



COVID-19 and political risk: Fuel to the fire

Political tensions that dominated much of 2019 have carried on into the new decade, and the effects of the COVID-19 pandemic have only exacerbated the situation. We spoke to **Marsh's Messrs Mark Wong** and **Adam Russell** to get a better idea of the political risks that businesses are most concerned with.

By Amir Sadiq



Mr Mark Wong



Mr Adam Russell

The last few months have seen the ongoing pandemic's economic and social impacts drive significant shifts in global political risk. According to Marsh's mid-year update to its Political Risk Map 2020, COVID-19 has introduced new dynamics and accelerated existing geopolitical megatrends such as trade protectionism and the transition to a multipolar world order.

"The deepening Sino-American rivalry has accelerated since the onset of COVID-19," said the report. "The politicisation of trade and investment relationships has extended to public health, with leaders in both countries routinely blaming the other for the pandemic."

Beyond the rivalry between US and China, the recent confrontation between Chinese and Indian forces in the Himalayas and simmering tensions on the Korean peninsula all add to the political risks that businesses in Asia are facing.

Affecting client risk profiles

Marsh JLT Specialty Asia political risk and structured credit leader Mark Wong told *Asia Insurance Review* that, in the coming months, we can expect to see a heightened political risk environment intensified by the pandemic as some governments seek to distract attention from domestic issues by ramping up foreign-policy assertiveness, bringing a risk of confrontation.

"Given the current environment, quite a few of our clients have highlighted their risk concerns and

we have been actively helping them to manage down some of these exposures via the use of credit and political risk insurance products," he said.

"Some of the risks highlighted include wrongful government actions against foreign investments, frustration of trade contracts arising from new regulations and embargoes and the repudiation of contractual agreements with government or state-owned entities."

At the same time, Marsh Asia retail placement leader Adam Russell pointed out how continued unrest in the US is also a cause for concern as it spreads and gathers momentum.

"There have been significant losses already and the potential for radical protests has many clients on alert," he said. "Retail outlets and other previously 'less high risk' targets have seen their exposure increase significantly."

He added that prolonged lockdowns in many cities, despite having dampened terrorism activity, will fuel anti-government sentiments and heightened exposure when such measures are relaxed.

"The spread of activism and the efforts of governments to suppress and abate such events is a concern much closer to home, here in Asia. We see this driving the narrative when clients talk about their risk profile," he said.

Solutions are available and being worked on

Despite COVID-19 having

complicated an already volatile political risk landscape, insurers today are already well-equipped to offer clients the solutions they require. Since the events of 11 September 2001, the products and suite of services insurers can offer clients has broadened.

"Today, clients can access pre-loss modelling of potential damage based on a variety of different scenarios combined with a marketplace that has increased in capacity with new entrants on a regular cadence since its inception almost two decades ago," said Mr Russell.

Mr Wong added that the political risk insurance market has been growing exponentially over the last decade and there are currently more than 60 political-risk insurers offering a combined market insurance capacity of about \$3bn for any one risk or transaction.

"Political-risk insurers are able to offer long policy periods which dovetail with long-term investments and within the political risk insurance market, a number of insurers can offer tenors of up to 15 years," he said.

In addition to long-term coverage, he suggested that it would be useful to cover new investments and lending in emerging markets, and the development of political-risk insurance coverage and appetite in the growing renewable energy and power sector, which Marsh has been working on with political risk insurers.

Marsh Asia was recognised as Broker of the Year at last year's 23rd Asia Insurance Industry Awards.▲