ENTER

# RISK MAPS
# 2019

Aon's guide to Political Risk,
Terrorism & Political Violence

Empower Results®

In partnership with **The Risk Advisory Group** and **Continuum Economics**

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# INTRODUCTION

**Aon Risk Maps is now in its 22nd year of providing crucial insight into the global geopolitical and security landscape. We produce the maps to help businesses visualise and understand the risks they face on an international scale.**

Aon works closely with our partners Continuum Economics and The Risk Advisory Group to pinpoint and explore the most impactful and meaningful issues for our clients in the crisis management space.

For political risk we have seen a growing interest in unexpected areas. Populism and the US-China trade war have rattled the global economy and clients understandably want to limit the impact of this volatility on their operations.

Meanwhile, terrorism has witnessed a shift in ideologies, with the new risk posed by returning Islamic State fighters matched in terms of cause and effect by the emerging threat of far-right extremism in North America and Europe. Fortunately, the market is responding to the needs of buyers with solutions that are tailored to this evolving picture.

Aon is supporting its global clients to respond to political risks and security challenges by using the analysis derived from the maps to inform the creation of a more robust risk management programme.

We hope this year’s maps provide you with the insights that you need to better protect your business, and should you need to discuss any aspects of your insurance coverage – or how these risks affect your exposure – please contact the team.

**Vlad Bobko**, Head of Crisis Management, Aon



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# POLITICAL RISK

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# LEADER'S COMMENTARY

Since 2013, Continuum Economics and Aon have collaborated to create the Political Risk Map. The map and its supporting material provide insights into changing political risks for business operating across non-EU and -OECD countries. In today's complex geopolitical and economic environment, the map enables clients to identify and track the different sources and degrees of risk, allowing businesses to plan ahead and protect assets, contracts and loans that can be adversely affected in such economies by government action or inaction.

The Political Risk Map highlights areas where political risk is prevalent and decomposes the sources of risk, such as political violence, institutional and regulatory risk and the economic conditions. The persistent political instability and violence are still undermining certain regional economic outlooks and their business environments, particularly the Middle East and Africa. These regions contain some of the highest-risk countries in the world such as Iraq, Syria, Yemen and Libya. Conditions in these regions have intensified and are unlikely to ease due to the complex nature of the problem and the shift in the balance of power.

The map also captures supply chain disruption risk which is a rising concern, even for the strongest countries in the world, which tend to rely on imports. Climate change and extreme weather have exacerbated the risks of supply chain disruption in certain regions. In particular, small islands will continue to be affected by climate hazards. Countries with high exposure to natural disasters and low capacity to cope will be more exposed. Downside risk will be particularly important to monitor in countries with wide fiscal balances, high inflation and large debt burdens.

A rise in populism, amid a general dissatisfaction with the traditional political class, has increased the risk of disruptive policies in many countries, weighing negatively in their economic prospects. Populist policies can exacerbate political risk by increasing fiscal imbalances and inflation as well as rising the odds of state intervention.

Continuum Economics is proud of its long-standing partnership with Aon in helping businesses assess and manage risks through innovative data and country benchmarking. Our political risk scores, updated quarterly, deliver an independent, systematic and data-driven approach that allow for regular monitoring of risks and opportunities.

**Paulina Argudin** Director, Country Risk Model, Continuum Economics

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# HIGH-LEVEL THEMES

The Aon 2019 Political Risk Map captures changing risks for businesses and countries across emerging and frontier markets. Last year, the overall risk rating changed for six countries including Azerbaijan, Croatia, The Gambia, Ghana, Macau and Mongolia, where the overall political risk environment declined. Looking ahead, a confluence of variables (such as geopolitical tensions, populism, trade wars, slower growth, Fed tightening and China's economic rebalancing) will create challenges for businesses in the near-term.

Global growth has weakened and will remain slow through 2019, with core inflation pressures creeping higher in developed markets. Among emerging economies, inflationary pressures are easing amid a drop in oil prices. Chinese policy stimulation, lower oil prices and a pause in Fed tightening are helping to provide a safety net for global growth into early 2019.

Risks for the year are tilted to the downside. Lingering trade uncertainty and protectionism remain the key sources of risk. This year, the negative effects of tariffs could continue to cap global economic and trade growth, particularly hurting growth in countries with high levels of public and private debt. A likely outcome of the US/China trade war is a modest deal that results in a truce. Nevertheless, this will not be a full-scale resolution in US/China relations as there are also military and political issues. While these tensions are expected to be manageable in direct economic terms, any sharp deterioration in sentiment would spark market volatility across a range of assets and would amplify adverse trade effects enough to risk a sharper slowdown for the global economy.

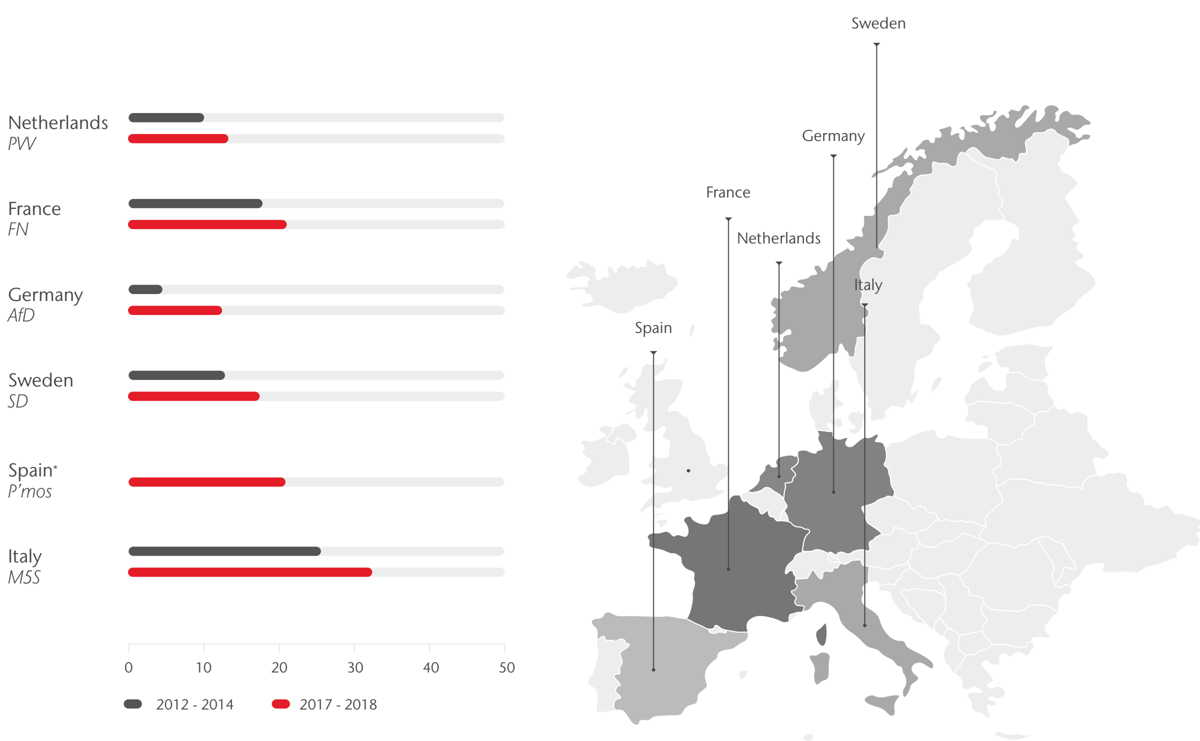
These trends  show how important it is for businesses to map the specific political risks in their countries of operation. Continuum Economics is proud of its long-standing partnership with Aon in helping businesses assess and manage risks through innovative data and country benchmarking. The political risk scores, updated quarterly, allow for regular monitoring of risks and opportunities.

# EUROPE: POPULISM AND ECONOMIC HEADWINDS

**Populism is no longer a fringe issue. Its impact has been disruptive to the economic system, majorly affecting trade and fiscal gaps. The anti-immigrant stance of populist parties certainly puts them on the far right of a traditional political spectrum. But perhaps it defies traditional political categorisation, as populist policies are also characterised by expansive fiscal policy and opposition to free trade and globalisation, arguably placing populism on the left of the political spectrum.**

Populism, aided by subtle and divisive use of multi-media platforms, has gained ground and continues to spread. Brexit, the Italian election result, Presidents Donald Trump in the US, Andres Manuel Lopez Obrador in Mexico and Jair Bolsonaro in Brazil are all examples of the rise of populism. Even France recently saw the election of an apparent 'centrist' President Emmanuel Macron, and populism has re-emerged in the form of the 'gilets jaunes' protests. So far, strong government disapproval, rising populism and a lack of political consensus have undermined growth by hindering investment and stalling reforms.

Populist parties in Europe *(% votes)*




*Source: Continuum Economics.*
*Note: *Spanish elections were in 2011 and 2016*

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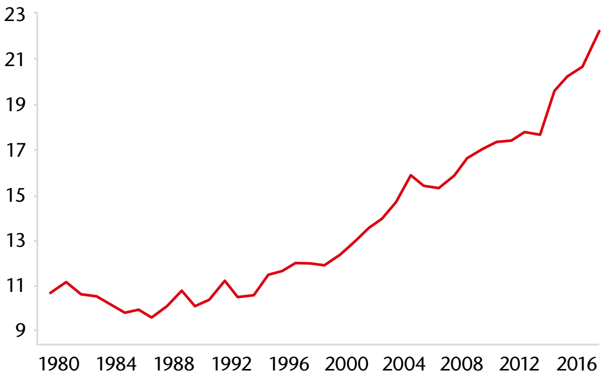
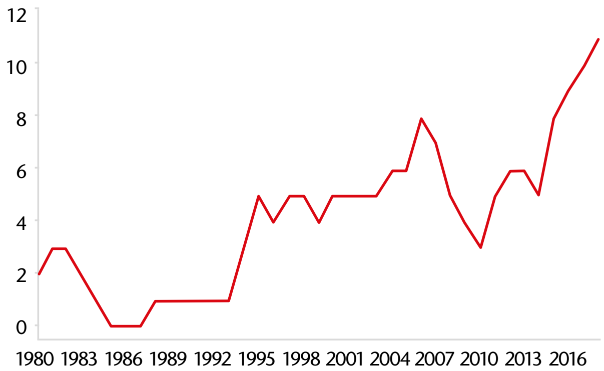
Average share of votes of populist parties in EU+ countries *(%)*




Governments with populist parties *(number of countries)*




*Source: Timbro, Continuum Economics.*
*Note: The numbers are calculated using information for 33 countries including EU countries plus Iceland, Norway, Switzerland, Serbia and Montenegro.*

*"Europe's various brands of populism share a common anti-establishment stance. It has already complicated government formation in many countries such as the Netherlands, Germany and Sweden, and it will remain a major risk to 'traditional' politics going forward."*

## European populism has an anti-EU slant too

In Europe, although populism has been kept away from power in recent elections (apart from Italy), its support is clearly on the rise. Europe's various brands of populism share a common anti-establishment stance. It has already complicated government formation in many countries such as the Netherlands, Germany and Sweden, and it will remain a major risk to 'traditional' politics going forward. It has also polarised political thinking in the UK, where Brexit is perhaps the clearest manifestation. Even if a Brexit deal is crafted in the near future (which is unlikely), the longer-term repercussion may be rifts within the two major parties which could make governing even more problematic, especially if it were to result in the establishment of a fresh centrist party. In Spain, the far-right Vox party gained seats in Andalucia's 2018 election for the first time since Franco's death in 1975, raising fears of the far right gaining further influence in a series of local and European elections.

