

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

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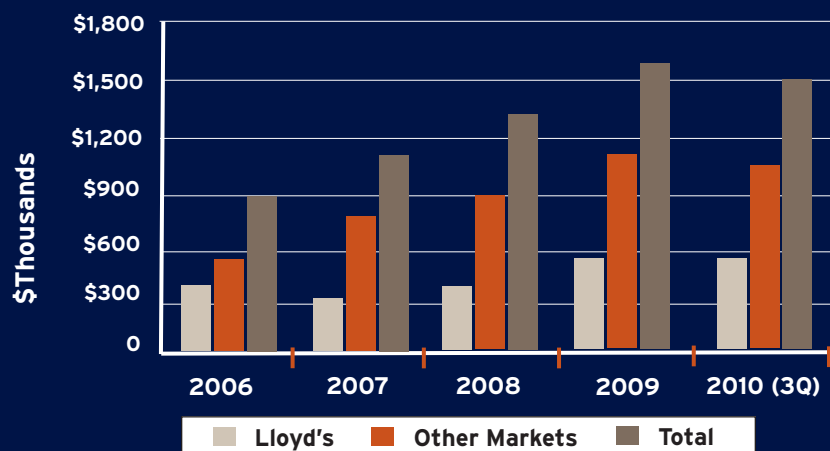
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- **The market has stabilized** after a period of active claims when Political Risk products were vigorously tested and mostly delivered their intended value.
- Premium rates rose in 2010, **but the market has flattened, and rates even decreased in certain countries** (Brazil, Turkey, Russia).
- The premium base for 2010 is expected to be around \$1.25 billion, with losses at more than 100% of that mark, but claim levels have stabilized since 2009, when claims totaled roughly \$2 billion (with some estimates as high as \$4 billion).
- **No new significant claim notifications have hit the marketplace since Q3 2009.**
- Losses remain concentrated in **Ukraine, Kazakhstan, Brazil, Bahrain and Indonesia.**
- Recoveries are not likely to be as high as in previous claim periods due to the high incidence of commercial insolvency losses.
- **Stability is expected in 2011**, as overall capacity should stay the same or increase (an estimated 8-12%).
- Reinsurers have new restrictions, such as not covering working capital loans or bullet loans over 24 months.
- Underwriters are essentially looking for more sovereign business, and less subsovereign risk (municipalities, states or quasi-government companies)
- **New underwriters have entered the market** while one significant carrier has stopped writing new business despite extremely low claim experience.
- For 2011, we anticipate several trends:
 - **Increased underwriter due diligence**
 - **Increased focus on structure and security**
 - **Downward pressure on premium rates**
 - **Policies more likely to be syndicated**
 - **More risk sharing between underwriters and insureds**

PRICE PREDICTIONS

Flat to -10%

CAPACITY FOR CONFISCATION, EXPROPRIATION AND NATIONALIZATION (CEN) PLUS POLITICAL VIOLENCE RISKS (PV)



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