

# CLEMENTS WORLDWIDE RISK INDEX



**SUMMER 2015 EDITION**

 **clements**  
WORLDWIDE

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## How would you rank the following global risks in order of level of concern for your organization?



## INTRODUCTION

Renowned businessman Henry Kravis said, “If you have something at risk, you think differently.” And organizations doing business in high-risk locations must do the same. Thinking differently implies understanding the very nature of what may be unknown or unfamiliar to us. And when it comes to global operations, it means understanding the potential risks of political unrest and violence to the organization’s personnel, assets and even its reputation.

Our recent survey among global risk management professionals at multinational corporations and non-governmental organizations (NGOs) – known as the *Clements Worldwide Risk Index* – highlights one major concern, which reflects a key risk for firms operating in developing countries: the potentially disruptive—and dangerous—threat of political unrest.

Organizations don’t operate in a vacuum. As corporate leaders, we launch foreign subsidiaries; we source goods globally; we partner with foreign agencies; we collaborate with other companies beyond our borders. And as our business world expands, we know intuitively that it also brings about new, emerging and evolving challenges to our operations everywhere – whether we are present in Asia, the Middle East, Africa, South America, and even in politically stable Europe. Yet, surveys show, we remain concerned about political risks, unsure how to actively manage them worldwide.

The answer lies in working with subject-matter experts that can help us assess all aspects of our international operations, providing management solutions so that we can stay competitive, protected and safe from sudden shifts in government, political disturbances or regional conflicts. It also means checking international insurance coverage, as standard policies that may be in place from years ago are likely not sufficient and fit for global growth purposes.

Still, as our survey shows, a large percentage of participating organizations indicated they are unprepared for threats such as terrorism or disease outbreaks. In addition, we see that property damage

and employee medical expenses represent the largest sources of financial losses among respondents. The challenge is clear: we should be better prepared.

And that applies to all organizations operating outside their home territories. For example, global humanitarian organizations, as well as international schools, believed they were immune from kidnapping in the locations where they operate, assuming there was local goodwill generated by their respective missions. However, they too have become easy targets in kidnapping and political violence cases, where foreign teachers and humanitarians suffered the consequences of lack of training, preparation and proper coverage by their employers. A recent incident where four teachers were kidnapped in Libya serves as a sad reminder of the risks that exist for everyone abroad. In short, every type of organization needs to address international political violence as well as kidnap & ransom (K&R) risks, not just the big multinationals.

As the definition of political violence, including terrorism, is evolving, organizations must understand the risk catalysts, as well as the triggers that activate their insurance coverage, to ensure they are protected. The *State Department’s Annual Country Report on Terrorism* released, in April, indicates that the number of terrorist attacks worldwide in 2014 increased by 35%, while total fatalities from terrorism activities grew by 81%, compared to 2013.

A relatively stable country today may, as soon as tomorrow, face sudden challenges that can spark violent civil disobedience or damaging riots, for example. Awareness of these possibilities among global decision-makers is not enough. Action to increase our preparedness is what is required.

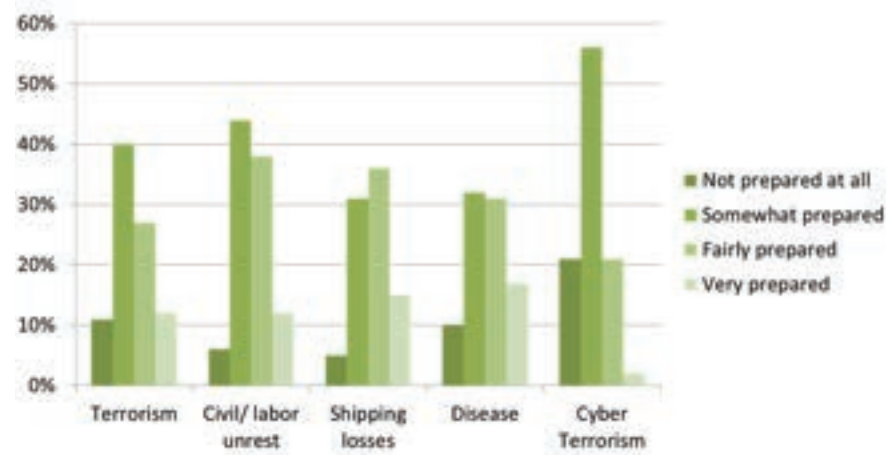
This survey summary will give you insight into how your peers perceive political risk and their challenges in creating the risk management plans necessary to protect their staff and assets. Use this data as a catalyst for change within your company to increase your preparedness to face the ever evolving challenges of operating in the global economy.

