News From Aon

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War on graft easing political risk concerns in China: Aon Political Risk Map 2016

- Lifting of sanctions reduced political risk in Iran but has implications for wider region
- Continued low oil prices exacerbate political risk in already fragile states
- Economic and political issues will challenge Brazil ahead of Rio 2016

LONDON (08 March 2016) – Aon Risk Solutions, the global risk management business of Aon plc, launches its 2016 Political Risk Map for emerging markets, which found that anti-corruption reforms and the lifting of sanctions eased political risk in China and Iran, respectively, while other states struggle to counteract the economic risks being driven by weak commodity prices.

The Aon Political Risk Map is the authoritative analysis of 162 emerging markets tracking 168 different recognized risk attributes. Aon's unrivalled access to 19 years of data, allows users to systematically track political risk in emerging market countries, plot trends, measure exposures and review the potential challenges they may face as they look to invest, grow and diversify.

"For the first time in the last three years, the Aon Political Risk Map reflects more countries with reductions in political risk than increases, an encouraging sign of the impact of political and economic reforms," said Karl Hennessy, president of Aon Broking and CEO of Aon's Global Broking Centre in London. "Despite increases in economic risks stemming from low commodity prices, improvements in political stability have occurred. However, weakness in the global economy could yet cause significant increases in political risks within countries and spill-over effects into others states."

China's rebalancing brings some reduction in domestic risks, but may amplify them abroad

Over the last year, anti-corruption measures have contributed to a decrease in political risk in China. Nonetheless, recent implementation issues and policy uncertainty have clouded the overall outlook. The rebalancing and slowing of the world's second largest economy is likely to present challenges for China's neighbours and key trading partners, who could experience higher political and economic risks as the pace and composition of growth changes. Recently there have been signs of an improvement in the communication of policy, but risks remain, particularly around the building up of further leverage in the Chinese banking system.

The outlook for many emerging market economies will be based on whether politicians are able to implement pledged reforms to attract more investment at a time when weaker global trade and economic growth is increasing competition for capital. So far, many of the structural reform plans have disappointed, weakening growth and reducing resiliency to shocks. Two in the spotlight this year are India and Indonesia, who have stronger balance sheets than many peers, but who have been struggling to implement policies. Doing so would help alleviate political risks.

Lifting of sanctions reduces political risk in Iran, but future behaviour needs close monitoring

In Iran, the implementation of the international Joint Comprehensive Plan of Action (JCPOA) loosening international sanctions, prompted a reduction in the country's political risk rating in 2016 from a very high level. With uncertainty around the extent to which the country's Revolutionary Guards and others with vested interests will play a role in the economy, the operating environment remains unclear. A stronger government position could lead to Iranian intervention elsewhere in the region and perpetuate regional political risk.

"Iran's re-entry to global markets will increase the supply of oil, and eventually gas, as it gains access to more foreign markets including Europe," said Rachel Ziemba, Managing Director of Research at Roubini Global Economics. "Iran has a more diversified economy than many Middle Eastern and African peers and has done more to adjust to lower oil prices."

Low oil price exacerbates existing fragility in oil dependent markets

Topping the list of political risks facing emerging market investors in 2016 is the impact of oil prices in already fragile oil-dependent countries such as Iraq, Libya, Russia and Venezuela. The 2016 Aon Political Risk Map indicates that countries with more resilient institutions and greater foreign currency reserves will be better positioned to minimize sovereign non-payment and exchange transfer risks, including members of the Gulf Cooperation Council (GCC) as well as Colombia, Malaysia and Kazakhstan. Still, increased security risks in neighbouring countries such as Iraq, Algeria, Nigeria, Libya and Syria are likely to hinder improving risk outlooks for countries that might stand to benefit from cheaper oil, like Egypt, Tunisia and Morocco.

"Oil-producing nations must find substitutes for lost revenues which will put pressure on their corporate sectors at a minimum through tax regime adjustments and at the extreme through IPOs of state-owned enterprises," said Matthew Shires, head of Political Risk for Aon Risk Solutions. "With no sign of oil prices returning to previous levels, turbulence in many oil producing states is likely to continue, and could worsen."

Weaker oil prices are exacerbating exchange transfer risks, putting pressure on corporations and individuals seeking foreign currency and discouraging investors. Meanwhile weaker revenues are increasing sovereign non-payment risk. While only a few countries have sizeable foreign currency debt burdens (Venezuela), government budget gaps are widening, putting pressure on banks, which in turn are perpetuating a credit crunch in the GCC countries, CIS countries and African oil producers. In some of the more vulnerable countries, government arrears are growing, providing further strain on the private sector.

Ongoing conflicts between countries and with non-state actors create heightened levels of political violence and present further risks. The effectiveness of extremist groups in the Middle East and Africa, including ISIS and Boko Haram, taking advantage of porous borders and weak institutions will also be amplified in afflicted countries, many of which are also feeling the effects of low oil prices. Even in countries which look more resilient, increased taxes and higher unemployment are likely to add to political strains making it harder for them to cope with other shocks.

Olympics arrive amid turbulence in Brazil

Finally, as Rio de Janeiro readies to host the 2016 Summer Olympic Games, Brazil's longest recession since the 1930s remains a significant strain on the country's social resilience. Although many of the drivers of the crisis are political, including the gridlock between political parties which has left fiscal and economic policies in unsustainable limbo, the increase in unemployment and falling wages is challenging both households and companies. For 2016, non-performing assets in state-banks will continue to increase debt and debt service will become increasingly costly while ongoing political deadlock will erode the country's ability to cope with a range of economic, social and health shocks, including the Zika virus.

"The Brazilian economy is experiencing its most prolonged downturn in recent history as it prepares for Rio 2016," said Paul Domjan, managing director of Roubini Global Economics. "Over the long run, the business environment has been weakened by poor economic performance and this could become an even bigger issue for firms operating in Brazil. Brazil's buffers are being eroded, and even the potential upside from rooting out corruption is bringing significant collateral damage as cases work their way through the legal system."

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About the 2016 Aon Political Risk Map

Aon measures political risk in 162 countries and territories to assess the risks associated with exchange transfer, sovereign non-payment, political interference, supply chain disruption, legal and regulatory regimes, political violence, ease of doing business, banking sector vulnerability and governments' capability to provide fiscal stimulus. In each specific risk category, as well as the overall rating, each country is rated as Low, Medium-Low, Medium, Medium-High, High or Very High. Country ratings reflect a combination of analysis by Aon Risk Solutions and Roubini Global Economics.

Eight countries experienced a quantifiable reduction in political risk (China, Iran, Pakistan, Ethiopia, Serbia, Jamaica, Nepal and Haiti), whilst only four countries increased their overall political risk (Cape Verde, Micronesia, Philippines and Suriname)

Member countries of the European Union and the Organisation for Economic Co-operation and Development are not rated in the 2016 map.

More information about Aon's political risk map can be accessed at aon.com/2016politicalriskmap.

About Roubini Global Economics

Founded in 2004 by economist Nouriel Roubini, Roubini Global Economics is an independent, global macroeconomic research firm. The firm's 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. Roubini Global Economics is headquartered in New York, with an office in London.

About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 72,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, reinsurance intermediary, captives manager and best employee benefits consulting firm by multiple industry sources. Visit www.aon.com for more information on Aon and www.aon.com/manchesterunited to learn about Aon's global and principal partnership with Manchester United.

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