## European economic headwinds

Spain has remained a bright spot in the Eurozone and has maintained momentum amid increasingly uncertainty. Economic output has been propelled by a surge in exports, strong domestic demand and government spending. Thus, it is no surprise that the relatively strong economic performance of Spain over the last four to five years has helped contain the growth of Spanish populism. Going forward, the question is whether the slowing of the Spanish economy and political uncertainty will boost the country's populist parties.

Unlike Spain, Italy has underperformed since the global financial crisis as the economy has failed to recover to its pre-crisis GDP level. Italy's economy slipped into recession at the end of last year and is likely to continue contracting in 2019. Moreover, a lack of reforms amid a persistently splintered political backdrop, has stagnated the economy. A combination of weak economic growth and growing

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dissatisfaction led to last year's election result. Furthermore, the renewed recession aggravates the government's financial problems. As the EU updates its fiscal forecasts in the spring, it may be clearer whether Italy will face pressure for further cuts.

Albeit from a low base, Greece's GDP growth (around 2%) looks robust compared to many of its European peers. The country has also exited its EU bailout programme and is now back tapping the bond markets. However, the huge debt profile (around 180% of GDP) and political uncertainty makes Greece vulnerable to a potential global economic slowdown. Therefore, the country must press ahead with reforms. The risk of any change in leadership after the next election (likely to be held before October 20), will see Greece deviating from its financial commitments to EU institutions.

## Aon's perspective

**We have seen an increase in enquiries linked to European political developments such as Brexit and the Catalan independence vote, and in response to populist political trends more generally. Globally, it is apparent that there is a correlation between electoral change and appetite for political and sovereign risk coverage. We expect this trend to continue and deepen, as populism gains increasing traction globally, with continued, strong interest in geographies such as Latin America and Asia and rising interest in Europe.**

# CHINA / US TRADE RELATIONS: ELECTORAL POLITICS AND GREAT POWER RIVALRY

Behind the trade battle between China and the US, is domestic political interest. That's because trade policy is made in a political setting in which domestic economic needs blend with domestic political interests. The fact that the US has a short political cycle tends to produce short-term trade policy decisions relative to China's longer political cycle and longer-term focus in policy making.

## The politics of the short term

It's important to differentiate between the short-run outlook for China/US relations and prospects for the longer run. President Trump is the driving force behind the current US approach to China, but his presidency will not last forever. Trump sees the bilateral trade imbalance between the two countries as a critical issue.

The next US presidential election is less than two years away, which makes political calculations a major factor in the current negotiations. Trump may choose to make the most of any deal he can get, rather than risk an economic slowdown and financial market turmoil that might result from escalating trade retaliations. On the other hand, he may choose to escalate the fight with China. Most recently, the two sides have shown a strong preference for a deal, but negotiations remain fraught.

## Getting to 'Yes' means asking for what's possible

Hawkish elements of the US administration emphasise delaying China's acquisition of technology and other forms of intellectual property as a goal of US policy. They insist that any concession by China must be verifiable, complaining that it has often not adhered to past trade agreements.

The US administrations goal of reducing the bilateral deficit would require a redirection of trade among other nations. The US saving rate is simply too low to allow a quick reduction in the overall US trade balance, so the alternative is to shift some of the China/US bilateral deficit to third-party countries. That would be a substantial disruption, especially in the near term, but may be preferable to a trade war.

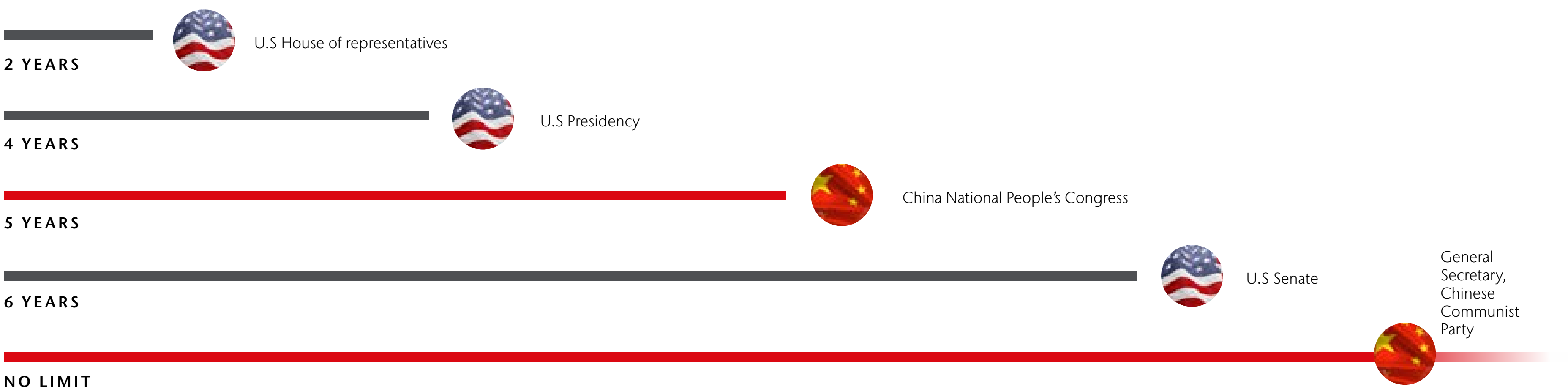
The goals of Washington's more hawkish trade policy officials are equally problematic. They amount to demanding that China's leaders favour US profits over Chinese growth — a demand that a leader of a powerful country would never accept.

## Long-term thinking

The rivalry between China and the US will continue in the long run, but it will likely be along a different path than is being pursued by the current administration. For one thing, the business wing of the Republican Party will re-assert itself, cooling some tensions with China.

However, the business wing of the Republican Party is not the be-all and end-all of US politics—and certainly not of US attitudes toward China. Trade discussions between China and the US are entangled in a web of issues, including a growing military rivalry, influence over the Indo-Pacific region, relations with other trade and security

Term limits and political calculations



partners, joint interests in economic growth and financial stability, and a host of others. Geopolitical rivalry is as much a part of the China/US trade dispute as is each country's pure economic interest.

Even as China's growth slows, its economic and geopolitical power will continue to grow faster than the global average for years to come. Any agreement between the China and the US during the current administration pales in comparison to the implications of China's size and continued growth.

### More China/US tariffs: who has most to lose?

There has been a temporary truce in the China/US trade war after Chinese President Xi Jinping met with President Trump on December 1. Since the agreement, both parties have held talks to bridge differences. China has been keen, for its part, to reduce the trade imbalance between the US and China. However, other issues, like intellectual property, are harder to resolve.

Here the global econometric model, the National Institute Global Econometric Model (NIGEM, Figure 1), uses considerations of the state of the China/US trade discussions to examine the likely effects of this potential shock on the economy.

### The worst case — lose-lose scenario

Regardless of the scenario, despite some gains in the short run, the US will face a loss of output in the longer term. For China, the effects will be negative, even in the short run. Furthermore, the effects are more pronounced for China in either case, with retaliation hurting both parties more. These fresh new tariffs would lower US GDP by as much as 0.3% by 2023, compared to the baseline scenario of no new tariffs. The cost for China is roughly twice as large, at around 0.6% over this period. It should be noted that these relate to the case in which the tariffs are imposed all at once. However, for both China and the US, the differences from the base case will be greater if the new tariffs are imposed in two steps.

### China's fragile fundamentals may face a double whammy

Although reduced trade cooperation will not cause China's economy to slow by more than one percentage point, it has three main side effects. The first is that China has to rely more on domestic demand to avoid a hard landing. In 2017, when the global economy experienced a synchronised upturn, China's domestic growth softened, but a rebound in external demand supported overall GDP growth in 2017 relative to 2016. The second is that inflationary pressures increase as tariffs raise the costs of production and consumption. The

Scenario assumptions

| | China retaliates (Tit-for-Tat) | China does not retaliate |
|---|---|---|
| Tariffs imposed all at once (I) | **Scenario I—with retaliation**<br>The U.S. imposes 25% tariffs on around USD $257 billion in Chinese imports.<br>China retaliates by imposing 25% tariffs on USD $20.4 billion in U.S. imports. | **Scenario I- without retaliation**<br>The U.S. imposes 25% tariffs on around USD $257 billion in Chinese imports. |
| Tariffs imposed in two steps (II) | **Scenario II— with retaliation**<br>**2019:** The U.S. imposes 10% tariffs on around USD $257 billion in Chinese imports throughout 2019.<br>**2019:** China retaliates by imposing 10% tariffs on USD $20.4 billion in U.S. imports.<br>**Q1 2020:** The U.S. increases the tariffs on the USD $257 billion goods to 25%<br>**Q1 2020:** China retaliates by increasing the tariffs on the USD $20.4 billion goods to 25%. | **Scenario II— without retaliation**<br>**2019:** The U.S. imposes 10% tariffs on around USD $257 billion in Chinese imports throughout 2019.<br>**Q1 2020:** The U.S. increases the tariffs on the USD $257 billion goods to 25%. |

*Source: Continuum Economics.*

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third is that China has to adjust some of its policy goals (such as eventual de-leveraging) in order to maintain economic stability.

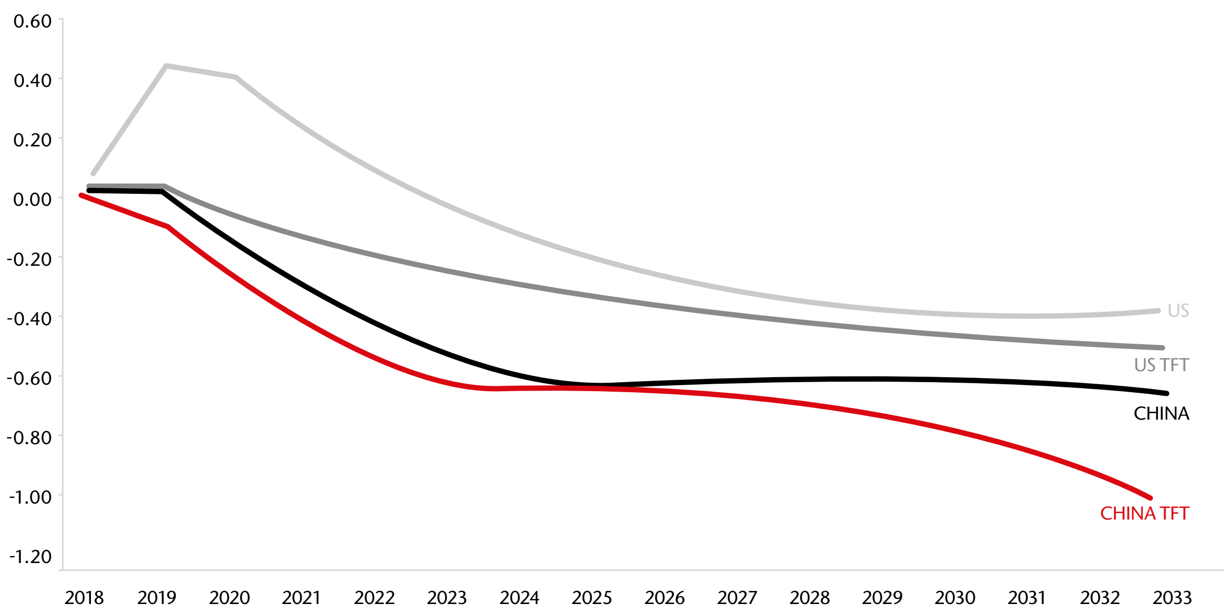
China would likely retaliate using services and tourism. However, China is less inclined now than at the start of the year to loudly publicise retaliation on the international scene. At the same time, China will likely make efforts to switch to domestic production as a response. For instance, it is likely to step up its productive capacities in the goods and services that the US is comparatively better at producing.

