



Political Risk & Structured Credit Insurance Solutions for Mining Companies

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Aon Risk Solutions | Vancouver Branch

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Aon Credit and Political Risk Insurance Network

- Aon Credit and Political Risk Insurance network (CPRI) has the resources, expertise and geographical presence to meet your requirements everywhere.
 - 500+ specialists in Trade Credit and Political Risks across the world
 - 90 offices in 48 countries
 - More than USD 1 billion of premium managed

Global Reach

Aon Political Risk & Structured Credit and Aon Trade Credit Headcount

Total Political Risk & Structured Credit Headcount 37
 Total Aon Trade Credit Headcount 475

Global headcount 512

North America

Country	People
Canada	3
Mexico	2
USA	18
Subtotal	23

EMEA

Country	People	Country	People	Country	People
Austria	5	Hungary	6	Romania	1
Belgium	19	Ireland	2	Russia	4
Bulgaria	2	Israel	2	Slovakia	1
Croatia	1	Italy	46	South Africa	8
Czech Republic	1	Latvia	1	Spain	23
Denmark	1	Lithuania	1	Sweden	2
Estonia	1	Morocco	1	Switzerland	5
Finland	4	Netherlands	32	Turkey	8
France	19	Norway	2	UK	100
Germany	99	Poland	9	Ukraine	1
Greece	1	Portugal	4	Subtotal	412

Rest of World

Country	People
Argentina	3
Brazil	4
Chile	3
Columbia	3
Venezuela	1
Subtotal	14

Asia Pacific

Country	People
Australia	7
China	9
Hong Kong	4
India	6
Indonesia	2
Japan	2
Korea	2
Lebanon	1
Malaysia	2
New Zealand	2
Philippines	2
Qatar	1
Saudi Arabia	1
Singapore	11
Taiwan	7
Thailand	5
Vietnam	1
Subtotal	65



Political Risks in the Mining Sector: Understanding and mitigating the perils



Political Risks in the Mining Sector

The risks associated with the mining sector are complex and require careful consideration by potential sponsors and lenders.

- The mining industry, particularly in emerging markets, is one of the most susceptible sectors to political risks due to its importance to host economies.
- Emerging markets are often characterized by weak macro-economic frameworks and inadequate legal and regulatory regimes.
- In relatively poor, yet resource-rich countries, disparities between poverty and growing income fuel civil disturbances and conflict.
- Furthermore, tensions can develop between central governments, local municipalities and international companies over the distribution of royalties and taxes from mining projects.

Political Risks in the Mining Sector – cont'd

- Any perceived or real failure to properly address social and environmental concerns can exacerbate tensions within local communities, damaging the reputation of project sponsors and lenders
- Mining projects can represent significant percentages of GDP and, as a result, projects can become flash points for nationalist debate. This has the potential to trigger changes in government policy, which can lead to expropriations, license cancellations and contract “reviews.”
- The mining sector represents a significant source of employment and revenue. Evidently, this can lead to a host government seeking to renegotiate concession agreements, ranging from a simple review of their mining agreements to an outright expropriation – “resource nationalism”
- Mining sites are often in remote or politically unstable parts of the world, adding to the cost and uncertainties associated with extractive industries



Examples of Emerging Market Risks in Mining Projects

Significant Events in the Mining Sector

- **Bolivia (2007)** – nationalization of zinc, silver and tin mines sold off by previous governments including Canadian miner, South American Silver's, 'Malku Khota' silver-indium deposit as well as Glencore PLC's Colquiri tin-zinc mine.
- **Mongolia (2009)** – An international arbitration tribunal has ordered Mongolia to fork over \$100 million for expropriating the Dornod uranium project from Canadian company, Khan Resources. The Canadian company had sought \$354 million in compensation for having its mining licenses cancelled by Mongolia and given to Russian producer ARMZ, but the tribunal lowered the payout to \$100 million, including interest and costs, based on previous offers made for the asset.
- **Democratic Republic of Congo (2009/10)** – First Quantum Minerals saw its Frontier and Lonshi copper mines, and its Kolwezi tailings project seized by the Congolese government in 2009 and 2010.
- **Venezuela (– 2011)** – the remainder of the country's gold mining sector was nationalized.
- **Peru (2011)** – the government cancelled the Canadian-owned 'Santa Ana' mining project after clashes between anti-mining activists and security forces.

