

CLEMENTS WORLDWIDE RISK INDEX



**SUMMER /
FALL 2016** EDITION

 **clements**
WORLDWIDE



Clements Worldwide is the leading provider of insurance solutions for expatriates and international organizations. Founded in 1947, Clements offers worldwide car, property, life, disability, health, specialty, and high-risk insurance to clients in more than 170 countries. Our dedicated staff in Washington, DC, London, and Dubai are committed to providing superior customer service and claims response. For more information on Clements Worldwide and our global suite of services, visit www.clements.com.



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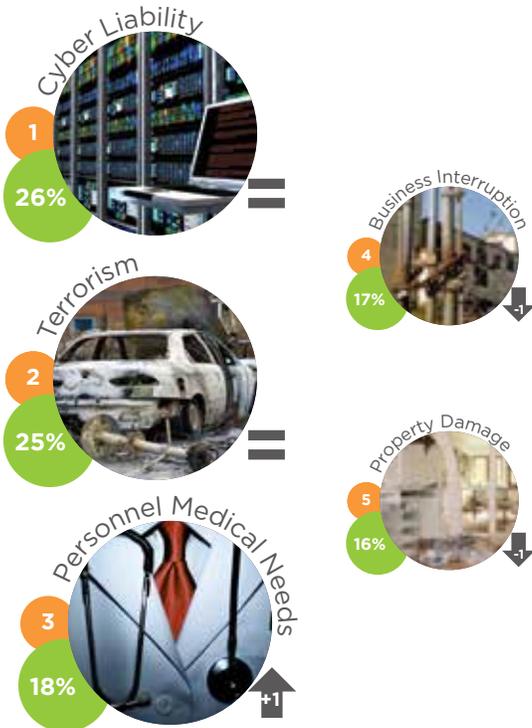
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Global Overview

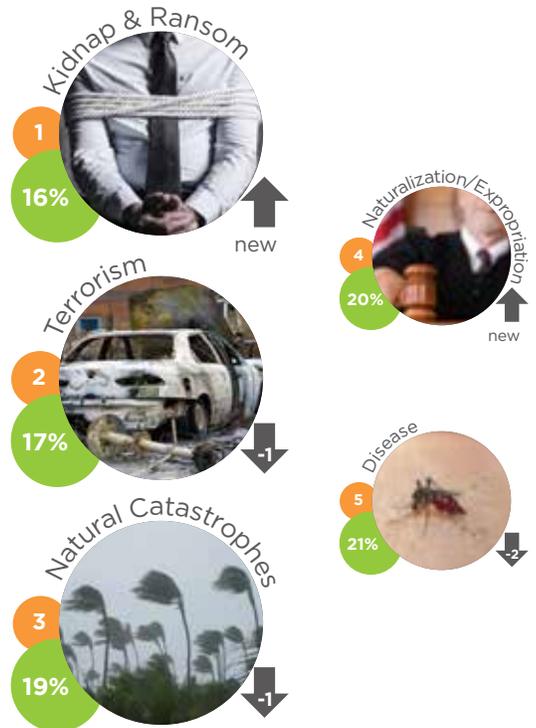
TOP LOSSES



TOP CONCERNS



LEAST PREPARED



Welcome from Clements Worldwide

It is my pleasure to introduce you to *The Clements Worldwide Risk Index (CWRI) Summer/Fall 2016 Edition*. This edition is the strongest yet, reflecting the opinions of small, medium, and large international organizations. The results are very revealing regarding today's complex global business environment.

For starters, accidents and property damage can be costly. Especially if caused by events outside the scope of normal business activities.