## Impact on Asian Supply Chains

Asia's supply chains are complex. Major Asian economies produce almost half (~44%) of China's total intermediate goods imports. However, examining a given country's share of exported intermediate goods to China gives a sense of the impacts it could face. As expected, analysis shows that countries from which China imports intermediate goods will also suffer from a trade war to varying degrees, with the impact being greater if China retaliates against the US. According to estimates, in the case of retaliation, Japan's exports are less affected than those of South Korea and Australia.

There is a good bit of corroborating evidence in national trade data to show that exporters of intermediate goods to China have suffered greater economic losses from U.S. tariffs on China than China has itself.

Output loss from imposition of the full round of new tariffs *(% deviation base)*




## U.S./China Trade Tensions as a Model

Under the current administration, the U.S. has tended to emphasize one major trade dispute at a time. Steel and aluminium tariffs were imposed and then adjusted before NAFTA re-negotiations were in a critical phase. NAFTA talks were underway when the U.S. raised tariffs on Chinese solar panels and kitchenware, but broader tariffs on Chinese imports were not imposed until NAFTA talks were complete.

That patterns seems persistent even now. The U.S. and China have toned down their rhetoric and are in regular negotiations. A planned announcement of a deal at the end of March has been delayed to late April without recriminations. At the same time, the U.S. is threatening the European Union with tariffs if negotiations are not commenced soon and demanding that the EU agricultural market be opened extensively to U.S. imports. Because of the EU's structure, both of these demands are problematic.

Japan, also under pressure from the U.S., does not have the same impediments to quick action as the EU and has announced its readiness for immediate talks.

*"The US will face much worse inflationary effects than China from the new round of tariffs. However, the difference shrinks once China retaliates."*

This shift of attention to the EU and Japan raises a big question. EU member states and Japan are geopolitical allies to the U.S. China is a geopolitical rival, and a substantial part of the impetus for U.S. trade demand of China is the desire to constrain China's geopolitical aspirations. There can be no such motive with the EU and Japan. That should mean easier resolution of trade disagreements. In the case of steel and aluminium tariffs, national security was the argument used when the U.S. imposed tariffs, and there was some blurring of the lines between ally and rival. Now, we will see if being allied with the U.S. makes a difference for the EU and Japan.

The US will face much worse inflationary effects than China from the new round of tariffs. However, the difference shrinks once China retaliates, making China relatively, if not absolutely, more disadvantaged. Note that imposing tariffs in two steps rather than all at once leads to the inflationary effects peaking about four quarters later, while the magnitudes of the price deviation are comparable.

## Aon's perspective

**The recent China-US trade war has led to a sharp spike in political risk enquiries, from firms looking to limit the impact of the dispute on their global operations. US firms are seeking to limit the impact of decisions made in Washington as well as retaliatory measures from Beijing and the knock-on implications for investment opportunities and trade. This trend has not been limited to those industries that are directly impacted by tariff impositions, but has spread to various sectors. Firms' concerns are wide-ranging in nature, from the potential loss of intellectual property to supply chain disruptions and decreased revenues.**

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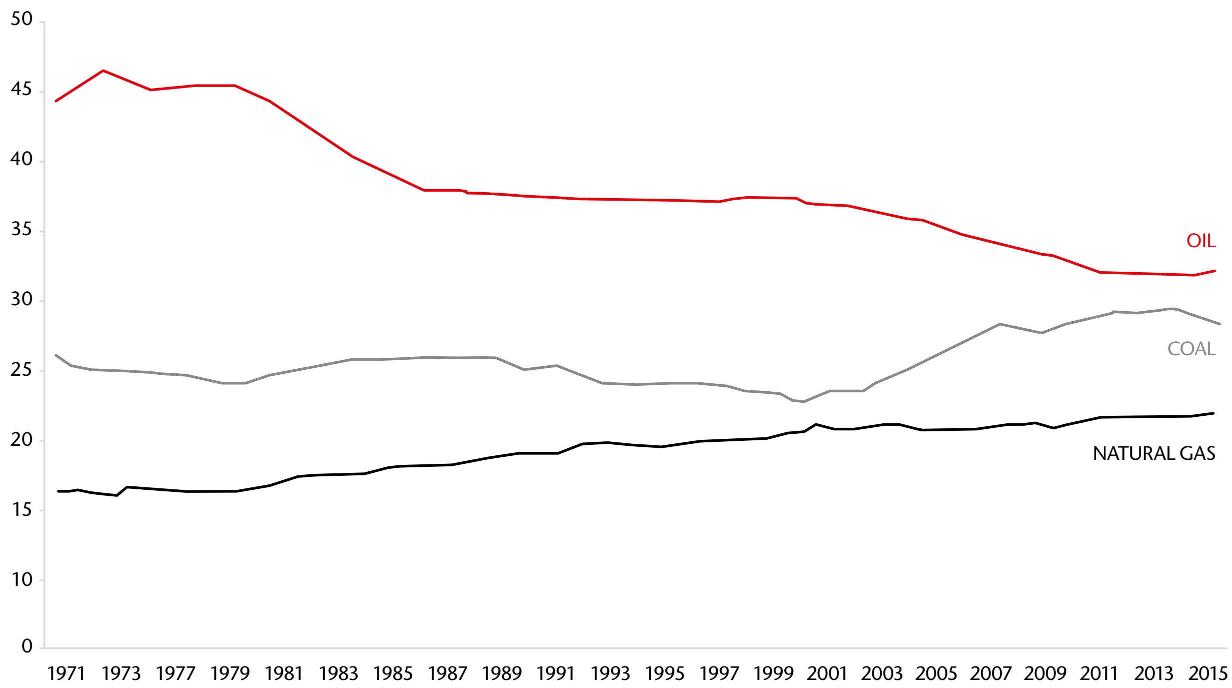
# GLOBAL: OIL AND GAS

**During 2018, volatility marked the global oil and gas sector. In fact, oil prices oscillated between USD 85 a barrel and USD 50 by the end of the year. Concerns about supply and demand were exacerbated by geopolitical events, such as Iran's sanctions, adding to a higher price volatility.**

Going forward, we expect changes to the global energy sector to take place, from growing electrification to the expansion of renewables and the globalisation of natural gas markets. The world is facing a dual challenge. On the one hand, more energy is needed to support continued global economic growth, but on the other, countries are facing the need for a more rapid transition to a lower-carbon future. Transformation in the energy system around the world is likely to have widespread implications for businesses, governments and individuals in the coming years. Thus, it is important for business to understand the underlying trends that have affected the global energy system and how to mitigate the potential effects of future developments.

Oil/Coal and gas resources dominate primary energy use *(% Total Energy use)*




*Source: Continuum Economics/Macrobond*

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Coal, oil and gas are still the resources that account for most of the world's energy consumption (see graph on page 17. The following three forces will determine the shape of the oil and gas industry in the future: improving air quality and climate change initiatives; energy security in a multi-polar world; and current supply investments.

In terms of climate change and environmental concerns, the world is moving away from fossil fuels towards low carbon and renewable energies. While this is a multi-decade trend, we have seen that the cost for renewables has plunged and different sources of energy are slowly integrating into the energy mix of several countries. Furthermore, a growing share of energy consumed is moving towards electricity. Currently, many applications related to heating, lighting or transportation are powered by electricity. Several national and local governments around the world are increasingly seeking to promote the production and use of low carbon and renewable energies. As countries successfully implement these energies in the coming decades, the demand for fossil fuel will drop significantly.

The second major force that will shape oil and gas demand is the move towards a more multipolar world. In order to achieve economic growth, countries must secure access to energy sources. Hence, geopolitical tensions that could risk and threaten energy security could change the energy preferences of certain nations. For instance, China is very reliant on Middle East oil, which is shipped through the South China Sea. This area has long been a flashpoint for conflict in the region and currently is a military chokepoint. Thus, China is diversifying its energy matrix with new renewable energy programmes and the Russian gas pipeline due to open in late 2019.

Last but not least, investment in the energy sector in recent years has been mixed. On the one hand, new large oil projects have not been in vogue since the 2015 collapse of oil prices and COP 21. In contrast, new gas production is in a major expansion phase into the early 2020s, backed by low costs for US and Australian fields and also cheap natural gas liquefaction facilities that help exports. Moreover, natural gas is a relatively clean burning fossil fuel as its combustion does not produce nitrogen oxides. As a result, the gas market is turning to a more interconnected supply market which contributes to the shift in energy demand from oil to gas. At the same time, according to the International Energy Agency's last report, investment in the power sector now attracts more investment than oil and gas combined. This is a major change for the traditional energy sector, which was dominated by upstream spending on oil and gas. More investment is likely to reduce costs and increase reliability on new energy sources, which is likely to reduce the demand for oil and cobalt.

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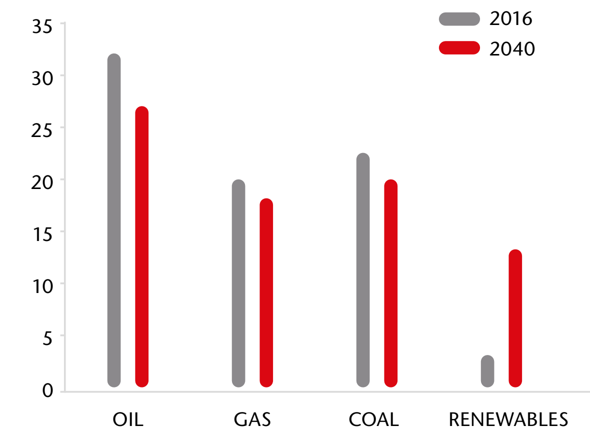
*"Peak oil demand is probably closer to 2030 than the mid-2020s due to energy security needs in large emerging markets and the lack of US government support for renewables."*

## What does future demand for Oil and Gas look like?

Given the factors we previously stated, we expect the energy mix to shift in the following decades as technology advances, consumer preferences change and government commitments to cleaner energy increase (see graph). Even if in recent years we saw a decoupling of energy demand growth from economic growth in many developed countries, the demand for energy will continue to grow in the coming years. The expected increase in global population and emerging market growth will be the main drivers of this increase in demand.

We expect the share of oil in the total energy mix to gradually decline given greater use of natural gas and new energy sources. Peak oil demand is probably closer to 2030 than the mid-2020s due to energy security needs in large emerging markets and the lack of US government support for renewables. For oil producing countries, this timeline will provide an opportunity to adapt their economies. Even so, fear that oil demand could peak in the next decades might become a big challenge for OPEC+ as they could push to ramp-up production before demand tapers off.

Energy mix for countries is likely to change significantly by 2040




*Source: BP/Continuum Economics*

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The share of gas in energy demand will continue to grow and overtake coal as the second-largest source of energy. Advanced economies will continue to move away from coal in order to obtain cleaner energies. At the same time, emerging market countries use gas rather than oil. Thus, emerging market growth will be an important narrative in gas demand and supply in the upcoming years. Given its environmental policies and growth needs, China is surging as a main player in the gas market. Most gas-producing countries will increase production. For instance, Russia will triple its production to meet its needs in 2035. Algeria, Nigeria, Venezuela, US, Saudi Arabia, Qatar, Iran, Russia are some of the countries with the greatest gas potential that could benefit from this trend, among others.