Significant Events in the Mining Sector – cont'd

- **Guinea (2011)** – renegotiation of all mining contracts giving a one-third holding to the government.
- **Ecuador (2011)** – Copper Mesa Mining Corporation Awarded US\$24.365 Million in June 2016 for Expropriation of Two Mining Projects by Ecuador.
- **Indonesia (2012)** – Export ban for unprocessed minerals to try and increase local processing activity.
- **Mali (2012)** – attempts by Islamic jihadist groups to take over the country.
- **Argentina (2012)** – thousands of locals opposed to open-cast mining protested for two weeks, erecting roadblocks that prevented access to gold mining project Famatina in La Rioja province, owned by Canada's Osisko mining company. This forced local authorities to suspend work, mainly to comply with the glacier protection law. In 2013, the provincial government cancelled the company's license.
- **Niger (2013)** – contracts with Areva renegotiated to end the company's "monopoly" over uranium extraction

Significant Events in the Mining Sector – cont'd

- **Kyrgyzstan (2013)** – Centerra Gold's, Kumtor Mine, has been affected in various ways during the last several years, including requests to renegotiate concession agreement, calls for nationalization of the mine, regulatory agencies making claims for alleged environmental damages, court actions commenced by the Kyrgyz Republic General Prosecutor to rescind previously granted land use rights to Kumtor, and delays in obtaining necessary permits and approvals.
- **Colombia (2013)** – expat mining workers abducted by insurgents while doing exploratory work at a gold mine in the northern region
- **Senegal (2013)** – government wins arbitration case against ArcelorMittal over the latter's failure to develop an iron ore project
- **South Africa (2013)** – recurrent strikes by workers across the mining sector, particularly platinum mines, disrupt production.
- **Central African Republic (2013)** – government overthrown in a coup, accompanied by widespread civil commotion.

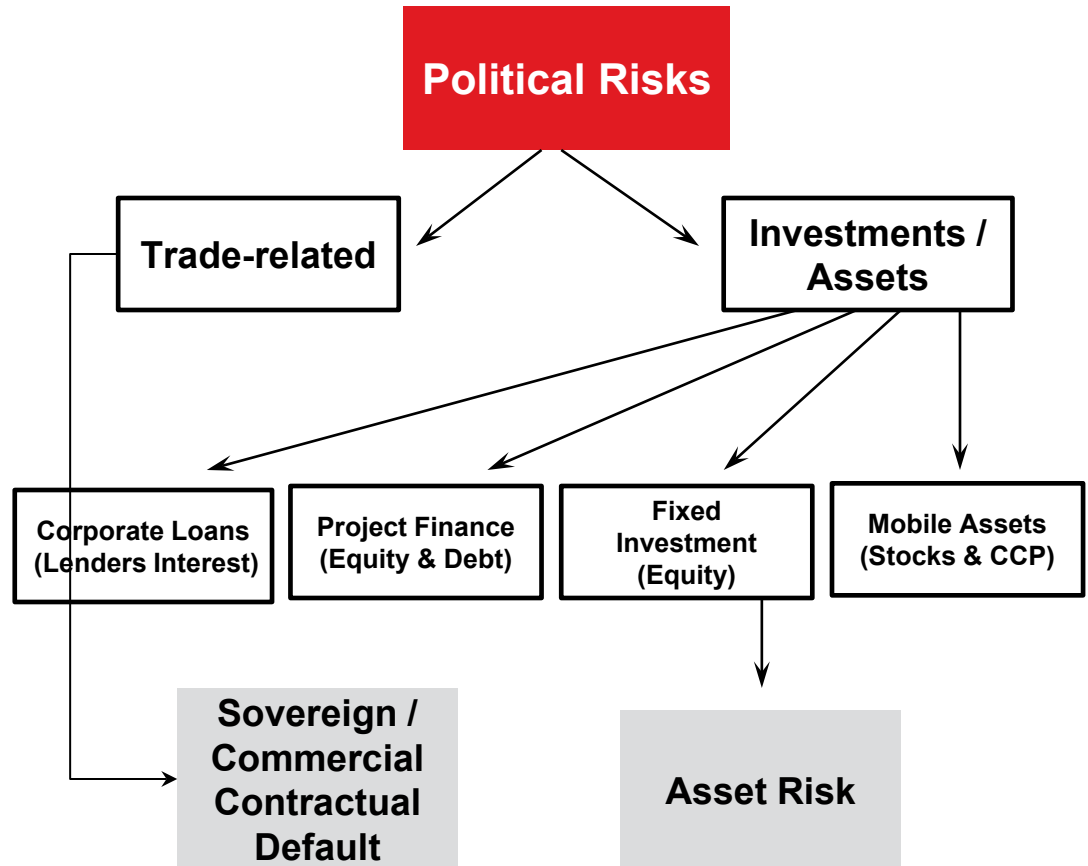
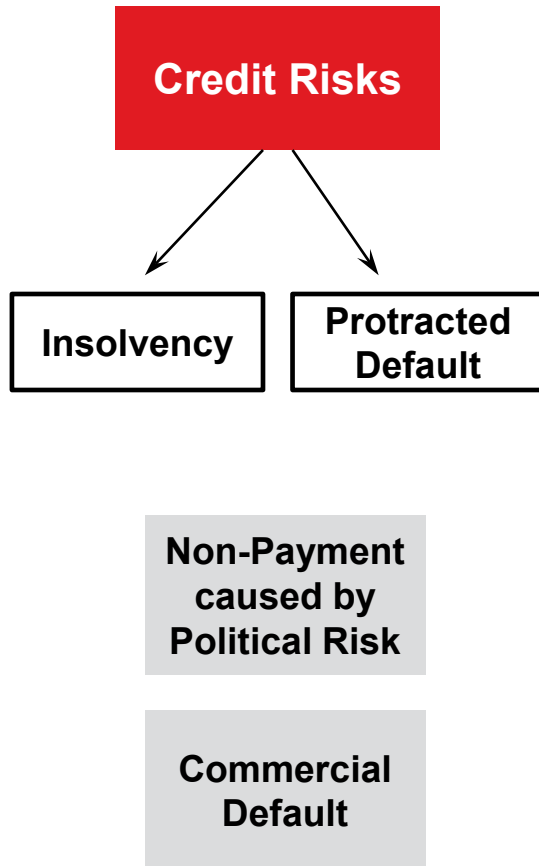
Significant Events in the Mining Sector – cont'd