Interruptions in business operations can cause long-term operational and reputational damage. It can force managers to rethink increased investment and expansion. In extreme cases, it can even threaten an organization's very existence. Business interruption is a critical risk, harming individual organizations, which in turn can affect the health of the global economy. **That is the troubling message of *The Clements Worldwide Risk Index Summer/Fall 2016 Edition*.**

Business interruption is causing the largest financial costs for organizations operating outside the U.S., according to the latest CWRI. **More than a third of organizations surveyed (35%) say they plan to delay global expansion.** This is up from 27% in the *CWRI Winter/Spring 2016 Edition* - itself an already disheartening figure, but a trend that could be reversed with the right insurance protection

We have drilled down into the data to examine the broad concerns of global companies, but also the threats and apprehensions of three types of global organizations: non-governmental organizations (NGOs) and humanitarian aid groups, international schools, and government agencies/government contractors. We have additionally cross-analyzed risks based on the regions in which these organizations operate.

This in-depth view has confirmed what we found in the *CWRI Winter/Spring 2016 Edition* - today's world is riskier than ever. And yet MANY organizations still believe they are inadequately prepared to address these risks. However, they can better prepare themselves to reduce the costs to personnel, property, and expansion plans.

Hopefully, better risk management will protect organizations and promote the global economic growth that provides so many opportunities to people around the world.



A stylized, handwritten signature in black ink, appearing to read 'C. Beck'.

Chris Beck | President

Executive Summary

The *Clements Worldwide Risk Index Summer / Fall 2016 Edition* surveyed private and public organizations to determine their major concerns in a world of new and heightened risk.

Data on top losses provide a striking picture of how threats to individual organizations are converging to challenge growth in the global economy and a deeper dive into these losses will be the primary focus of the analysis in this document. Results on top concerns and preparedness reveal real gaps between losses and where organizations are allocating resources - costing organizations time and money.

The following paragraphs list the top three areas of losses for all respondents and the rank of each loss per geographical segment.

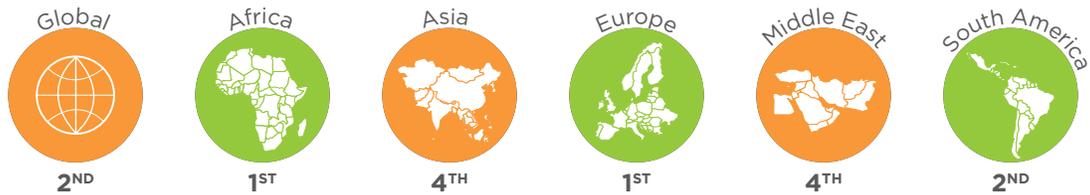
1 **Business Interruption: Loss of Control and Threat to Growth**



Business interruption is the greatest source of losses in every region of the world, except Africa.

What most troubles organizations about these interruptions in output, revenue, and profits is that they are not only caused by supply chain disruptions and other normal business or weather events. Criminal and political events including terrorism, cyber attacks, and kidnap and ransom are now real and growing threats to every organization's ability to operate around the world.

Property Damage: New Risks Increase Costs to Organizations



Property damage ranks second for respondent organizations in terms of losses.

Structures and equipment are regularly damaged no matter where a business operates. In developing markets, faulty design and workmanship has always been an increased hazard for property, in addition to fires, typhoons, and floods. What alarms organizations is this damage is increasingly inflicted through a new category of events – associated with terrorism and other types of political violence.

Losses through property damage caused by the new threat matrix do not end at the initial losses. Organizations require additional security and other preventive measures, laying on additional costs and introducing potential operational inefficiencies.



General Liability: Lawsuit Culture Takes Root Around the World



Organizations operating outside the U.S. are experiencing unprecedented growth in third party lawsuits from staff, customers and others.

For many years, non-government organizations, international schools and other entities have viewed themselves as immune from lawsuits faced by commercial enterprises. There seems to have been an assumption that regular recourse to the courts was a particularly American phenomenon.

This edition demonstrates that is no longer true – if it ever was.

Many organizations lack adequate and appropriate liability coverage for their operations outside the U.S. Even lawsuits that do not result in guilty verdicts can impose large and crippling costs on organizations.