Reducing the use of coal has been on many governments' agendas for a while. However, several economies in Asia rely heavily on it as a source of electricity due to its abundance and affordability. Thus, several economies are facing the trade-off between environmental policies and energy security to achieve growth plans. Going forward, we expect coal usage to drop significantly by 2040. However, the pace and transition to move away from coal will depend on government and business commitment to new energy sources.

Currently, renewables are attracting most energy investments and are the fastest growing energy source in the world. Looking ahead, we expect that they will keep gaining importance, but oil and gas will continue to be the dominant source of energy by 2040.

## Aon's perspective

**As energy and power majors divest away from lower margin elements of their oil and gas business and make the switch to renewables, we have seen an increase in enquiries relating to the transfer of assets. M&A transactions have encouraged both buyers and sellers to seek coverage for investment and credit risk respectively. We are also seeing an increase in exploration and production (E&P) enquiries, for both political risk and trade disruption coverage, as firms seek to limit the impact of political interventions and border disputes on their global operations.**

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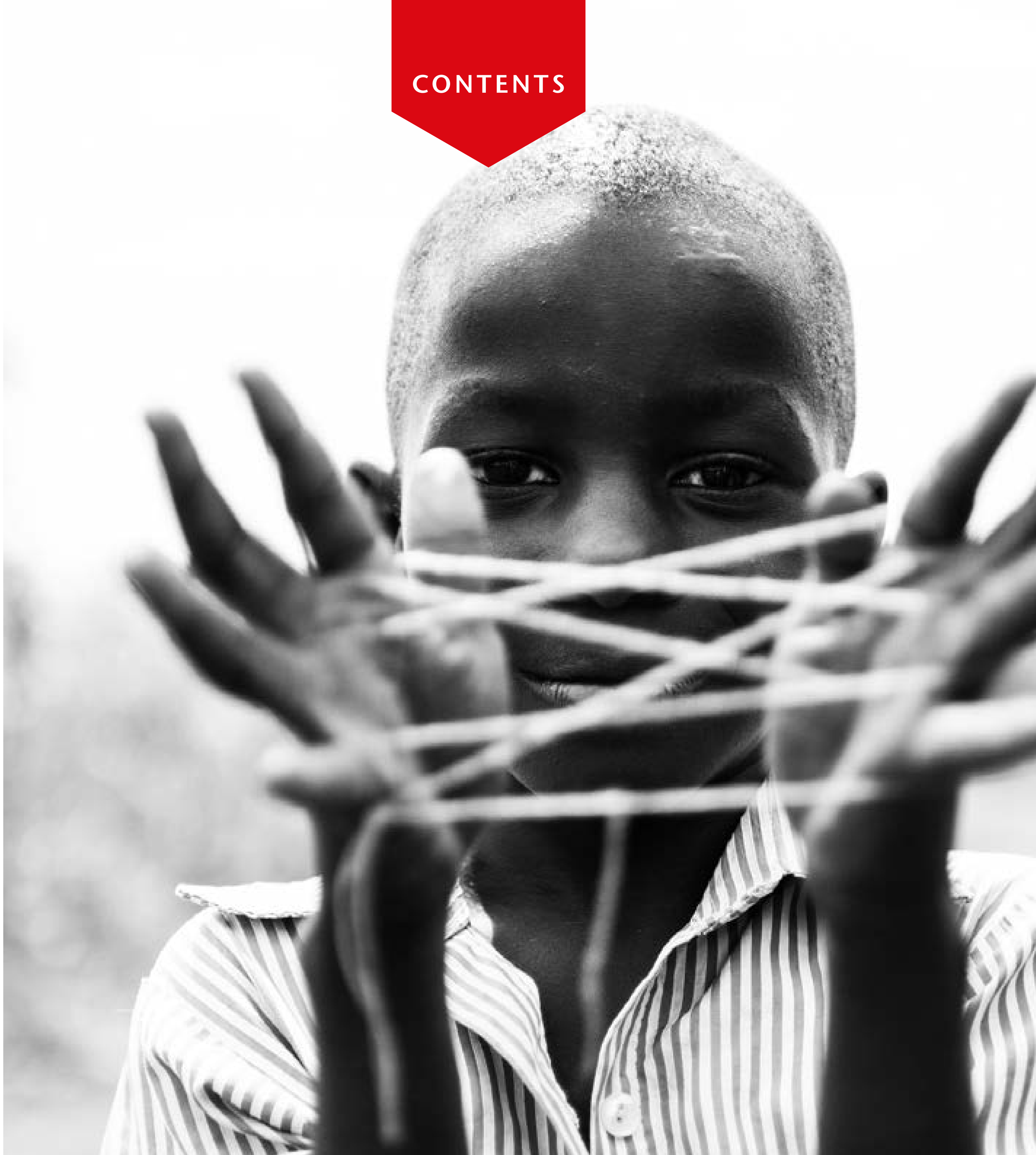
# AFRICA: TRANSITION OF POWER

2018 (and the start of 2019) was a year of peaceful political power transitions in Africa; long-sitting presidents abandoned power in Liberia, South Africa and the Democratic Republic of Congo (DRC) through established constitutional mechanisms. But it was also a year of strong political activity, with growing discontent amid economic woes, a short-lived coup in Gabon in early 2019, and opposition gaining power in several countries. Protests against long-serving rulers have been taking place in Sudan (which is seeking to remove President Omar al-Bashir from power after 30 years of ruling), Togo, Zimbabwe and Cameroon.

But in 2019, more than 20 African countries will hold elections, including Nigeria and South Africa – the two biggest economies in the region. The quality and independence of these elections continues to vary widely, however, polling, unrest and political changes in a continent where presidents have held on to power for decades may bring positive change or fuel more instability.



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In terms of individual countries, South Africa's general election (scheduled to take place between May and August) will set the momentum for structural reform. The euphoria that followed the election of Cyril Ramaphosa as President in February 2018 was driven by his promises to end state capture by private interests, boost investment and implement economic reforms that would increase real GDP growth. Whether he can deliver on those promises depends on the strength of the mandate he receives in the general election.

The DRC has a rare chance for change as it undergoes the first peaceful transition of power in the history of the mineral-rich country. The DRC's December 2018 presidential elections were of particular market interest because of the strategic significance of the country's main resource - cobalt. 60% of the total global supply of the mineral is mined in the Congo. Despite the appeal of cobalt, which is the main component of rechargeable batteries, the overall political risk score for the DRC is very high. Its public debt has jumped to 110% of GDP, with one-quarter of its external debt owed to China. This share is likely to rise, given China's hunger for cobalt resources. In line with the political risk score, the elections were fraught with allegations of voting fraud and delays. Finally, on January 20, the constitutional court ruled that opposition candidate Felix Tshisekedi won the election.

*"Presidential and parliamentary votes placed Nigeria under the shadow of political violence and the risk of instability in the Niger Delta."*

Ethiopia is one of the region's brightest spots and is undergoing some of the most interesting political developments in the region. After taking power last year, Prime Minister Abiy Ahmed introduced a multi-party democracy. This is especially notable in a country that's been under the rule of the Ethiopian People's Revolutionary Democratic Front for almost 25 years and where political repression to suppress ethnic tensions was widespread.

Still, there are concerns that economic risks are rising. Ethiopia's ex-Prime Minister Hailemariam Desalegn illustrated how an authoritarian state can deliver economic growth and development; it was one of the few exceptions in Africa where export-oriented special economic zones attracted foreign direct investment in manufacturing. Ahmed is also inheriting an increasing shortage of FX as imports have outstripped exports by 400% in the last five years. Government debt has also risen to 59% of GDP from 46.8% in 2013. Ethiopia's economy is becoming a higher risk proposition. On paper, Ahmed is committed to liberalising the economy, attracting foreign investment and tackling corruption, as represented by the arrest of 27 employees of the state-owned military-industrial company Metals and Engineering Corporation. But Ahmed may need to resort to repression to keep a lid on ethnic conflicts. He will also need to create jobs to reduce motives for violence.

Presidential and parliamentary votes placed Nigeria under the shadow of political violence and the risk of instability in the Niger Delta. Outbreaks of violence and localised instability will very much remain part of Nigeria's political outlook as the country will go to the polls this year. Power brokers will compete for influence between regional and national levels regardless of who wins. The very high overall political risk is driven by the continued war against Boko Haram in the northeast, which is expected to intensify in 2019. Tensions are also expected to rise in the conflict in the centre of Nigeria between farmers and herders over a new law on grazing rights. The economy has been recovering modestly since the 2014 slump in the oil price tipped Nigeria into a recession.

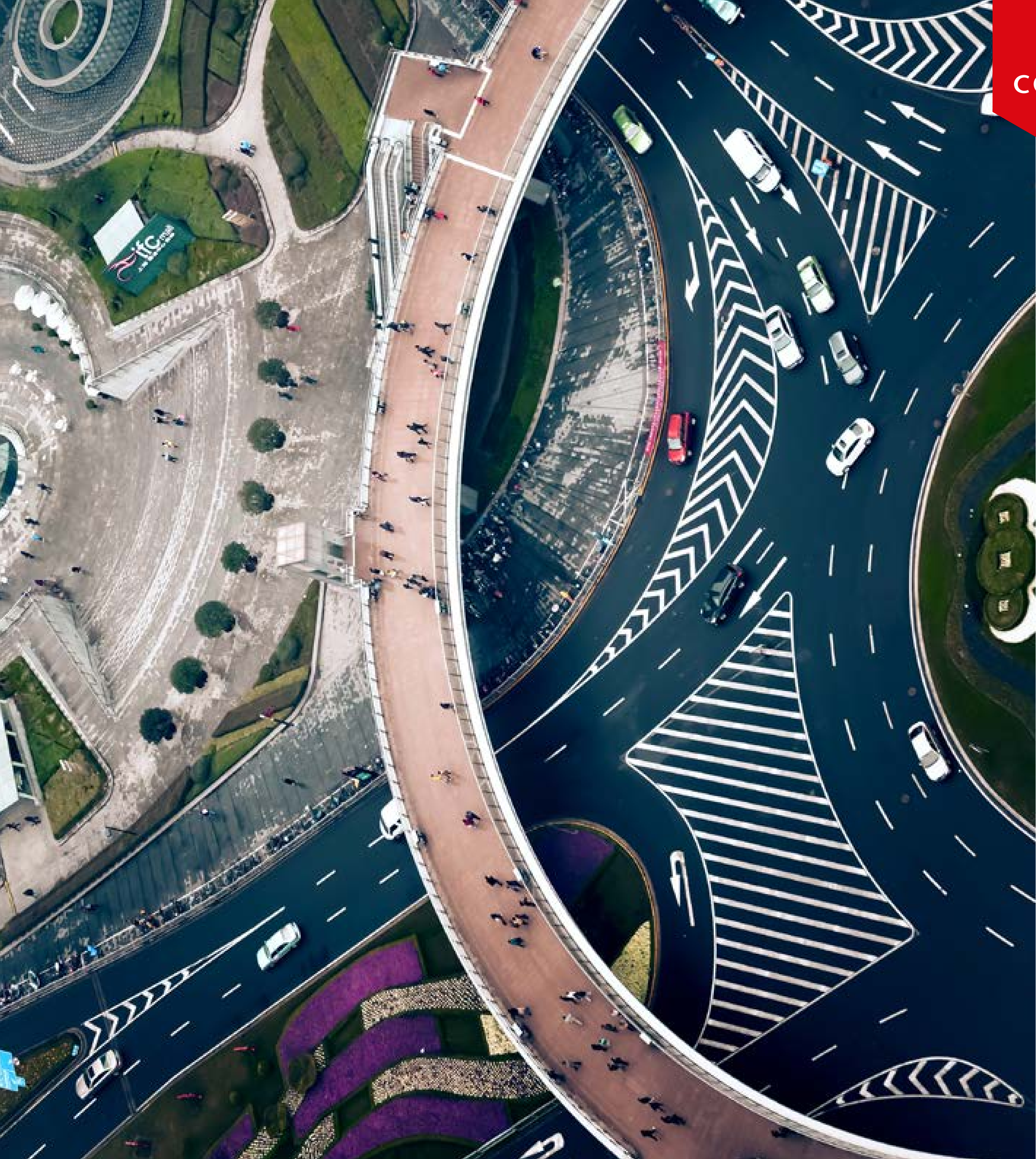
Zimbabwe remains a political and economic basket case, where labour unrest has been fuelled by a scarcity of food, medicines and foreign exchange. Political tensions are on the rise, with the government and opposition still in a dispute over last year's election. The country is going through one of the worst economic crises in at least a decade, with the dollar shortage eroding the country's ability to pay for imports and driving up prices. Public debt has jumped from 45% of GDP in 2013 to 75% in 2018 and can be expected to rise further in 2019. While labour unrest was ravaging the country earlier this month, President Emerson Mnangagwa was in talks with Russian President Vladimir Putin in Moscow, agreeing to Russian investment in Zimbabwe's diamond industry, a fertiliser supply contract and two financing deals worth USD 265 million — adding to Russia's existing arms-for-platinum project.