- **Colombia (2016)** – ruling banning all mining activities in Colombia's paramos forcing Galway Gold to shut down its Reina de Oro operation. The ruling not only forces the company to halt operations, but it blocks it from transferring the project, as the mining permit will no longer be valid.
- **Peru (2016)** – Bear Creek Mining said that the oral phase of international arbitration against Peru for the expropriation of its silver project was set to begin (Sept. 2016)
- **Venezuela** – Crystallex awarded US\$1.386 billion by ICSID for expropriation of Las Cristinas mining project by Venezuela in 2011. The Tribunal awarded the company damages of US\$1.202 Billion plus pre- and post-award interest due to Venezuela's unfair and inequitable treatment, and unlawful expropriation of Crystallex's investment in the Las Cristinas mining project.



Introduction: Political Risk & Structured Credit Insurance

Traditional Scope of Cover



Insurable Political Risks

The usual menu of perils available to insureds in the mining sector are;

- Confiscation, Expropriation, Nationalization and Deprivation
- Operating License / Concession agreement repudiation or cancellation
- Export Embargo / Inability to export
- Forced Abandonment
- Selective Discrimination
- Forced Divestiture
- Currency Inconvertibility and Exchange Transfer
- Non-Honoring of Arbitral Award
- Political Violence (incl. Terrorism, SRCCMD, War/Civil War, etc.)
- Business Interruption following an insured event (generally following Political Violence)
- Trade Disruption



Expropriation

- **Expropriation** coverage offers protection in the event of confiscation, expropriation, nationalization and other acts by a host government that deprive the company of its fundamental rights to its foreign enterprise, joint-venture, concession agreements, equipment or other assets.
 - Host government forcing through unilateral restructuring of contracts and concession agreements.
 - Host government forcibly revising ownership structures which deprive the foreign investor of a majority stake holding in a project
- **The asset is often not the mine but often the right to explore**



Currency Inconvertibility and Exchange Transfer

The “contingent” nature of this risk in many mining projects provides this sector with one of its key pricing leverages. The sequence of events to bring about a loss (certainly on a lenders interest policy) would likely have to be;

- Withdrawal of permission to retain hard currency proceeds of sale offshore
- Proceeds of sale are retained onshore
- Onshore hard currency deposits have to be exchanged for local currency
- Inability to convert local currency in to hard currency
- Inability to transfer even local currency



Political Violence

Designed for political hot spots, where there is a substantial threat of both political and civil unrest, or a real threat of a cross-border incursion by a foreign power. Typically purchased in emerging markets.

Perils by Policy Type:	Property	Terrorism & Sabotage	Strikes, Riots & Civil Commotion	Political Violence
Terrorism	x	✓	✓	✓
Sabotage	x	✓	✓	✓
Strikes, Riots, Civil Commotions	x	x	✓	✓
Malicious Damage	x	x	✓	✓
Insurrection Rebellion & Revolution	x	x	x	✓
Mutiny and/or Coup d'etat	x	x	x	✓
War and/or Civil War	x	x	x	✓

“ The impact of political violence on a mining project can range from damage and destruction of assets to the inability to continue operations and possibly the forced abandonment of the project in its entirety ”

Protecting Contracts Overseas

Pre Shipment – Insurable causes of loss

Frustration of the contract prior to any invoice being issued due to the perils listed below:

Country risks

- Import / export / 3rd party country embargo
- Cancellation / non-renewal of licences
- Termination through war / civil war / government interference
- Withdrawal / suspension of funding (externally funded contracts)
- Foreign government
- Own government
- 3rd party government or supranationals etc.