The image is a cover page for a report. It features a large, bright green circular graphic on the right side, which overlaps a background image of a ship at sea. The ship is dark green and red, with a white superstructure, and is positioned in the lower-left corner. The sky is a mix of blue and white, suggesting a cloudy day. The overall design is clean and professional.

KEY RISK ANALYSIS

Business Interruption

No escaping this costly trend

Business interruption insurance is often an add-on to a property policy designed to compensate for the non-property costs caused by a damaging event and event that is typically outside of the business' control. This is why it is all the more necessary in today's unpredictable times. The purpose of this coverage is to protect the business against losses arising from its inability to continue normal operations, or its inability to occupy its premises.

Business Interruption policies:



**LOST
INCOME**



SALARY



RENT



**RELOCATION
EXPENSES**

While originally viewed as an extension to property costs, a recent report by Allianz Global Corporate & Specialty highlighted that the average business interruption claim is 36% higher than the corresponding property damage claim because of the extensive nature of its coverage. Clements Worldwide has seen claims examples where the time it takes to get business operations restored and jump start income generation is much longer than the time it takes to repair a building or a piece of machinery. Reflecting these trends, *CWRI Summer / Fall 2016* saw this loss jump to #1 area of loss for respondent organizations.

#1 ranked loss

There are significant challenges to preparing for business interruption costs as they can be driven by an almost endless list of factors:

**Political Violence/
Civil Unrest**

**Human Error/
Operating Error**

Fires & Explosions

Storm

Faulty Design

Flood

Machinery Breakdown

Climate Change

Cyber Losses

Pandemics

With the huge range of activities that can bring down a supply chain, businesses cannot practically be operationally prepared for every contingency and, therefore, business interruption insurance is critical to protecting the viability of a business. The cost of the insurance, however, can be lower if a business demonstrates that it has done its due diligence both related to property, such as sprinkler systems, operations, and business continuity, such as emergency evacuation plans and emergency preparedness. Despite the high risks, preparedness must remain a critical priority. Only 19% of respondents have seen increases in the cost of this top insurance versus over 25% for other categories such as property, cyber liability, medical insurance and more. This highlights that supply or capacity still exists for this protection.



Property Damage

Is the cost of maintaining property in developing markets too high for continued operations?

Many of the same factors driving business interruption losses are also fueling property losses and essentially doubling the risks faced by an organization during a damaging incident. Related damages around property may extend significantly beyond replacement of tools, machinery or buildings.

Consider the 2011 Fukushima nuclear disaster in Japan, when potentially initial property repairs from a tsunami turned into an environmental disaster with considerable clean-up estimated at over \$15 billion.

Property policies cover more than property:



**PROPERTY
REPLACEMENT**



**VALUABLE PAPERS
& RECORDS**



**DEBRIS
REMOVAL**



**ACCOUNTS
RECEIVABLE**
(as a result of lost records)

And much more! These ancillary costs drive up the recovery costs to organizations of any property damage.

Theft and looting are further potential drivers of property losses, and are a particular challenge to international NGOs working in developing regions. NGOs, in fact, rank property losses higher than business interruption losses as they have to carry on operations even in the event of stolen and missing foods and medicines.

Traditionally, there have been many precautions organizations could take to protect their property from fire or water exposure and damage, and burglaries. Factors such as political violence and looting and natural disasters are harder to mitigate, increasing the risk of costly and time-consuming repairs to organizations.

2 ranked loss

Weather is a primary cause for both business interruption and property loss. The last 12 months have seen major natural disasters, which created significant destruction of personal property. *The CWRI Summer / Fall 2016 Edition* provides valuable insights on how organizations around the world are experiencing and responding to natural disasters.



A Key Driver of Property Loss – Natural Catastrophes

Natural disasters are one of the main contributors to supply chain and business interruption.