Soaring food costs have triggered unprecedented protests in Sudan. Sudan's own version of the Arab Spring has the potential to topple al-Bashir, who has been in power since 1989. To stem the protests, he would need to grant wage increases, subsidies and political freedoms, none of which are likely, thereby raising the odds of a political transition.

After years of political turmoil in Libya, the reconciliation between main rival leaders Chairman Fayez al-Sarraj and Field Marshall Khalifa Haftar has increased the hope for elections this year. Political risks linger, however, as the country remains divided and elections could spark more instability and chaos, potentially affecting migrant flows to Europe.

## Aon's perspective

**Our Africa book is diverse, with significant levels of enquiries relating to sovereign and political risk coverage. As one of the fastest growing regions globally and with a focus on infrastructure development, there are considerable opportunities for clients to utilise Political Risk Insurance to support regional development and insulate investors and projects from issues such as political intervention and sovereign non-payment.**



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# CHINA: BELT AND ROAD INITIATIVE

**China's Belt and Road Initiative (BRI) is a project requiring large-scale public and private investment to a large number of countries. Therefore, it brings enormous opportunities for companies and investors in different sectors. At the same time, however, the scope and scale of the project brings unique and complex risks inherent to developing markets, of which investors should be aware.**

The BRI is a development strategy proposed by China in September 2013. The aim is to deepen regional cooperation on a trans-continental scale by building land and sea infrastructure linking Asia with other parts of Eurasia. There are a wide range of projects to be developed but the overarching goal is to boost connectivity and reduce trade costs through new and improved transport infrastructure. Chinese and other international companies of all types will benefit, particularly those in industries like construction, transportation, industrial, consumer goods, telecoms, financing, legal and sustainability, among others. It's important that investors and companies that wish to participate in the BRI understand the risks and complexities of operating in these countries.

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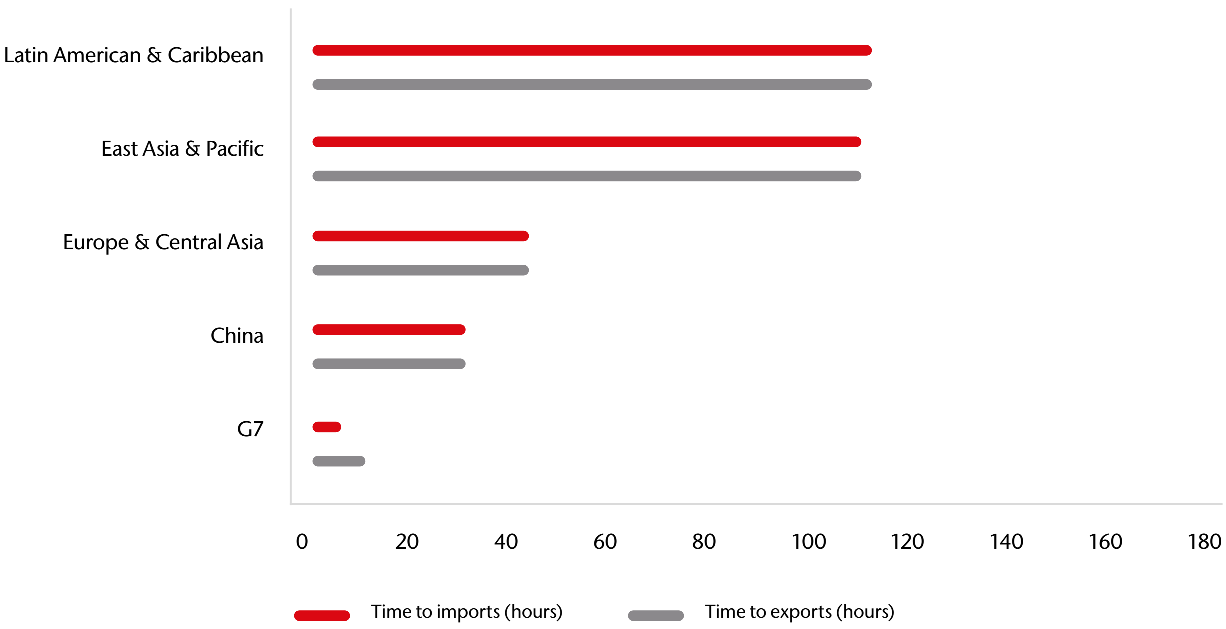
At this stage, there has not been a consensus among participants and non-participants that the BRI will be an unqualified success. However, the initiative could improve connectivity, boost international commerce by integrating countries into the world economy and increase global welfare.

The goal of the BRI is to create sustainable physical infrastructure and financial conditions that will drive trade and capital flows between the east and west. Therefore, one of the key benefits is a rise in investment in infrastructure projects. In June 2018, the Asia Development Bank estimated that the current infrastructure gap in 25 developing Asian countries is USD 459 billion a year, amounting to 2.4% of developing Asia's GDP. Trade in many countries like Afghanistan, Nepal and Tajikistan is below potential due to inadequate infrastructure, weak policy and other gaps. Therefore, a boost in infrastructure investment could bolster international commerce and help these countries further integrate into the world economy.

BRI countries take more days to import/export than G7 countries




*Source: World Bank Doing Business*

Countries are also likely to experience a boost in trade by reducing shipment times, likely translating in reduced trade costs between Europe and Asia and within Asia itself. Doing Business, a project measuring business regulations internationally, indicators show that countries in the BRI currently take much longer to comply with all the procedures to export and import goods (see chart). According to estimates from the World Bank, for each day an item is delayed getting from the factory gate to the consumer, trade is reduced by one percent. The BRI has the potential to improve the capacity and network of railways and other transport infrastructure, which could make trade easier and thereby improve growth in BRI economies. If BRI projects are successful, they can boost the welfare of a large number of people in poverty.

However, there are still several risks for the countries involved in the BRI. These include the cultural, environmental, social and corruption risks intrinsic to any big infrastructure project. Countries that are less financially developed, have weak institutions and limited regulatory capacity are more likely to face these risks. Countries with stronger institutions that are able to implement other policy reforms are likely to maximise the positive impacts of the initiative.

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Since the BRI focuses on emerging markets, where regulatory frameworks and institutions are not fully developed, risks for investors can be high. Companies looking to benefit from this initiative should pay attention to the legal and political risks that the different economies face, as they are key to BRI projects, especially considering the significant differences in legal and cultural regimes practised across the region. Also, as governments tighten regulatory and legal requirements for these projects, investors will have to factor in the increasing cost of compliance and regulation.

Furthermore, a few BRI countries suffer from political instability and civil unrest, increasing risk for investors that might not have adequate legal protection. Therefore, companies require good security intelligence and an understanding of political risk in order to identify and track the risk to their operations.

Partner countries have been concerned about the funding of infrastructure projects, as it has brought debt and sovereignty sustainability concerns. The US and other countries have also opposed the initiative, claiming that the BRI benefits China at the expense of other countries.

All these risks, both for participating countries and for investors, are inter-connected and are constantly changing as developing economies are likely to change over time—potentially quickly.

## Aon's perspective

**As the BRI investment trend continues, the use of credit and political risks insurance will continue to grow, either where the lender is covering non-payment of debt or where corporations insure their equity investments. We also expect more clients to use surety guarantees as effective alternatives to bank guarantees. As a ripple-effect from the infrastructure investment, particularly in the emerging economies of Southeast Asia and Africa, we expect to see a growth in the companies investing across the supply chain, including manufacturing hubs being established in free trade zones. These companies will be turning to credit solutions to secure risk and support finance.**

# METHODOLOGY

**Risk ratings are awarded on a seven-point scale, as shown below.**

- The Aon Political Risk Map measures political risk in 163 locations and territories.
- Risk ratings are standardised across each location, on a six-point scale ranging from low to very high, with all risks updated once per quarter.
- Location ratings reflect a combination of analysis by Aon Risk Solutions and Continuum Economics –a global macroeconomic analysis and advisory firm.
- European Union and Organisation for Economic Cooperation and Development member countries are not rated in the map.
- Continuum Economics (formerly Roubini Global Economics) is the international market-leading service for independent economic research powered by 4Cast and Roubini Global Economics.
- Its research combines expert insight with systematic analysis to translate economic, market and policy signals into actionable intelligence for a wide range of financial, corporate and policy professionals.
- This holistic approach uncovers opportunities and risks before they come to the attention of markets, helping clients arrive at better decisions in a timelier manner.
- Continuum Economics' quantitative approach allows CE and its partners to track changes in countries systematically, providing for more meaningful cross-location comparisons, and most importantly allows each political risk to be decomposed to the various elements that drive that risk.

Seven-point scale

| | | | | | | |
|---|---|---|---|---|---|---|
| Very High | Severe | Medium High | Medium | Medium Low | Low | Not Rated |

## Overall location rating

The overall rating captures an aggregate view of risk within the location. It is calculated as a simple average of six core risk measures (“risk icons”):

- Political Violence
- Exchange Transfer
- Sovereign Non-Payment
- Political Interference
- Supply Chain Disruption
- Legal & Regulatory

**Political Violence**
The risk of strikes, riots, civil commotion, sabotage, terrorism, malicious damage, war, civil war, rebellion, revolution, insurrection, a hostile act by a belligerent power, mutiny or a coup d’etat.

**Exchange Transfer**
The risk of being unable to make hard currency payments as a result of the imposition of local currency controls.

**Sovereign Non-Payment**
The risk of failure of a foreign government or government entity to honour its obligations in connection with loans or other financial commitments.

**Political Interference**
The risk of host government intervention in the economy or other policy areas that negatively affect overseas business interests; e.g., nationalisation and expropriation.

**Supply Chain Disruption**
The risk of disruption to the flow of goods and/or services into or out of a location as a result of political, social, economic or environmental instability.

**Legal and Regulatory Risk**
The risk of financial or reputational loss as a result of difficulties in complying with a host location’s laws, regulations or codes.


# 2
# TERRORISM & POLITICAL VIOLENCE

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# LEADER'S COMMENTARY

This is the twelfth year Risk Advisory has partnered with Aon to produce the Terrorism and Political Violence Risk Map . The country risk ratings draw heavily on proprietary data and represent the joint assessments of Risk Advisory and Aon. The map and its supporting analysis aims to provide a global overview of exposure to insurable political violence risks for businesses and their supply chains in 2019.