Buyer risks

- Unilateral termination
- Non certification of invoices / certificates
- Failure / refusal to comply with contractual obligations
- Failure / refusal to honor arbitration award



Protecting Contracts Overseas

Post Shipment – Insurable Causes of Loss

Country Risks

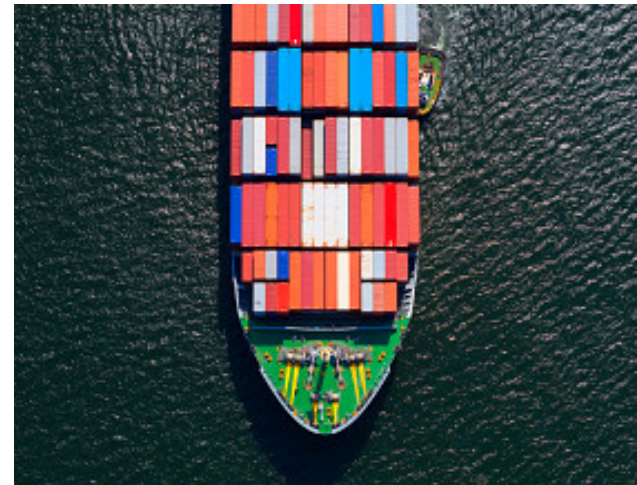
- Failure or inability to remit hard currency

Buyer Risks

- Non-payment
- Failure / refusal to honor arbitration award

Guarantor Risks

- Non-honoring of letter of credit
- Non-honoring of payment guarantee



Bonds & SBLCs – Insurable causes of loss

Government or counter-party action that frustrates a contract (i.e. prevents or restricts the performance of a contract or the ability to pay/deliver) for – Sales, Service or Purchase Contracts (Advanced Payment Bonds, Performance Bonds, Bid Bonds, Standby Letters of Credit, etc.)

- **Unfair call by:**
 - public buyer (where the Contractor is not in default)
 - private buyer (where the Contractor is not in default / due to buyer insolvency)

- **Fair call – political** (e.g. war, embargo)

General Policy Terms & Conditions

Country of Risk:	Single or Multi-country
Covered Risks:	CEND, CI, PV, BI, CF, TDI
Interest:	Debt / Equity
Policy Period:	Up to 15 years (20 years with Public Market support)
Limit of Liability:	in excess of \$1B per risk
Indemnity:	100% (90% for CI and CF)
PV Deductible:	1% of loss (or other amount TBD)
Waiting Period:	180 days
Typical Exclusions:	
	<ul style="list-style-type: none">• Nuclear exclusion• Insolvency - of any third party, including the Insured (although capricious call cover can be obtained for certain private buyers)• Currency fluctuations• Material default by the contractor/exporter• Disputes between the contractor/exporter and the buyer (until concluded)

Policies are non-cancellable and premium rate is fixed throughout the policy period



Client Examples

Example 1 – Expropriation Fixed Assets

Insured:	Private Equity firm
Assets:	Mining Operations
Country of Risk:	Nicaragua
Risk:	Expropriation by Confiscatory Act, Expropriation by Non-Honouring of Arbitral Award, Currency Inconvertibility / Exchange Transfer, Political Violence, Forced Abandonment
Policy Period:	3 years
Value insured:	USD 50,000,000
Premium:	USD 2,100,000 (USD 700,000 per annum)

Example 2 – Expropriation Fixed Assets

Insured:	American corporate
Assets:	Mining Operations
Country of Risk:	Democratic Republic of Congo
Risk:	Expropriation by Confiscatory Act, Expropriation by Non-Honouring of Arbitral Award, Political Violence, Forced Abandonment
Policy Period:	3 years
Value insured:	USD 100,000,000
Premium:	USD 3,000,000 (3.00% pa)

Example 3 – Expropriation Mobile Assets

Insured:	Oil Services company
Assets:	Rig Compressor Units
Countries:	Argentina, Bahrain, Brazil, Colombia, Indonesia, Malaysia, Mexico, Oman, Peru, Thailand
Risk:	Expropriation by above governments, or damage caused by War/Political Violence
Exposure:	USD 261,000,000
Policy Period:	3 years
Value insured:	USD 50,000,000 (First loss policy)
Premium:	USD 677,000 per year

Example 4 – Contract Frustration (Pre & Post) / WCG

Insured:	Canadian energy company
Project:	Construction of oil & gas facility
Counter-Party:	Governmental Energy parastatal
Country of Risk:	Oman
Cover:	Contract Frustration Section 1) Pre & Post Shipment Section 2) Wrongful calling cover
Insured Percentage:	90%
Policy Period:	4 years
Maximum Limit:	USD 92,542,288 Section 1) USD 72,000,000 Section 2) USD 20,542,288
Rate:	Section 1) 0.65% (75% M&D at inception, adjusted at expiry and calculated on actual monthly sums insured) Section 2) 0.30% p.a. and pro rata