Major disasters over the past year include:

- | | | |
|---|---|----------------|
|  | Drought
Ethiopia | October, 2015 |
|  | Floods
Chennai, India | November, 2015 |
|  | Earthquake
Muisne/Pedernales, Ecuador | April, 2016 |
|  | Earthquake
Kumamoto City, Japan | May, 2016 |
|  | Floods & Typhoons
Fujian Province, China | July, 2016 |

Natural catastrophes are 4th greatest concern for the international school segment (only 14% of all respondents rated it as a top concern). This may have to do with the vulnerable nature of students that schools feel more at risk from natural disasters than other industries. Schools in South America and Asia ranked it the highest.



General Liability

I'm covered, right? I have general liability insurance

This has become an infamous claim by organizations as they expand operations overseas and believe their general liability policy is a catch-all for anything that could possibly happen. That is certainly not the reality as evidenced by the fact that it ranked as the third-highest loss faced by respondents in the *CWRI Summer / Fall 2016 Edition*.

The first point to note is that most general liability policies are focused on lawsuits brought on a company in the home country of their headquarters, where the insurance is almost without exception purchased. Moreover, because general liability insurance only covers non-professional negligent acts, many managers underestimate how often such events could occur.

Consider these four scenarios for a global organization:



A government contractor is building a new extension to an embassy. During checks, the inspector slips on the new marble floor and sues your company.

Your NGO has staff at a village working on a water project. The NGO staff mistakenly dig up an electrical wire that damages a local business. The local business sues the NGO.



A class action lawsuit is filed against a local subsidiary, alleging advertisements contained misleading information.

After an overnight flight, a newly transferred employee turns on the oven to heat up a meal at the corporate apartment and starts a fire. The company is sued for damages.



3 ranked loss

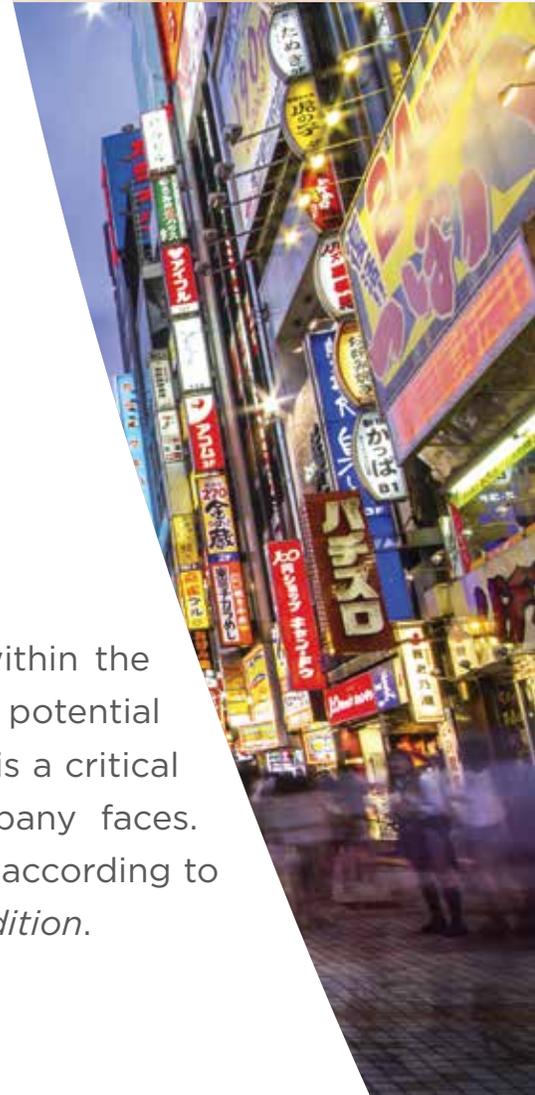
According to recent research and anecdotal evidence from Clements customers, global citizens and companies around the globe will seek satisfaction through the courts if they feel they have been wronged, and may bring lawsuits in multiple jurisdictions mirroring the operations of a global organization. For example, an individual with a grievance might sue a local subsidiary in, for example, Kenya, file an additional lawsuit against the regional HQ in Germany and, finally, submit another suit against the global HQ in the U.S. A broad general liability insurance policy needs to take into account all of these contingencies, which is best achieved by working with an insurance broker with global expertise.