This issue of the Terrorism and Political Violence Risk Map points to continued instability in nearly every region. The resurgence of authoritarianism and nationalism has widened fault lines between allies, and fuelled geopolitical competition. It has also increased regime instability risks across much of the world as more governments adopt less inclusive policies and systems of governance. And it is undermining international multilateral institutions. All of this contributes to changes in the global order and state behaviour, and makes interstate conflict a more prevalent risk.

The map also captures how the threat of terrorism is evolving worldwide. It depicts a reduction in the number of attacks motivated by Islamist extremism in North America and Europe, and an increase in the pact of attacks motivated by extreme right-wing views. Other findings are that far-left terrorism is on the rise again in Colombia, despite a much-lauded peace deal with FARC in 2016, and that the pace of attacks by jihadists in Indonesia rose by almost six-fold last year.

The annual Terrorism and Political Violence Risk Map rests on twelve years of cumulative data, open source intelligence analysis, and risk assessment methodologies that focus on current and future risks. Through such an approach, we present an independent, data-derived and robust appreciation of global risk exposures.

**Henry Wilkinson** Head of Intelligence & Analysis, The Risk Advisory Group

# HIGH-LEVEL THEMES

- In North America and Europe, there has been a reduction in terrorist attacks motivated by Islamist extremism, and an increase in attacks motivated by extreme right-wing beliefs.
- Islamic State has become less able to mount and inspire attacks in the West. There were more than twice as many IS-linked attacks in North America, Europe and Australia in 2017 (26) than in 2018 (11).
- After IS lost territory in Iraq and Syria in 2017, it shifted focus to other countries with fragile security environments, particularly Afghanistan, Nigeria and the Philippines. The group and its supporters mounted at least twice as many attacks in these three countries in 2018 compared with the year before.
- Spain is among the countries and territories with a risk level decrease. Its exposure to civil commotion risk has declined in the last year as large and disruptive demonstrations in favour of Catalan independence have subsided.

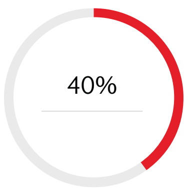
## Risk level increase

| | |
|---|---|
| Burkina Faso | High to Severe |
| Comoros | Negligible to Medium |
| Nicaragua | Medium to High |
| Sao Tome & Principe | Negligible to Low |
| Thailand | Medium to High |
| Zimbabwe | Medium to High |

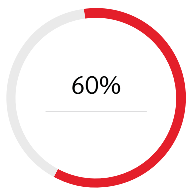
## Risk level decrease

| | |
|---|---|
| Benin | Medium to Low |
| Finland | Low to Negligible |
| The Gambia | Medium to Low |
| Ireland | Low to Negligible |
| North Korea | Severe to High |
| Norway | Low to Negligible |
| South Korea | High to Medium |
| Spain | Medium to Low |
| Uganda | High to Medium |

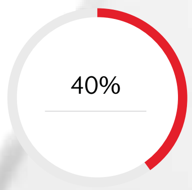
Countries exposed to terrorism & sabotage risk




Countries exposed to civil unrest risk




Countries exposed to war and coup risk




Rounded for clarity

## Terrorism and sabotage

Two in five countries worldwide are exposed to some degree of terrorism risk, the same ratio as last year. Iraq, India, Somalia, Nigeria and Colombia were the countries with the highest number of terrorist attacks in 2018, in descending order.

Colombia was not in the top five terrorism-affected countries in 2017. But peace talks with the ELN have since collapsed and FARC militants who rejected a 2016 peace deal with the government have expanded their operations. This resulted in a 140 percent increase in the frequency of attacks from 2017 (95) to 2018 (231). And Colombia displaced Pakistan from the top five, where it had been since at least 2010.

Sixteen percent of all terrorist attacks in 2018 targeted or directly impacted businesses. The industries most affected were in Iraq (mainly retail and critical infrastructure), India (construction and transport), Colombia (transport, critical infrastructure, and oil and gas), Thailand (critical infrastructure and finance) and Nepal (critical infrastructure and construction).

Terrorists used explosives in at least 60 percent of attacks that directly impacted businesses in Iraq, Colombia, Thailand and Nepal, increasing the likelihood and extent of property damage. Incendiary devices were the most commonly-used weapon against business interests in India.

Islamic State (IS) still has a global reach, but carried out attacks in fewer countries last year than in 2017. The group claimed responsibility for attacks in 24 countries in 2018, down from 29 in both 2017 and 2016. Its ability to mount and inspire attacks has receded in the West in particular. There were more than twice as many IS-linked attacks in North America, Europe and Australia in 2017 (26) than in 2018 (11).

The overall frequency of IS-linked attacks did not decline in 2018, however. The reduction in IS attacks in Western countries was offset by increases elsewhere, and their overall lethality was roughly the same. According to our data, around 2,600 people were killed in IS-attacks worldwide in 2018, only a five percent drop from 2017.

*"The risk of civil commotion is increasing in China, and strikes and labour protests have occurred with greater frequency over the last year."*

The data indicates that after IS lost territory in Iraq and Syria in 2017, it shifted focus to other countries with fragile security environments, particularly Afghanistan, Nigeria and the Philippines. The group and its supporters mounted at least twice as many attacks in these three countries in 2018 compared with the year before.

### Strikes, Riots, Civil Commotion, Malicious Damage

Three in five countries are at risk of some form civil commotion and related perils, marking a small decrease from last year. The likelihood and potential impact of strikes and unrest has declined in a handful of countries, including Spain, Germany, Belgium and South Korea.

The risk of civil commotion is increasing in China, and strikes and labour protests have occurred with greater frequency over the last year. Chinese-owned firms in the construction and manufacturing sectors have been affected the most, and unpaid wages have been the primary cause of strikes and demonstrations.

In addition, the frequency and participation in protests over pollution and broader environmental damage appears to be on the rise worldwide. India, China, Russia, Iran, Gambia and Nigeria are among the countries that experienced large or violent demonstrations over industrial waste and its impact on air or water quality in 2018. There is also growing mobilisation around these issues across Europe and North America, including among radical activist groups.

### Insurrection, Revolution, Rebellion, Mutiny, Coup, War, Civil War

Two in five countries are exposed to the risks of coup attempts, insurrection or armed conflict, marking a small increase in the prevalence of these perils from last year. The resurgence of authoritarianism and nationalism across almost all regions in recent years, as well as heightened great power rivalry, have been key contributing factors.

The risk of extra-constitutional power seizures or attempts has risen in Turkmenistan, Comoros and Zimbabwe. The authoritarian leaders of those countries have struggled to address causes of dissent among both the elite and the wider public.

And all three countries have experienced coups or coup attempts before.

The only country to leave the highest risk band in 2019 is North Korea. Its diplomatic engagement with the US and South Korea has lowered the likelihood of war on the Korean Peninsula, which was heightened in early 2018. The risk of war would increase again if North Korea resumed unannounced missile and nuclear tests, the last of which occurred in late 2017.

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# SOUTHEAST ASIA: RETURNING ISLAMIC STATE FIGHTERS

**The frequency of jihadist attacks across Southeast Asia rose by around 30 percent last year. The threat is highest in the southern Philippines, but also extends to Indonesia, and to a lesser degree, to Malaysia and Singapore.**

Despite the rise in attacks and the scale of the threat, security forces across Southeast Asia have demonstrated considerable efficacy in dismantling jihadist cells and preventing attacks. Based on data from The Risk Advisory Group, security forces in Southeast Asia foiled at least 24 plots in the region in 2018 and 17 in 2017.

In particular, the authorities in the Philippines have had success in preventing the jihadist threat from spreading beyond the south of the country. They have done so through enhanced intelligence gathering efforts and the extension of martial law in Mindanao.

This has made it more difficult for the various jihadist groups active in the southern Philippines to coordinate and seize new territories, as they did in Marawi in 2017. Instead, jihadists militants, and particularly IS-linked groups, appear more intent on initiating terrorist attacks. This appears to be part of a broader, global IS strategy to adapt its tactics to insurgency rather than holding territory.

The frequency of jihadist attacks in the Philippines increased by more than 20 percent last year. But the most notable proportional increase in the region occurred in Indonesia, where there were 27 jihadist attacks in 2018, almost six times as many as in 2017. Among these, IS supporters carried out a coordinated bomb attack at three churches in Surabaya in May 2018. IS claimed responsibility for the attack, the deadliest in the country in over a decade.

Religious minorities and state security forces remained the primary focus for such attacks. There is no indication that foreign or commercial interests are a priority target for pro-IS militants in Indonesia. Or that these networks are capable of mass casualty attacks such as those carried out by the Al-Qaeda-linked Jemaah Islamiyah in the 2000s.

By contrast, there have been no jihadist attacks in Singapore to date and there have been none in Malaysia since a grenade attack on a nightclub in Puchong in 2016. While the number of plots foiled by the Malaysian authorities tripled between 2017 and 2018, there are few indications of how developed these were or that militants in the country are becoming more capable of carrying plots to completion.

Aon's perspective

**Within Asia we are seeing increased interest from our clients around additional coverages, particularly Active Assailant and Loss of Attraction cover. These wordings can be built into terrorism policies or are available as a separate product. They provide cover against evolving perils posed when a non-property damage terrorist incident occurs. An example being a vehicular assault on pedestrians or a rampage knife attack. In both scenarios, the property damage will be minimal while the business interruption costs are likely to be large.**



# EUROPE & NORTH AMERICA: FAR-RIGHT TERRORISM

**Far-right terrorist attacks and plots in Europe and North America have almost doubled in frequency since 2016. The Risk Advisory Group and Aon recorded 27 in 2018, compared with 14 in 2016. This trend has remained evident in 2019, with the attack by a far-right extremist on two mosques in New Zealand that killed 50 people.**

Eighteen of the plots in 2018 resulted in attacks, and the authorities foiled at least nine others. The US and Germany had the highest number of attacks or foiled plots, with seven each.

Violent right-wing extremists in Europe and North America broadly seek to target the same groups; ethnic, religious and LGBT+ minorities, as well as liberal politicians and public figures. Their attacks are most frequently directed at mosques, synagogues, refugee centres, and other symbols of multiculturalism and immigration. Eight of the attacks in 2018 were incidents of arson. Seven involved knives or firearms, and there was a bombing against a centre for asylum seekers in Bolzano, Italy.

Figures on terrorist attacks do not paint the complete picture of the threat from far-right extremism, however. Our data does not include multiple other incidents of violence or intimidation directed at minority groups, which most jurisdictions classify as hate crimes.