Example 5 – Contract Frustration

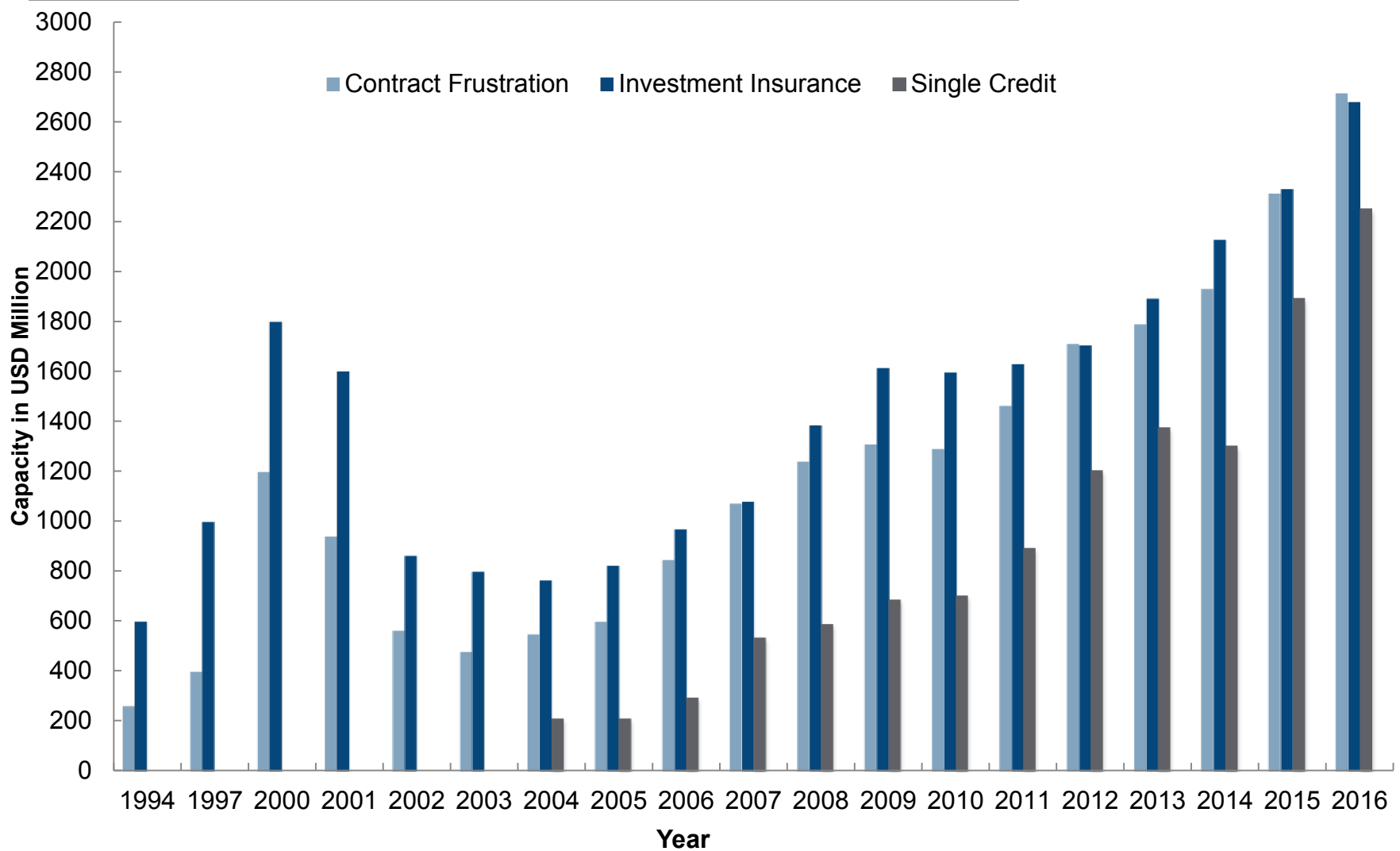
Insured:	European contractor
Sector:	Chemicals
Country of Risk:	Egypt
Buyer & Obligor:	Alexandria Fertilizer Company (Private)
Contract:	€ 117,000,000 turnkey contract for the deliver of a Sulfuric acid and Phosphate plant
Terms of Payment:	confirmed LCs
Interest:	PBs & APBs
Cover:	Wrongful Calling
Period:	32 months
Sum Insured:	€ 30,600,000 (90% indemnity)
Rate:	0.30% p.a. and pro rata on exposures



Appendix

- Capacity Review 2016 – Political Risk and Structured Credit Market
- Berne Union – Investment Insurance Claims Data (2011–2015)
- Aon’s Political Risk Exposure Profile (“PREP”)
- Aon’s Interactive Risk Maps

