

POLITICAL RISK INSURANCE

The Willis logo is displayed in white text on a dark blue rectangular background.

ALERT

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www.willis.com

STRUCTURED TRADE CREDIT and POLITICAL RISK ALERT

MARKET UPDATES

CHUBB WITHDRAWS FROM MARKET

Carrier cites focus on core property and casualty business

After more than a decade as a leading underwriter of political risk and structured trade credit insurance, Chubb has advised that it has ceased writing these lines of business and will no longer accept new inquiries. The carrier will continue to service all existing transactions until expiration. Chubb policyholders should contact their Willis service team member with all questions regarding the transition process.

LANCASHIRE ASSIGNED S&P "A-" RATING, STABLE OUTLOOK

Strong operating results and capital adequacy highlighted

Standard & Poor's recently assigned its "A-" counterparty credit and financial strength rating to Lancashire Insurance Co. (UK) Ltd. and Lancashire Insurance Co. Ltd., together known as Lancashire. S&P cited the carrier's underwriting expertise and competitive position as part of its rationale for the upgrade.

Lancashire can offer a maximum line size of \$200M and tenor of 10 years for investment insurance and lender's form. Stand-alone war and/or terrorism coverage can also be underwritten for that amount, but with a maximum tenor of five years.

MARKEL INTERNATIONAL

FORMER ACE TRADE CREDIT TEAM BEGINS UNDERWRITING

Team will provide non-cancelable trade credit insurance and is looking to partner with large companies on excess of loss cover.

MARKETFORM INCREASES MAXIMUM LINE SIZE, TENOR

Increased line of \$20M per risk (from \$15M) for Contract Frustration/Political Risks and increase in tenor to five years (from three) for Trade Credit risks announced.



MARKET UPDATE - REINSURANCE

CAPACITY STEADY BUT PRICES RISE; RESTRICTIONS IMPOSED

Political Risk and Trade Credit reinsurance is generally written alongside Trade Credit and Surety Reinsurance, both of which have seen heavy losses. These losses in all three parts of their portfolio have caused some reinsurers to reassess their participation in Political Risk and Trade Credit reinsurance.

Capacity

Capacity has generally held up with most insurers renewing their 2010 reinsurance treaties at similar limits to 2009.

Pricing

Reinsurance pricing has increased approximately 10%. Insurers may seek to pass these costs on to their insureds; however, there is evidence that bank Trade Finance pricing has already begun to fall, making it difficult to pass premium increases on to insureds.

Restrictions

The main Political Risk reinsurers (Munich Re, Swiss Re and Hannover Re) are all seeking to exclude various types of transactions from the reinsurance treaties that they offer, namely:

- Working capital loans: all loans will need to be for specific trade finance purposes, with a clear use of proceeds. Linkage to general trade finance purposes will not be acceptable.
- Acquisition finance will not be covered.
- Bank-to-bank loans will have to include monitoring provisions.
- Bullet loans over 24 months will not be coverable.
- There is likely to be a desire for pure sovereign obligor business and a move away from coverage of quasi-sovereign obligors.
- Lloyd's Franchise Department is also reviewing Lloyd's syndicates' participation in this sector of the market.

MARKET UPDATE - CLAIMS

Recoveries

Traditionally, recoveries have been a significant contributor to the profitability of insurers' portfolios. However, in this recession cycle (starting in late 2007 through present), since a large number of the claims have come from the insolvency of borrowing banks rather than country/political risk, we believe the level of recoveries will be lower. The most highly structured deals and those based on pure trade finance should, however, present better opportunities for recoveries.

Claim activity

While there is still a degree of instability in the global economy, the claim incidence appears to have peaked in Q3 2009, and very few notifications have been received subsequently.

Consequences of the 2009 claim cycle

Underwriters are likely to take smaller positions leading to a return of the syndication market. They may also look to insureds to retain a greater percentage of the risk themselves. Both of these scenarios, should they materialize, may have consequences for bank credit committees.

Markets outside of London will likely continue growing in significance, and we may see an increase in Asian risks being placed in the Singapore market and Latin American risks in the New York market, just to cite two possibilities.

Conclusions

The Political Risk/Trade Credit product has been tested in this latest recession cycle (specifically in 2008 and 2009) and has been shown to work, with insurers making significant and timely claim payments. Although 2009 represented the market's "one-in-a-hundred-year" event, future prospects look more positive than many had predicted.

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