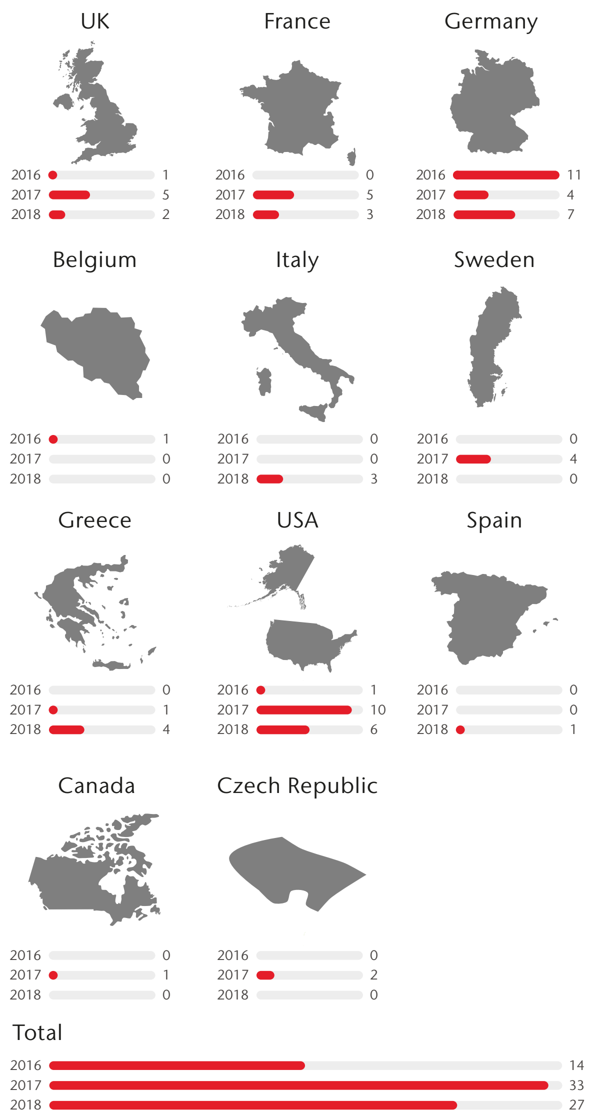
These tend to be more opportunistic than terrorist attacks, which are aimed at sending a political message beyond the immediate victims.

Regardless of whether incidents are classified as terrorism or hate crimes, most cases of far-right attackers in our and police data sets in the past year have not acted on behalf of an established group. Known and identifiable groups were directly responsible for just two of the 17 far-right terrorist incidents that we recorded in Europe and North America in 2018.

A member of the neo-Nazi Atomwaffen Division was responsible for a knife attack in California in January, and a group called Krypteia claimed responsibility for an arson attack against a refugee community centre in Athens, Greece, in March. The UK is another exception to the broader trend, where authorities have linked National Action to at least two foiled plots since 2017.

The lack of organisational affiliation among far-right terrorists makes it more difficult for the authorities to identify plots and intervene before an attack. Indeed, our data indicates a 70% completion rate for planned far-right attacks in Europe and North America in 2018. Jihadist plots, by contrast, resulted in an attack in just 28% of cases.

Number of far right terrorist attacks and foiled plots




## Aon's perspective

**The threat is growing across Europe and North America. Where terrorism coverage relies on government-backed insurance, clients need to review whether the scope would include attackers not aligned to particular groups, whose low-tech approach may not generate the impact required to trigger policy changes (i.e. no damage to property). There is a broader issue around the need for government certification with national terror pools – where an event is not certified as "terrorism" and so not covered by insurance. Clients may find themselves under-insured following such attacks. Broadening coverage by using a terror programme to deliver "malicious" acts coverage is a sensible approach to provide the responsiveness necessary for certain clients.**

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# AFRICA: CIVIL UNREST AND INVESTMENT

**Seventy percent of countries in Sub-Saharan Africa have a peril for strikes, riots and civil commotion in the 2019 issue of the Terrorism and Political Violence Risk Map. Twenty-five percent have a peril for terrorism and sabotage. Investments are often affected by this kind of unrest or violence, whether directly or indirectly.**

Elections are often flashpoints for disruptive protests and unrest. The Democratic Republic of Congo and Zimbabwe were key examples of this in 2018. In both cases, large protests and unrest before and after the polls caused significant disruption to travel, with knock-on effects for supply chains, particularly in mining.

But elections can also directly affect firms. During a political crisis in Kenya in 2017, opposition activists called for a boycott of companies with links to the incumbent president.

These included Danone, a French food-products conglomerate, and Vodafone, a British telecommunications provider.

At a macroeconomic level, prolonged political uncertainty around elections has the potential to jeopardise the viability of investments. The electoral crisis in Kenya in 2017 cost the country about USD 1.3 billion of investment, equivalent to around 1% of GDP, according to the Kenyan treasury. Similarly, data from the World Bank shows that economic growth in the country fell by nearly 17% in 2017, compared with the previous year.

Violence and unrest prompted by political dynamics can also affect investment outside election periods. Opposition politicians in Zambia have increasingly sought to rally their supporters against China's economic presence in the country in recent years. This prompted more than 30 bouts of anti-Chinese riots during 2018. And it culminated towards the end of the year in widespread violence against Chinese nationals and businesses in Kitwe and Ndola, as well as disruption to mining supply chains.

Investments perceived as linked to local governments are often at particular risk during periods of unrest. Throughout 2016 and 2017, opposition groups in Ethiopia attacked several businesses during protests. These included arson attacks on a Turkish-owned factory and several flower farms owned by Dutch investors.

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The attacks seemed to be part of a strategy to target firms linked to the government, in order to undermine its legitimacy. But given that almost all businesses in Ethiopia must engage with the government to operate, it was difficult for firms to distance themselves, either in reality or in perception.

Similarly, opposition groups at times target investment in strategic sectors as a way of pressuring the government. The Niger Delta Avengers, a militant group, mounted at least 44 attacks against oil infrastructure in Nigeria in 2016 and 2017. This was part of the group's strategy to pressure the government into making concessions.

*"As well as being disruptive, labour-related unrest has the potential to threaten the viability and profitability of investments."*

Indeed, after the attacks caused state oil revenues in Nigeria to fall by nearly 40% in 2016, the government agreed to enter talks. The same group threatened ahead of a presidential election in February 2019 that it would 'cripple the… economy again' if the incumbent won the poll.

Labour activism and unrest have also disrupted operations, and brought about tangible security risks to staff and assets, particularly in South Africa. In 2015 protesters in Bapong in the North West province of South Africa torched a bus and four cars belonging to Lonmin – a London-based platinum miner – in an attempt to force the firm to hire local workers.

Indeed, violence linked to perceptions of a lack of investment into local communities has forced at least four other miners to temporarily close their facilities on several occasions since 2016, including Glencore and Northam Platinum.

As well as being disruptive, labour-related unrest has the potential to threaten the viability and profitability of investments. Protests and blockades by unionised workers forced Rio Tinto, an Anglo-Australian miner, to shut a mine in Richards Bay, South Africa, for almost a month in 2018. The firm has not said publicly how much the stoppage cost. But the affected mine accounts for around a quarter of the world's titanium and pig iron, as well as a third of global zircon output. So the closure is likely to have affected both the operator, as well as firms that purchase such minerals.

## Aon's perspective

**Clients operating in Africa are exposed to a spectrum of potential impacts. From acts of terrorism presenting single point of impact; strikes, riots and civil commotion perils with a potentially broader geographical scope; through to more all-encompassing impacts from political violence. Your location will dictate the threat environment you face and the coverages you need to consider. For certain regions and risks in MENA there may be limited insurer appetite to offer political violence – and to a lesser extent terrorism. Clients who can understand the potential loss exposure, across their asset and operational footprint, are in a better position to make informed decisions about best fit terrorism and political violence coverage, (sub)limits and refining investment in their insurance programme; balancing premium spend with appropriate levels of financial resilience.**

# GLOBAL: TERRORISM AND SPORT

**The sports and entertainment industry is very sensitive to terrorism risk. A major attack at a sporting event or a concert can have a significant impact on consumer behaviour, and therefore ticket sales and attendance rates. So the industry must take adequate measures to assess, mitigate and transfer the risk of losses stemming from terrorism.**

The Risk Advisory Group and Aon recorded 16 terrorist plots against sporting and entertainment venues around the world in 2018. Although none succeeded, terrorists have previously attacked such sites. And spectator events are likely to remain a highly attractive target for certain terrorist groups. This is because an attack at a stadium or a theatre is highly likely to receive widespread coverage in global media, particularly if it occurs during a high-profile event.

A suicide bombing at an Ariana Grande concert in Manchester in May 2017 dominated headlines worldwide. And it had a large knock-on effect on the UK entertainment industry.

Artists such as Blondie, Take That and Kiss cancelled UK tour dates to show respect for the victims, and a major event promoter, Live Nation, offered refunds to people who no longer felt safe attending upcoming concerts in the country.

All but two of the 16 foiled attacks against the entertainment industry in 2018 were planned by jihadist groups and their supporters. A far-right cell and a person whose motives remain unclear planned the other two.

Most aspired to carry out bombings, often in combination with other tactics – primarily the use of firearms, and in one case, the dispersal of a toxic substance. Bars and nightclubs were the intended target in many planned attacks, probably because larger venues tend to have more layers of security.

LGBT+ nightclubs in particular have been a recurring target in terrorist plots and attacks in recent years. Most prominently, a supporter of Islamic State (IS) shot and killed 49 people and wounded 53 others at a gay nightclub in Orlando, Florida, in June 2016. In June 2017, British police arrested a right-wing extremist who planned to carry out a knife attack during a pride event in Cumbria. More recently, police in Frankfurt arrested an Islamist extremist in September 2018 who planned to bomb an LGBT+ nightclub.

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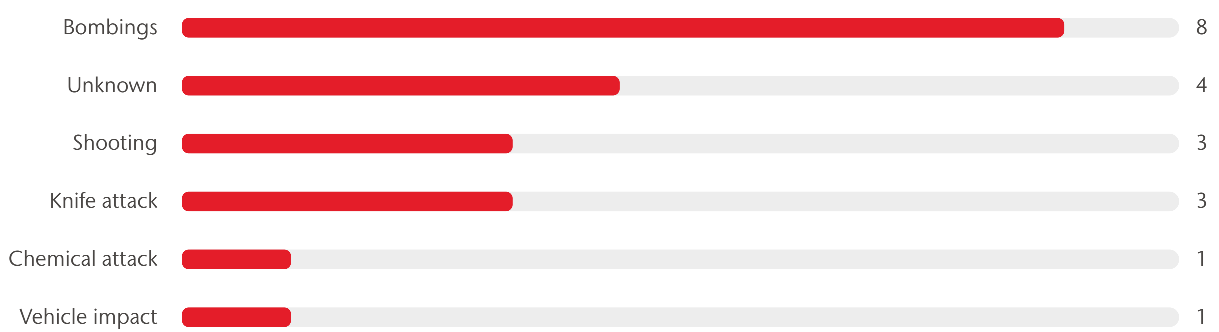
*"Recent attacks have made use of both low-tech and high-tech tactics of attack, presenting particular challenges for those securing these spaces."*

Parades and street celebrations have also been an attractive target for terrorists, probably because they are harder to secure than events in closed spaces. In July 2018, an Al-Qaeda supporter planned to hand out remote-controlled cars containing explosives to children at an Independence Day parade in Cleveland, Ohio. And police in Port of Spain, Trinidad & Tobago, arrested seven suspected jihadists who planned to carry out an attack during Carnival celebrations in February 2018.

Stadiums and other closed venues tend to have tighter security measures than parades, but are still an attractive target for terrorists. The Russian security service said that it had foiled multiple terrorist plots to use drones to disrupt matches during the 2018 FIFA World Cup, for example.

The effort to secure stadiums, theatres, and other venues is a continuous challenge. And the absence of major attacks against the sport and entertainment industry in more than a year is probably more a reflection of adequate mitigation and policing displacing the threat to less secure areas, rather than a diminished threat.