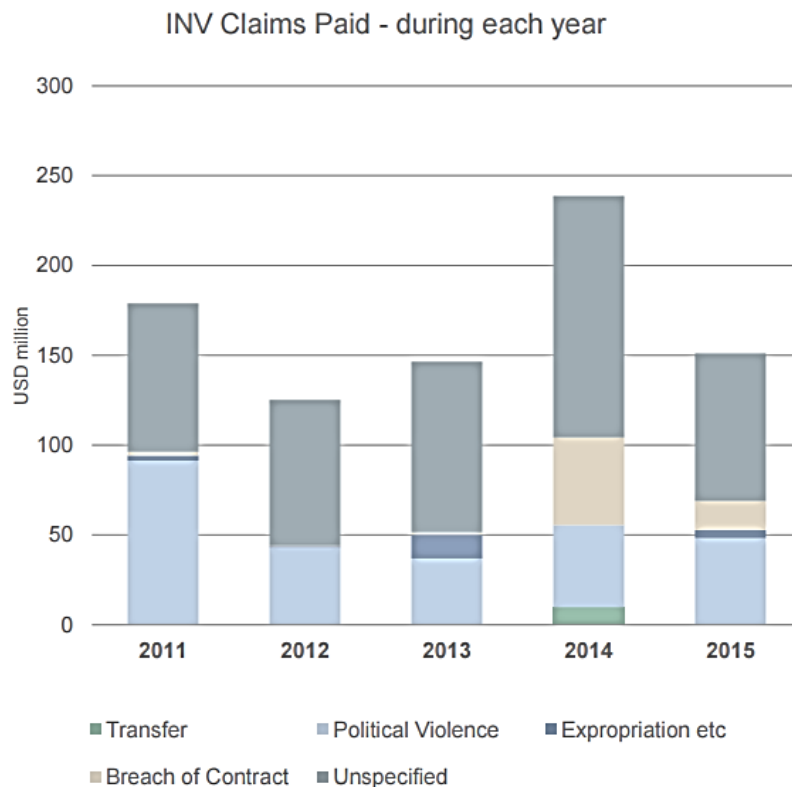
Political Risk & Structured Credit Private Market Capacity (Q4 2016)



Source: Aon's 2016 Political Risk and Structured Credit Capacity Review and Market Survey

Berne Union

Investment Claims Paid during each year (2011 – 2015)



all figures given in USD Million	2011	2012	2013	2014	2015
Transfer	0	0	0	10	0
Political Violence	91	43	37	46	48
Expropriation etc.	3	1	13	0	5
Breach of Contract	2	0	1	49	16
Unspecified	83	81	95	134	82
Total	179	125	146	239	151



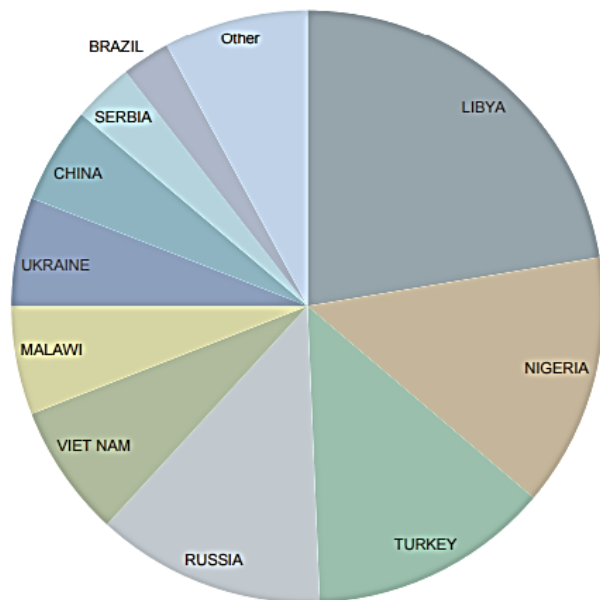
INVESTMENT INSURANCE

Source: Berne Union, Overview of the Short Term Insurance, Medium and Long Term Insurance and Investments Insurance data for 2011-2015 (last update: 14 September 2016)

Berne Union

Investment Claims Paid 2015 – Top 10 Countries

INV Claims Paid 2015
Top 10 Countries



all figures given in USD Million	2014	2015	
LIBYA	30	34	↗
NIGERIA	0	21	↗↗
TURKEY	22	20	↘
RUSSIA	26	19	↘
VIET NAM	32	11	↘↘
MALAWI	0	9	↗↗
UKRAINE	1	9	↗↗
CHINA	4	8	↗↗
SERBIA	35	5	↘↘
BRAZIL	0	4	↗↗
OTHER	88	12	↘↘