Here is a list of the top 10 most litigious countries by capita (litigation rates per 1,000 people)*:

1	Germany	123.2	6	UK	64.4
2	Sweden	111.2	7	Denmark	62.5
3	Israel	96.8	8	Hungary	52.4
4	Austria	95.9	9	Portugal	40.7
5	USA	74.5	10	France	40.3

**Exploring Global Landscapes of Litigation by Christian Wollschlager*

Because liability policies cover the costs of a lawsuit (within the policy limits), including the legal defense and liability, the potential losses if not insured could be very high. A liability policy is a critical business investment given the potential costs a company faces. However, only 15% of respondents list it as a top concern according to the *Clements Worldwide Risk Index Summer / Fall 2016 Edition*.



Medical Expenses

Why do medical expenses represent a unique risk for global organizations?

For every company with domestic operations and staff abroad, medical expenses is a top cost, but for organizations working abroad, there are unique characteristics that must be considered. It moved down from the #4 greatest loss to #5 in the *Clements Worldwide Risk Index Summer / Fall 2016 Edition*, but up to #3 concern from its place at #4 in the last index.

We have identified four areas of consideration for an international health insurance plan versus a purely domestic one:



Tropical Diseases / Medical Hazards

Zika, Tuberculosis, Yellow Fever, Malaria, Leishmaniasis, African trypanosomiasis - these are just a handful of the possible medical hazards employees could face in their work abroad. With the outbreak of Ebola last year and major news on Zika this year, the challenges of tropical diseases has risen in the minds of most corporate travel managers and risk managers. In fact, in the latest CWRI survey, we added a new question on medical-related concerns, shown in the following table. Viral diseases are clearly a top concern.

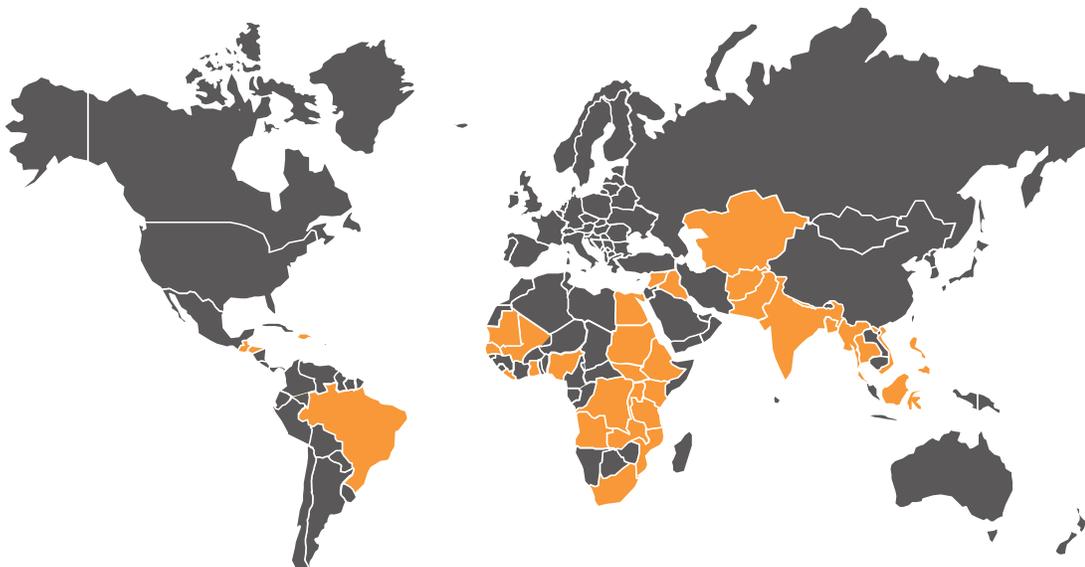
Medical challenges are not new and in both the most recent survey and the previous version, it ranks #1 as the area where risk managers feel the most prepared. But it is critical not to be complacent and continue to look for best-in-class insurance solutions to meet the changing health environment for staff.