Intended attack method in terrorist plots against the sports and entertainment sector (2018)




## Aon's perspective

**The high concentrations of people within sports and entertainment venues presents an attractive target for Islamist extremists, fulfilling ambitions for indiscriminate mass casualty attacks. Recent attacks have made use of both low-tech and high-tech tactics of attack, presenting particular challenges for those securing these spaces. Balancing security with the customer experience, when customer expectations do not accept a more forward-leaning approach to security delivery, requires a sophisticated approach to managing risk. There is also the potential that venues are exposed to liability and negligence claims in the event of attack, should their response be sub-optimal. Increasingly, clients are reviewing options to enhance casualty programmes, as well as the impacts to brand and reputation that could result from these attacks.**

# METHODOLOGY

**Risk ratings are awarded on a five-point scale, as shown below.**

Risk levels represent assessments of the net level of risk across all the political violence (PV) typologies. As a metric, they indicate the likelihood and impact of business exposure to PV events. The higher the rating, the greater the likelihood or impact of such events.

The risk levels indicate assessments of the frequency of occurrence and likelihood of exposure to PV events, as well as their impact to businesses. Assessments also take into account the impact of PV events upon the wider environment that in turn have a negative cumulative impact on risk.

Risk ratings will be higher if the threats in a given location are specifically or disproportionately targeting international commercial interests. For example, if a terrorist group is active and exclusively targeting commercial interests, the risk level may be greater than a location where terrorists are more active but show no intent to target commercial interests.

Five-point scale

| Severe | High | Medium | Low | Negligible |
|---|---|---|---|---|

## Peril typologies

Perils are marked on the map. We only assign perils when the risk rating is 'low' or higher.

- Terrorism and Sabotage (T&S)
- Strikes, Riots, Civil Commotion, Malicious Damage (SRCCMD)
- Insurrection, Revolution, Rebellion, Mutiny, Coup d'Etat, Civil War and War (IRRMCCW)

For ease of reference and readability, we use 'civil unrest' when referring to the SRCCMD peril, and 'terrorism' for T&S. For the same reason, we will usually refer to the specific risk when using the IRRMCCW peril. For example, we will refer to 'war, 'coup' or an 'insurrection' peril rather than 'IRRMCCW'.

The number of perils does not necessarily affect the risk level. A location with high levels of civil unrest may still score a severe risk rating if the impact of unrest is sufficiently severe. Equally, a severe terrorist threat (a high likelihood of attacks) may not equate to a severe risk level if we assess other factors mitigate the potential impact of attacks, and other perils may be low risk.

## Assessments

The map captures assessments of the probability and impact of events occurring along the spectrum of insurable terrorism political violence risk typologies. The location risk scores and identified perils are based upon analysis of proprietary empirical data from the preceding year, as well as open-source intelligence analysis of the intentions and capabilities of relevant actors, and of more systemic prevailing trends affecting security and stability around the world.

Assessments (ratings) draw upon empirical data on events (such as the Risk Advisory/Aon Terrorism Tracker database) as well as Risk Advisory's intelligence and political risk analysis.

The analysis takes into account factors and assessments on political stability, conflict dynamics, activism, socio-economic factors, macroeconomic forecasts, government policy, the nature of political systems, defence spending and military activity, and other factors.

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The Terrorism and Political Violence ratings do not indicate or reflect crime or other non-political security risks, or non-violent political risks. Nor do they indicate general security risk. A severe risk rating, for example, does not necessarily indicate that day-to-day security risks are prohibitive to business.

## Nomenclature

When countries are scored, their risk level either goes up, down, or remains the same. An increased score therefore means that the risks are worsening and businesses are more exposed to PV risks.

An increased score therefore represents a downgrade as the business environment is more hostile, while a reduced risk score represents an upgrade as the business environment improves due to reduced risks.

## Terrorism data

All terrorism data is derived from TerrorismTracker – a joint initiative by Risk Advisory and Aon to capture every terrorist incident and plot recorded in open sources since January 2007. TerrorismTracker is intended to give the most accurate and precise picture of terrorist activity worldwide.

As an open source and exclusively terrorism-focused dataset, it is important to note that our data may seem to underreport incidents in some cases. This is usually for two reasons:

**Unreported incidents:** Not every terrorist attack is reported in open sources. This is particularly the case in conflict zones, where there may be an absence of credible or capable reporting sources (Syria and Yemen are particular examples), and in countries where there are high levels of censorship on security matters.

Attacks are not always terrorism: our dataset focuses on terrorism, and excludes acts that do not fall into our definition of terrorism.

The TerrorismTracker dataset excludes acts of warfare (irregular or conventional); acts of genocide; criminal violence oriented exclusively for profit but that emulate terrorist tactics such as car bombings, violent anti-social behaviour; and civil unrest.

It also excludes acts of violence by unbalanced individuals such as active shooter incidents, unless there is evidence the motives of the attack are consistent with definition of terrorism (i.e. politically, religiously or ideologically motivated). The dataset excludes war crimes unless they are perpetrated in such a manner that is consistent with our definition of terrorism.

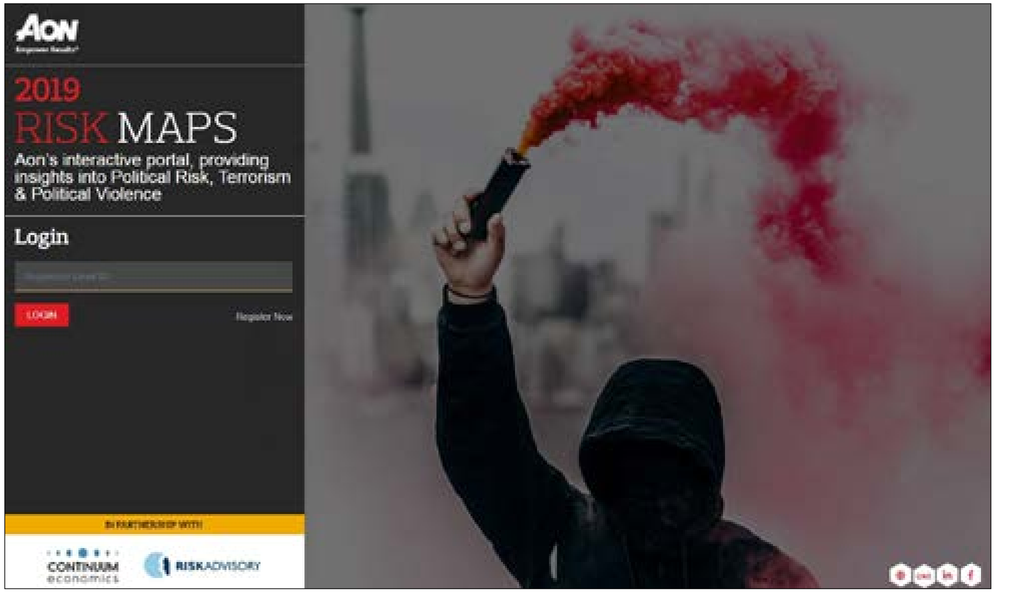
The dataset does not assume all acts by terrorist groups are terrorist incidents. It does not include activity by a recognised terrorist group unless such activity constitutes in itself an act of terrorism. For example, attacks by Islamic State forces on the Iraqi military on the battlefield are acts of warfare, and so are excluded from the dataset.

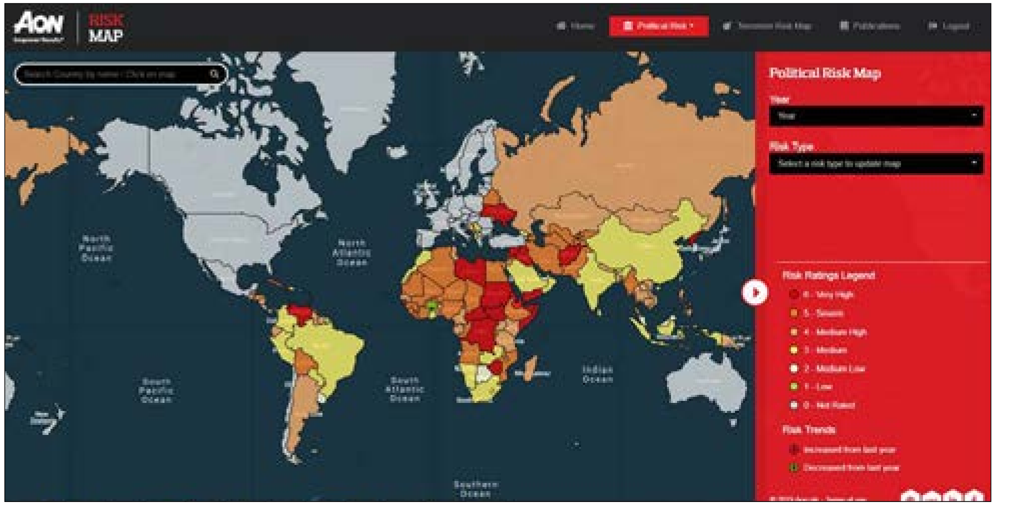
*TerorrismTracker figures are constantly being updated so the data contained in this report is correct at the time of printing but may be subject to change at a later date.*

# MAP PORTAL

Aon's Risk Maps portal is freely accessible to all those interested in the issues of political risk, terrorism and political violence and their potential impact on global operations.

Follow the link below to access the interactive website. [https://www.riskmaps.aon.co.uk/](https://www.riskmaps.aon.co.uk/)



# CONTACTS

## Political Risk contacts

### GLOBAL

**Vlad Bobko**
+44 (0)20 7086 4834
vlad.bobko@aon.co.uk

**Sarah Taylor**
+44 (0)20 7086 6148
sarah.taylor@aon.co.uk

### REGIONAL POLITICAL RISK SPECIALISTS

**John Minor**
US
+13123819654
john.minor@aon.com

**Steve Taylor**
Asia Pacific
stephen.taylor2@aon.com
+65 65120226

## Terrorism and Political Violence contacts

### GLOBAL

**Vlad Bobko**
+44 (0)20 7086 4834
vlad.bobko@aon.co.uk

**Tony Day**
+44 (0)20 7086 0740
tony.day1@aon.co.uk

**Scott Bolton**
t +44 (0)20 7086 8111
scott.bolton1@aon.com

### REGIONAL TERRORISM SPECIALISTS

**James Bannister**
US & Canada
+442 0708 6433
James.bannister1@aon.co.uk

**Richard Sawyer**
UK
+44 (0)20 7086 6707
richard.sawyer@aon.co.uk

**Mark Leverick**
US
+12124412122
mark.leverick@aon.com

**Julia Dickson**
International
+4420 7086 0733
julia.dickson@aon.co.uk

**Julian Taylor**
Asia Pacific
+65 62316402
julian.taylor@aon.com

## About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.



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## About The Risk Advisory Group

The Aon Terrorism and Political Violence map represents detailed empirical and intelligence-based assessments on terrorism threats and political violence risks. The map has been produced in conjunction with The Risk Advisory Group since 2007. The Risk Advisory Group is a leading, independent global risk management consultancy that helps businesses grow whilst protecting their people, their assets and their brands. By providing facts, intelligence and analysis, The Risk Advisory Group helps its clients negotiate complex and uncertain environments to choose the right opportunities, in the right markets, with the right partners.

For further information on The Risk Advisory Group, please visit www.riskadvisory.com.

RISKADVISORY

## About Continuum

Continuum Economics (formerly Roubini Global Economics) is the international market-leading service for independent economic research powered by 4Cast and Roubini Global Economics. With its growing user base of 10,000 clients and a reputation for incisive analysis on every aspect of the market, it provides research that spans short-term market signals and long-term strategic themes. This approach uncovers opportunities and risks before they come to the attention of markets, helping our clients make more informed decisions.

Continuum Economics works with clients in a series of different ways, from macro strategy subscription products to bespoke work, multi-client conference calls, direct access to analysts and the licensing of its systematic country risk analysis tool. For further information on Continuum Economics, please visit continuumeconomics.com.

CONTINUUM economics