Berne Union Overview

- Due to the sensitive nature of political risk coverage, most commercial insurers (Company / Lloyd's) keep most of their statistics confidential. Fortunately, many commercial insurers and nearly all public insurers (e.g., OPIC, MIGA, EDC) are members of a quasi-governmental trade group known as the Berne Union. It is the leading association for export credit and investment insurance worldwide, working for cooperation and stability in cross-border trade and providing a forum for professional exchange among its members.
- In the first half of 2015, Berne Union members insured USD 50 billion of new foreign direct investment (FDI) and USD 59 billion of new medium to long term exports. A total amount of USD 4.7 billion was paid by Berne Union member as indemnifications for claims during 2014.¹

Berne Union members

- The Berne Union has 50 member companies and 1 observer company from around the world. The membership is diverse – member organizations may be private or state linked, small or large. They represent all aspects of the export credit and investment insurance industry worldwide.
 - [Link to member list for Berne Union](#)

¹ Press Release: Berne Union and Prague Club Annual General Meetings 2015 in Shanghai
<http://www.berneunion.org/wp-content/uploads/2015/11/2015-Berne-Union-Prague-Club-AGM-Shanghai-Press-Release-05-November-2015.pdf>

Aon's Approach

Political Risk Exposure Profile ("PREP"):

A systematic framework for assessing a firm's vulnerability to emerging market risks

Step 1: Translate

- Identify company-specific risks and assess based on country, industry and company or project levels risk variables

Step 2: Quantify

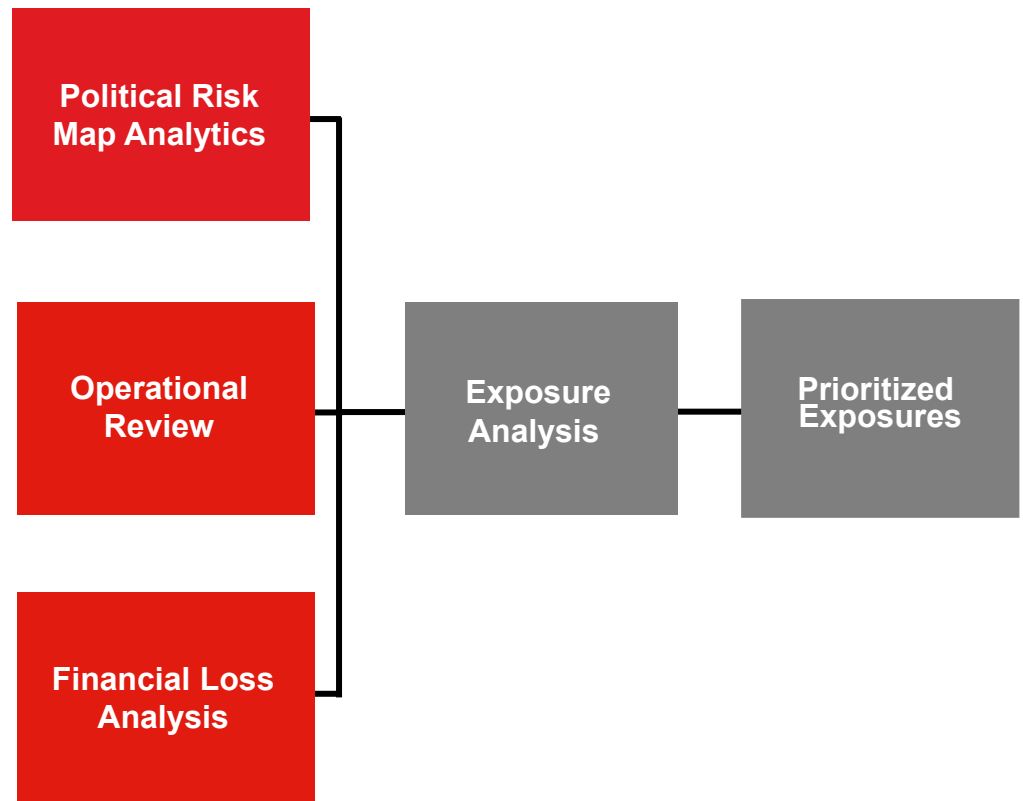
- Determine total and maximum probable loss using company financials and historical political risk loss patterns

Step 3: Prioritize

- Combine risk ratings and maximum exposure to identify specific risks above your firm's risk tolerance

Step 4: Mitigate

- Evaluate risk mitigation & insurance options that address the key areas of vulnerability and take into account your firm's risk management goals and objectives