5 ranked loss

WHICH HEALTH RELATED CONCERN DO YOU BELIEVE YOU NEED TO BE MORE PREPARED FOR IN 2016?	TOTAL 409 RESPONDENTS	
Access to better facilities	114	28%
Access electronic medical records	31	8%
Evacuation services abroad	94	23%
Spread of viral diseases	170	42%

The following map highlights USAID* projects related to disease and reveals risks your employees face around the world. These projects are only a sub-set of medical threats faced by traveling employees.

USAID Global Health Projects Related to Disease/Medical Hazards in 2016



*USAID is the U.S. Government Agency primarily responsible for administering civilian foreign aid.





Medical Evacuation



Almost one out of every five organizations surveyed experienced a medical evacuation of staff over the previous 6 months. It is estimated that the cost of a medical evacuation from Europe to North America is \$50,000, and with additional costs such as an attending nurse, language translation services, and the cost of communicating with people back home, the total cost of an evacuation can reach upwards of \$100,000. Evacuation costs from Africa and the Middle East can be much higher.

The frequency of medical evacuation does vary among industries, led by government agencies and government contractors, where almost three out of ten organizations experienced a medical evacuation over the previous 6 months.

Travelers vs. Expats



In today's environment every assignment has the potential to be high risk. For individuals living abroad, companies often purchase health, life and disability policies designed for foreign living. But what about travelers? Companies often mistakenly believe that existing domestic policies cover individuals traveling abroad or even expats traveling outside of their base of operations, but this is not the case.

Group travel accident policies are designed to provide death and dismemberment benefits and emergency health care costs in case of an accident for staff working overseas. For certain segments of the respondents, such as NGOs in South America, this was a top cost in the latest survey.



Local vs. International Staff

A key concern for organizations is showing equivalent duty of care for local versus international employees. While an expat package, particularly for employees traveling to developing markets to live, will likely be much more robust than any benefits package provided to homeland-based employees, companies are recognizing that they need to demonstrate their value and the organization's commitment to their foreign local staff. This will keep local employees loyal to their employer and is often the right thing to do as these employees may not have access to quality health care in their home country. Insurance packages are evolving to allow essential emergency services including evacuations to homeland-based employees so that, if necessary, they can access the same quality healthcare as their international peers.



South America ranked personnel medical needs as a higher loss than other regions - 27% vs. 23% for general population



Disease is #4 greatest concern for NGOs, led by those operating in South America who rank it #1

Respondents whose medical insurance costs increased over the past year



Over 35% of respondents in Middle East, Africa, and Asia stated that their greatest medical-related concern was access to quality facilities

Group travel accident is the #1 largest loss for NGOs operating in South America







INDUSTRY FOCUS

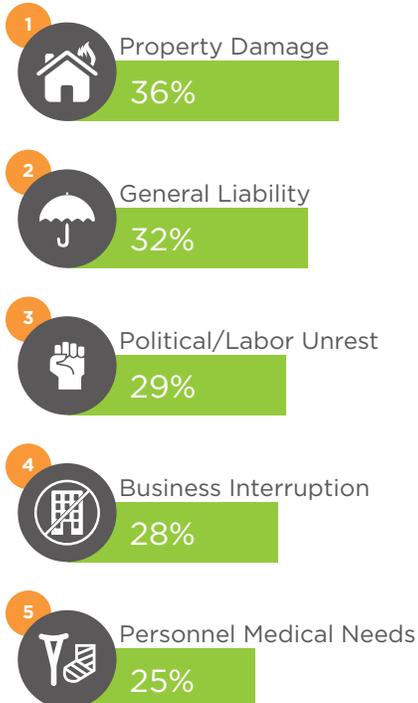
Non-Governmental Organizations

Property damage & general liability biggest losses - what does this mean for beneficiaries?