## READINESS TO RESPOND

### Responses

On the subject of readiness to respond to such potentially violent or catastrophic events, 21% of respondents admitted being “not prepared at all” for a **terrorist attack**, while 11% considered themselves “very prepared.” Seventeen percent said they were “very prepared” for the ramifications of a **disease outbreak**, while 10% said they were “not prepared at all” for that threat. Additionally, 21% said they were “not prepared at all” for a **cyber attack**.

**How prepared do you feel your organization is to respond to and continue operations should the following occur?**



### Clements Insight

“Clements believes these low numbers represent a number of factors,” said Chris Beck, President of Clements Worldwide. “First, it reflects the conservative nature of risk managers. A good risk manager is always worried about their level of preparation because they have seen costly accidents come from unexpected parts within the organization.”

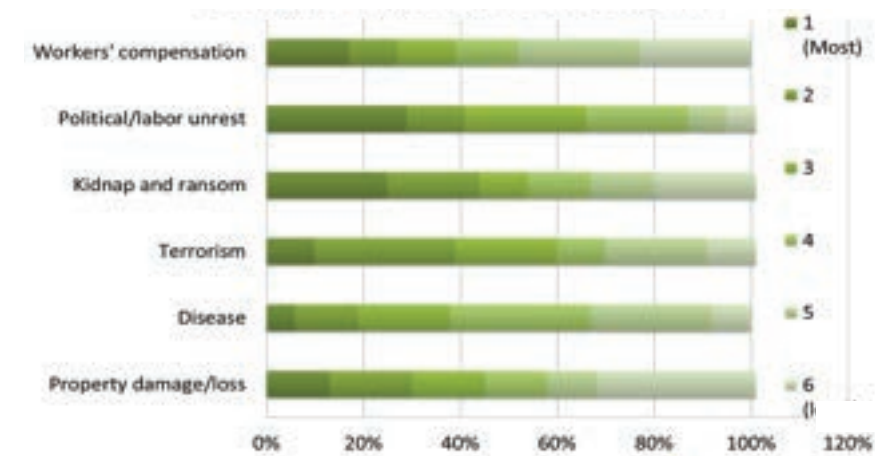
The world is more unpredictable than it was 5 years ago. Places like Thailand, Brazil, or even Paris, France have seen civil unrest or even acts of terrorism. Risk managers need to plan for really the unplannable, which is definitely a challenge. “Like everyone in a global business, time is a precious commodity,” said Beck. “Risk managers can’t find the time to update plans and policies, and therefore, feeling increasingly unprepared to meet complex global threats.”

## CHANGING DEFINITION OF POLITICAL UNREST

### Responses

Twenty-eight percent of top managers surveyed stated political unrest was their top concern, while 25% cited kidnapping, and nearly 10% cited terrorism. Twenty-one percent of respondents had delayed plans to expand into new countries due to rising international risks.

**How would you rank the following global risks in order of level of concern for your organization, with 1 being the highest level of concern?**



### Clements Insight

“When I talk to analysts and investors, they often don’t understand that increased political risk can cripple business growth,” stated Beck. “We work with companies who have contracts to do business in Libya or Afghanistan, but can’t because they can’t secure political risk insurance for their investments.”

New market entrants may have a business skill or product set that is in demand in developing countries, but no experience working in high-risk markets.