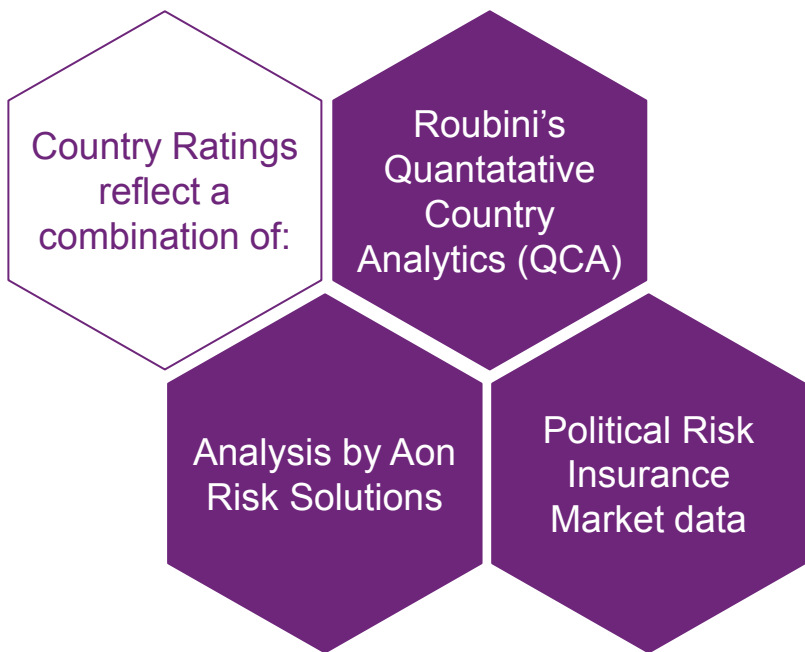


Aon's Political Risk Map: Measuring Risks in Emerging Markets








An insightful guide to assess emerging market risks

Aon's Political Risk Map is produced in partnership with Roubini Global Economics (RGE) an independent, global research firm founded in 2004 by renowned economist Nouriel Roubini.

Aon's political risk map analytics combine quantitative measures provided by RGE, and Political Risk Insurance Market Data extracted from Aon's global broking activities to provide a unique measure of emerging market risks in 162 countries and territories.



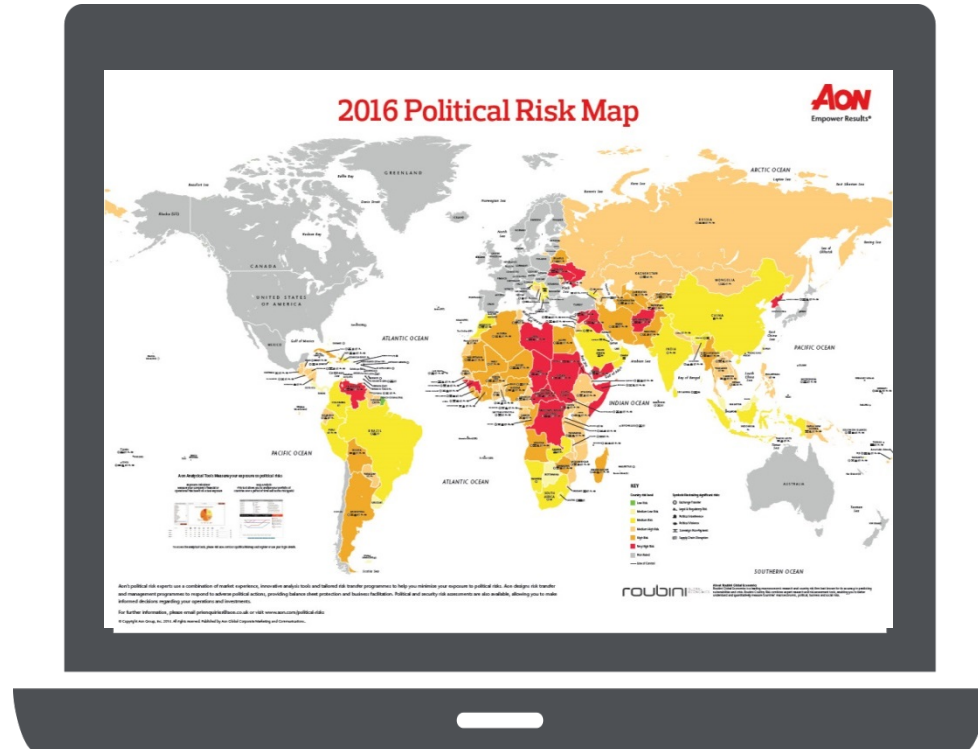
Risk Icons

- Country Risk 
- Exchange Transfer Risk 
- Sovereign Non Payment Risk 
- Political Interference Risk 
- Supply Chain Disruption Risk 
- Legal And Regulatory Risk 
- Political Violence Risk 

"Risk Icons" assess a country's exposure to each risk along with their likelihood of being able to cope with shocks or crises. The Risk Icons are responsible for generating the overall Country Risk Rating score.

Aon's Political Risk Map

▶ Did you know?
Aon's new look Political Risk portal is free to anyone interested in political risk. With interactive data going back 19 years it represents a comprehensive resource for those looking to better understand how political changes can affect their business.



[Click here to access Aon's 2016 Political Risk portal](#)

Aon's Mining Specialists

We're here to empower results

To learn more about how we can create custom solutions for your organizations, please contact:

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