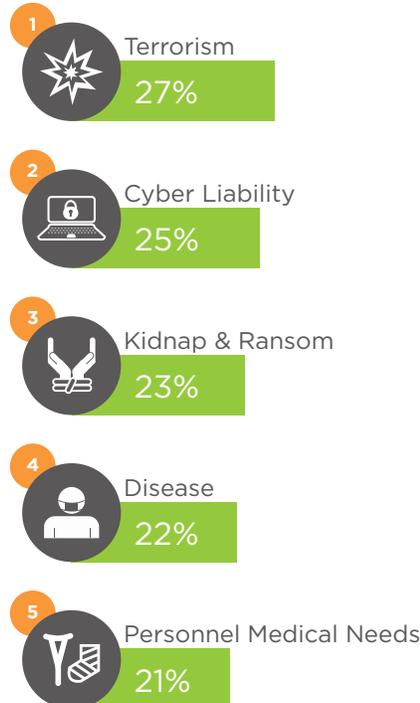
For NGOs, property damage is the #1 loss and this has a significant effect on the ability of these organizations to provide life-saving and other programs to their beneficiaries. Property damage for NGOs will typically fall into two categories - fleet or inventory. Losses for both these categories of items are closely tied with political violence.

Looting and theft of inventory — those items meant for beneficiaries including food, tents, lanterns, clothing, housing materials, and mosquito nets — is often occurring in areas where rival political forces are causing crime and civil unrest. In a recent report based on our fleet claims, around 40% of claims occurred in the 22 countries designated as severe or extreme risk according to Lloyd's of London (full list on page 30).

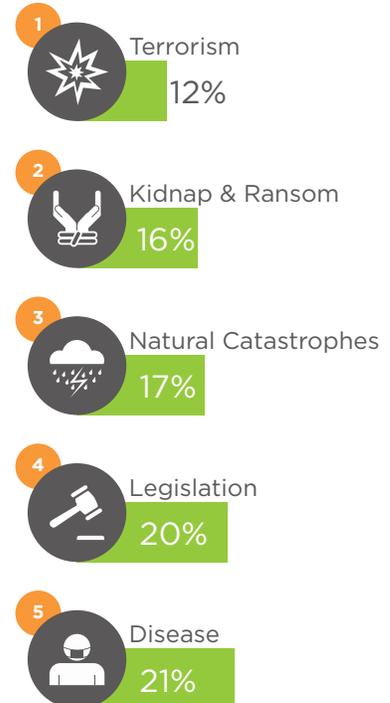
TOP LOSSES



TOP CONCERNS



LEAST PREPARED



Not surprisingly, terrorism is the #1 concern across all NGOs and this ties directly into property damage. Trends over the past several indexes and anecdotal evidence through the remainder of the year suggest that this will not change any time soon. Finding ways to control property damage costs and manage corresponding losses is critical to an NGO's operational viability.

General liability claims are an equally challenging category as this typically applies to beneficiaries or other third-party nationals who come into contact with the NGO suing the organization. The same fleet report noted above documented that 16% of all road accident claims have a fatality or injury, many of which result in litigation.

A general liability claim could also be the result of any accident that occurs when the claimant is in contact with an NGO at a facility managed by that NGO, such as a hospital or distribution center, or when delivering relief items. Additionally, Clements Worldwide has witnessed lawsuits as a result of road accidents. For a long time NGOs thought they were immune to the lawsuits that faced other organization because of the good work they do for communities, but this assumption is clearly no longer true. Given the lean budget of NGOs, both categories of loss could be catastrophic for them as reserves rarely exist to cover these expenses.