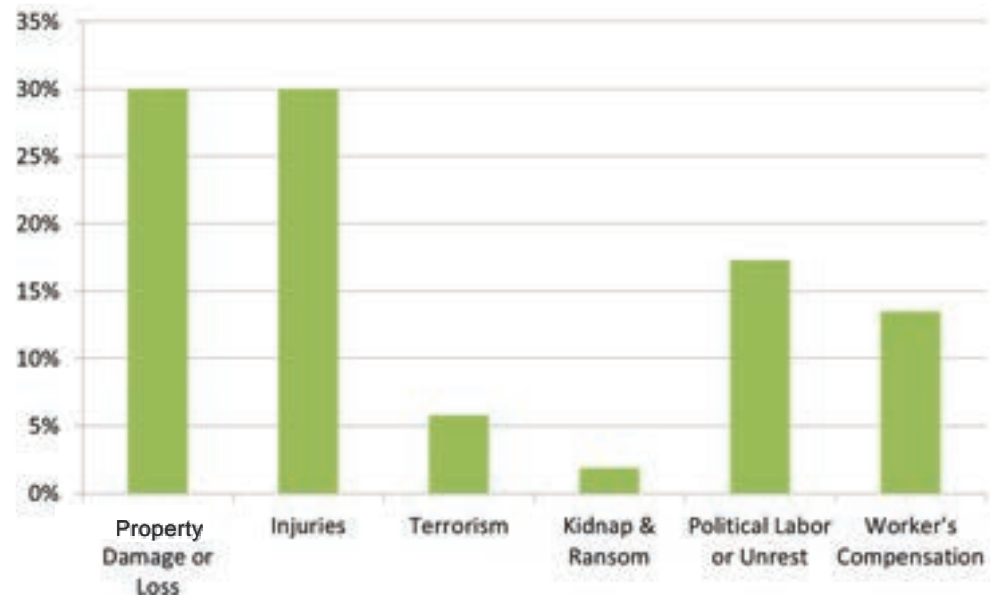
New market entrants are exploding with the number of multinational companies growing from 7,000 to almost 104,000 over the past 50 years, with expectations that this number will grow to 140,000 by 2020 according to UNCTAD. Insurance specialists or other risk specialists can help be a resource for companies working overseas and ensure they have access to the coverage they need to grow in new markets.



## LARGEST LOSSES

Sixty percent of losses reported by respondents fell into the following two categories: property damage or loss or injuries. The next highest category were losses due to political labor or unrest, followed by workers' compensation.

In the past 5 years the largest losses abroad have been due to:



### Clements Insight

"Losses for overseas companies are not fundamentally different than what you would see for U.S. based companies - they tend to focus on human capital and property," said Beck. "We see this trend amplified in developing countries."

Government regulation creates a safety net. For example, Clements Worldwide recently received a claim for an explosion in a cafeteria that had caused personnel injuries and loss of property. In the U.S., building codes would have probably prevented the faulty construction that contributed to this loss.

Related to the above, challenges of working in a developing country create additional costs for an incident that would be "more routine" in the U.S. A broken leg may require a medical evacuation because the local medical infrastructure does not meet Western standards.

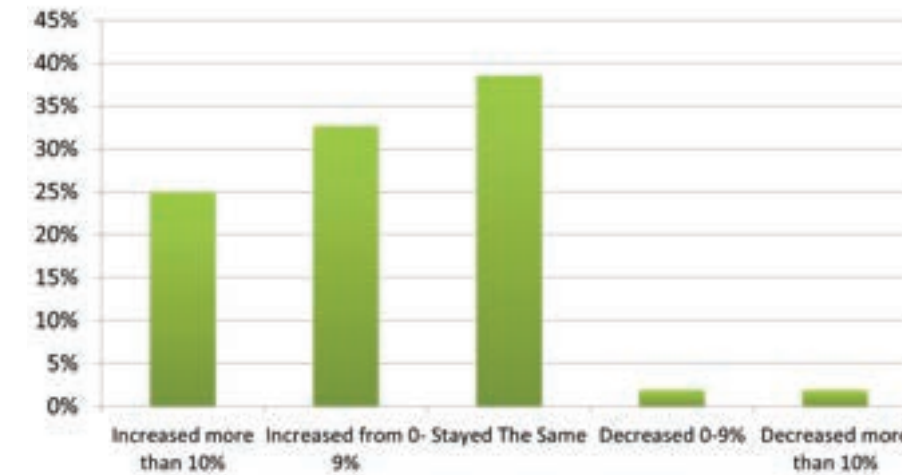
Companies, who want to see the financial benefits of a robust international trade program, must also be prepared for the costs of working in such a complex environment.



## SPENDING ON INSURANCE & DECISION MAKERS

Fifty-seven percent of respondents reported increased spending on international insurance over the past year.

