2016 Aon Political Risk Map Messaging

KEY MESSAGES

- **Aon's Political Risk Map provides unrivalled access to 19 years of data**
  - Analyses political risk in 162 emerging countries and territories (excluding EU and OECD countries), both on a current and historical basis.
  - Produces high level country overviews and tailored comparisons of country ratings and changes in risk exposure over time.
  - Helps investors to plan ahead and adapt risk strategies according to the level of risk in countries of interest.
  - Allows organizations to track political risk exposures in emerging market countries, plot trends, measure exposures and review the potential risks they may face as they look to invest, grow and diversify.

- **For the first time in the last three years, there were more upgrades (reductions in political risk) than downgrades (deterioration in risk)**
  - Eight countries were upgraded (China, Iran, Pakistan, Ethiopia, Serbia, Jamaica, Nepal and Haiti), whilst only four countries were downgraded (Cape Verde, Micronesia, Philippines and Suriname).

- **Notable this year are the finding that anti-corruption reforms and the lifting of sanctions have eased political risk in China and Iran, respectively.**
  - China: Over the last year, anti-corruption measures have contributed to a decrease in political risk in China.
    - The rebalancing and slowing of the world's second largest economy is likely to present challenges for China's key trading partners, who could see higher political and economic risks as a result of lower growth in the region
  - Iran: Implementation of the international Joint Comprehensive Plan of Action has prompted a reduction in Iran's Country Risk Rating as many of the sanctions in place were suspended.
    - Key to Iran's future political risk is the role that the Revolutionary Guards and the wider military play in the economy, the implementation of economic reforms, the composition of the legislature and Iran's continued commitment to the nuclear deal.

- **Economic volatility stemming from low commodity prices will continue for oil-producing states, risking a further deterioration in the business and operating environment.**
  - Oil-producing nations' urgent need for lost revenue will put pressure on their corporate sectors, at extremes through IPOs or tax regime adjustments.
  - Those with more robust institutions and greater foreign currency reserves will be better positioned to navigate the sovereign non-payment and exchange transfer risks present in the current low oil price environment.
  - Richer oil exporters in the GCC have continued to be more resilient than poorer producers, which have fewer policy and financial buffers to cope with the low oil prices.
  - 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.

  - ISIS, through the conflicts in Libya and Syria, is exacerbating regional instability. With no sign of oil prices returning to previous levels, turbulence in these states is likely to continue, and could indeed worsen.

- **Brazil's economy is experiencing one of the most prolonged downturns in its recent history as the country prepares to host the Rio Olympics**
  - Brazil's longest recession since the 1930s remains a significant strain on the country and region.
  - Problems around the implementation of policies and reforms will continue, and state-owned banks and companies will increasingly fall into arrears.
  - Ongoing political deadlock is reducing its ability to cope with a range of economic, social and health shocks, notably the Zika virus.

Q&A

Q. What are the notable findings in this year's Map?
A. Aon's 2016 Political Risk Map for emerging markets 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. It is also troubling to see that the Brazilian economy continues to experience its most prolonged downturn in recent history as it prepares for Rio 2016. 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.

Q. How is this year's Map different from the results found in previous years?
A. 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. 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.

Q. What is the methodology for this report?
A. Aon partnered with Roubini Global Economic, the independent global research firm, to produce the Political Risk Map. It follows a 3-layered approach in analysing political risk in emerging market countries, combining the analysis by Aon Risk Solutions, Roubini Global Economics, and the opinions of Lloyd's syndicates and corporate insurers actively writing political risk insurance.

The map analyses political risk in 162 emerging countries and territories (excluding EU and OECD countries), both on a current and historical basis.

Q. How does it work?
A. Each country is assigned a one of seven ratings. The scores reflect the severity of risk in each state against nine core risk perils. The map depicts nine individual Risk Icons. Country rating for the map includes input from the six core risk icons (Exchange Transfer, Legal and Regulatory, Political Interference, Political Violence, Sovereign Non-payment and Supply Chain Disruption) but three separate icons are also provided (Risks to Doing Business, Banking Sector Vulnerability and Risks to Fiscal Stimulus).

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Q. What is your view of the political risk involved in the UK-EU referendum?
A. Member countries of the European Union and the Organisation for Economic Co-operation and Development are not rated in the 2016 map. This map is focused exclusively on emerging market countries. It allows the user to systematically track political risk across those countries, plot trends, measure exposures and review the potential challenges they may face as they look to invest, grow and diversify.

Q. [Only for use if pushed for an answer on the UK-EU referendum] Still, the Brexit debate is a key focus for our viewers/readers. What are your views on the implications of a Brexit?
A. Our map is focused exclusively on emerging market countries. However, in terms of the UK-EU referendum, we are working with our clients to assess and prepare for multiple scenarios following each result of the referendum, including providing political risk analysis and continuity plans. The UK's current position enables it be competitive in the global economy, with a harmonised regulatory regime from London and from Brussels.

We believe exiting this would risk the development of overlapping or conflicting regulatory burdens on the UK industry. It may also diminish the UK's ability to have control over its destiny on the world stage.