about the risk.

Q: What are the hardest risks to see coming?

SS: To see something coming you have to make sure it is in your line of sight. The idea that a given risk was "impossible to see coming" tells us more about the analyst and the analysis community making the statement than about the risk. It tells us that they missed the indicator of change hidden amongst the general noise. That is why we focus on forecasting and dedicate our global intelligence infrastructure to identifying indicators of change. ■

Inside: GPRA Group, with Jeremy Davis (cont'd)

Q: "Forced Abandonment" insurance may hinge on the investor's home government requiring or advising that all of its nationals leave the country or region where the investment is located. Are there circumstances where evacuation is appropriate before or absent such formal instruction, and if so, what other standards might insurance policies employ to warrant abandonment?

JD: We don't believe that the standard for forced abandonment should be that the home government requires the evacuation or abandonment. Policies should respond when it becomes apparent to any reasonable person that the safety of the employees or nationals is seriously impaired or in question. Threats, whether expressed or implied, and whether resulting from international disputes or not may very well require the exercise of a "better safe than sorry" approach to evacuation. All such cases, for better or worse, are matters of judgment and such judgments may be at odds with the determination of the underwriter. But people on the ground in difficult environments don't have the luxury of deferring to someone else about their perceived danger. The investor will have to provide evidence that they felt imminent danger and the insurer should review the circumstances with a responsible view of the action taken—the evacuation. Unless it is apparent that the investor is simply handing over a problem to the insurance company be-

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cause they don't want to bother with a difficult but still tenable situation, the insurer should never deny coverage on a policy intended to protect lives when the abandonment resulted from the same motivations. ■

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