Spending for international insurance in the past year has:



AVERAGE COST OF DAMAGE CAUSED BY A DATA SECURITY INCIDENT:<sup>2</sup>

**\$720,000**

COST OF A TARGETED CYBER ATTACK:<sup>3</sup>

**\$2,540,000**

AVERAGE RANSOM DEMAND:<sup>4</sup>

**\$2,000,000**

AVERAGE POLITICAL RISK INSURANCE CLAIM PAYMENT BY OPIC:<sup>5</sup>

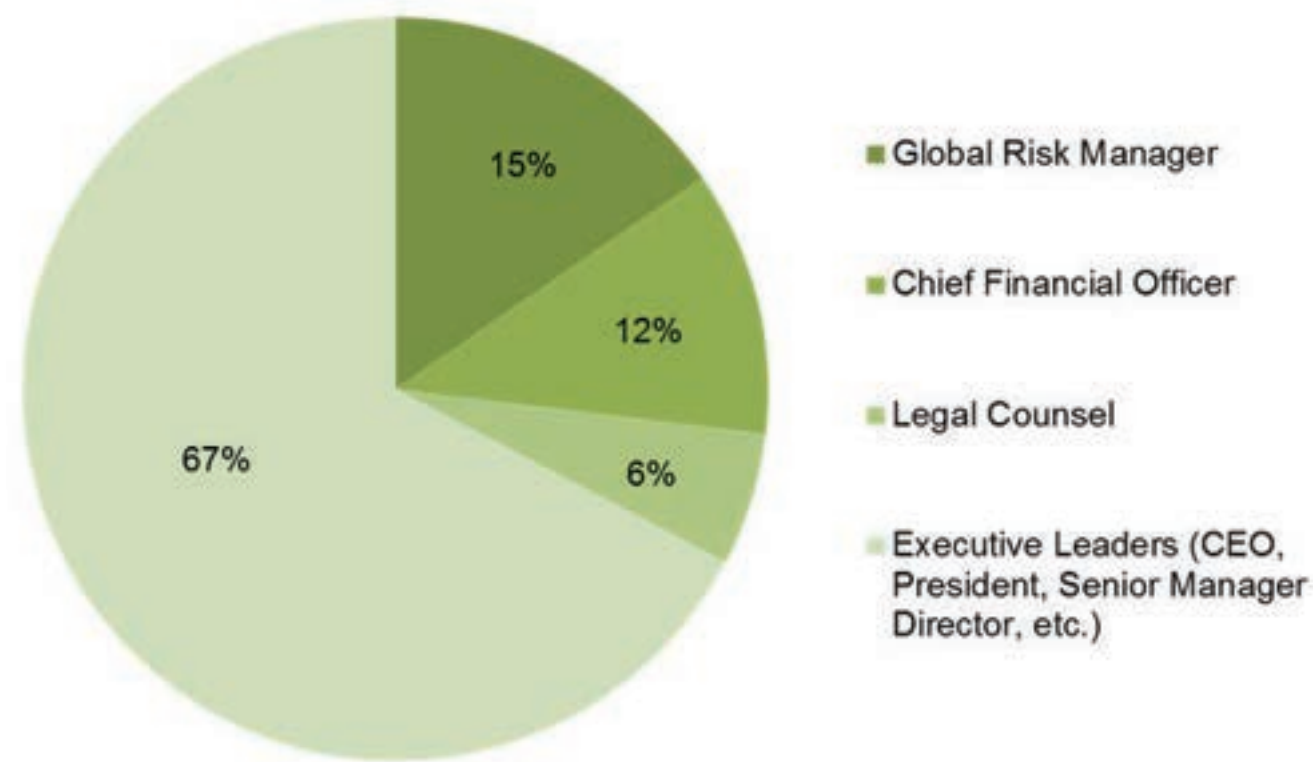
**\$3,311,000**



<sup>2</sup> IT Security Risks Survey 2014, Kapersky Lab  
<sup>3</sup> IT Security Risks Survey 2014, Kapersky Lab  
<sup>4</sup> Chubb Group of Insurance Companies, 2012  
<sup>5</sup> OPIC

## WHO OVERSEES INTERNAL GLOBAL RISK MANAGEMENT FOR YOUR ORGANIZATION?

Only 15% of organizations responding to the survey had an actual Global Risk Manager position. At the majority of organizations (67%), Executive Leaders have responsibility for global risk management.

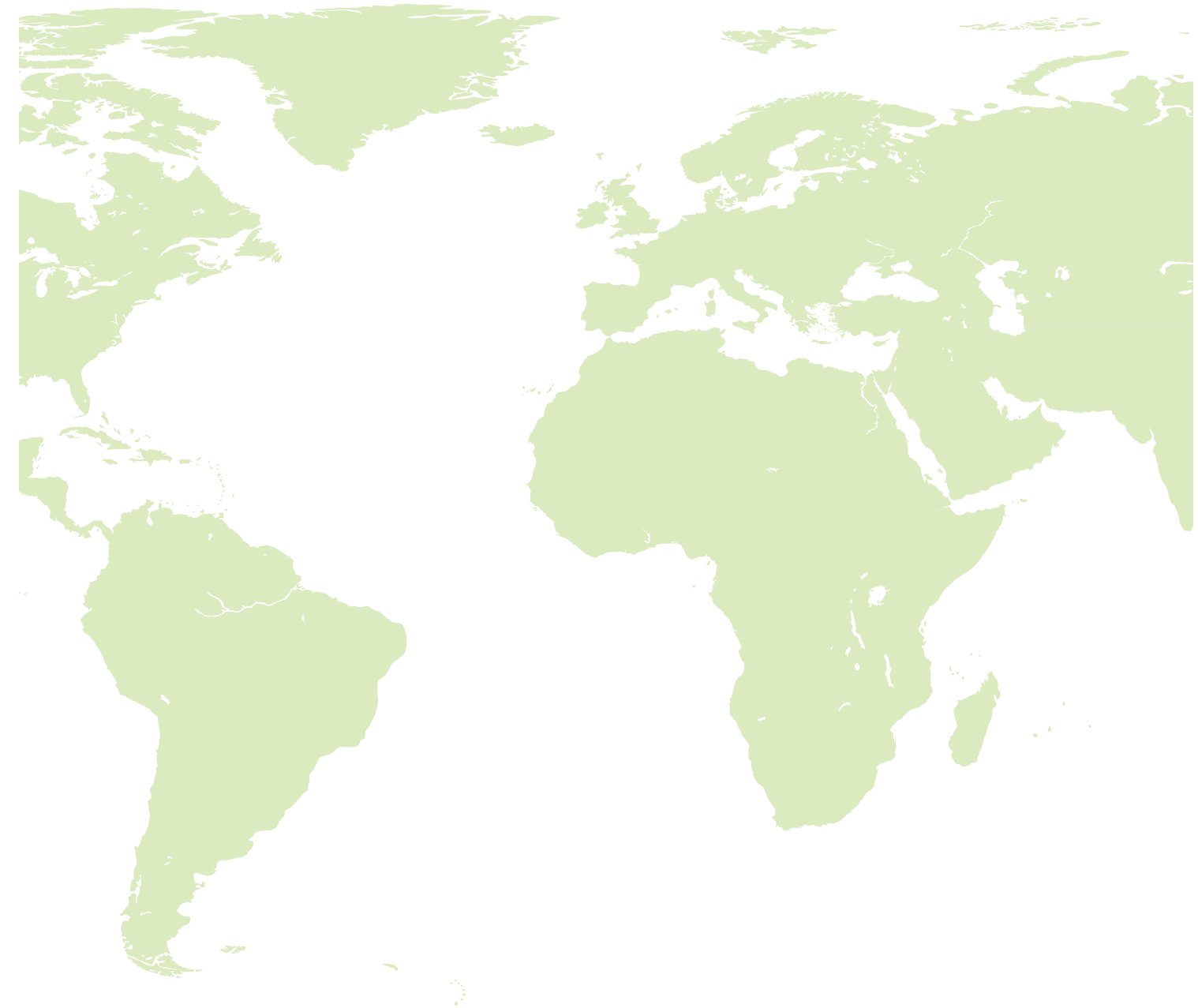


### Clements Insight

“Companies with overseas operations see the percentage of that part of their business growing, generating demand for greater attention to global risk,” said Beck. “This, in addition to the more complex risk environment, will continue to drive demand for risk insurance.”

PricewaterhouseCoopers predicts a 50% growth in overseas assignments by 2020. The impact of globalization is only increasing and much of this will be between countries in developed

and developing economies. In order for this accelerant of growth to continue, organizations will need to make risk management a greater focus within organizations with staff and financial resources targeted at these activities. Resources are available to help organizations create these competencies such as specialized brokers, like Clements Worldwide, with considerable experience in developing markets.



### Methodology

Clements Worldwide conducted an online survey from April to June 2015 with 52 executives responsible for global risk management at development organizations responding. A majority of the organizations (40%) employ between 100 and 1,000 employees, and 40 percent reported that 76% or more of their staff is located overseas. The population came from Clements Worldwide’s roster of development clients as well as partner organizations whose members include organizations working overseas, often in high-risk locations.

The **Clements Worldwide Risk Index** is conducted biannually to gauge changes in risk perception vs. actual claims for global risk managers to help them be more prepared for the challenges in working in high-risk climates.

If you would like to be on the mailing list for the next survey, please contact: [marketing@clements.com](mailto:marketing@clements.com).



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