Respondents in South America ranked group travel accident as greatest loss, making it the #1

30% of NGOs had a political violence event in the previous 6 months



32% of NGOs in South America listed disease as their main concern

Terrorism concerns ranks highest in Middle East and Africa with 34% giving it the top ranking



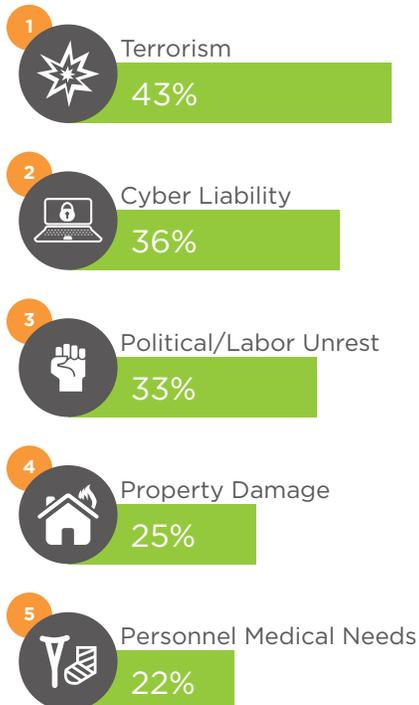
Government Agencies & Government Contractors

Feeling the financial burden of terrorism

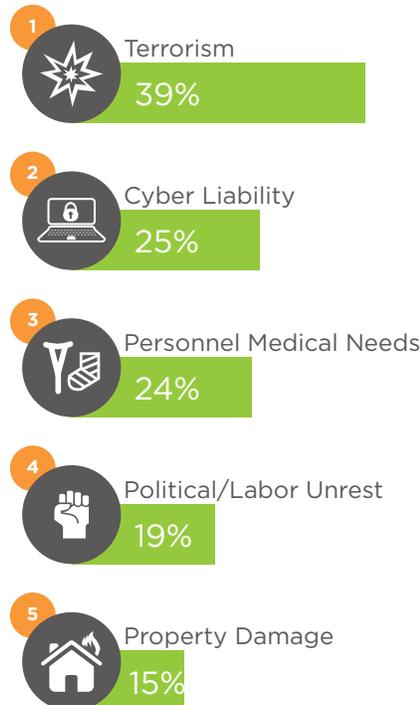
According to the U.S. Department of State, based on a collaboration with the University of Maryland, the total number of terrorist attacks in 2015 decreased by 13% when compared with 2014, the first drop since 2012. This decrease does not show the full picture, however, as the unpredictability of attacks is affecting everything from tourism to government operations.

The heat map from the Global Terrorism Database (see pages 26-27) reflects the geographic spread and diversity of these attacks. While terrorism ranked as the #2 concern in the earlier *Clements Worldwide Risk Index Winter / Spring 2016 Edition*, for Government Agencies and Government Contractors (GA&GCs) answering the current survey it is the #1 reason for financial losses and the #1 largest concern. Also, since the last survey, the level of preparedness has dropped from 37% to 30%, undoubtedly reflecting this unpredictability.

TOP LOSSES



TOP CONCERNS



LEAST PREPARED



Cyber liability ranked #2 for both losses and area of concern. This is not surprising given that cyber attacks against agents of the government and government contractors often are associated with terrorist threats as well.

“It’s non-state actors who are confounding states and the global order, and that presents a very different challenge.”

John Kerry, United States Secretary of State

Businesses should not delay or cease operations as a result of these threats as economic growth is indisputably tied to prosperity and peace.

“True security is based on people’s welfare - on a thriving economy, on strong public health and education programmes, and on fundamental respect for our common humanity. Development, peace, disarmament, reconciliation and justice are not separate from security; they help to underpin it.” **Ban Ki-moon, United Nations Secretary-General**

 **1/2** GA&GCs in South America report cyber liability as the highest loss

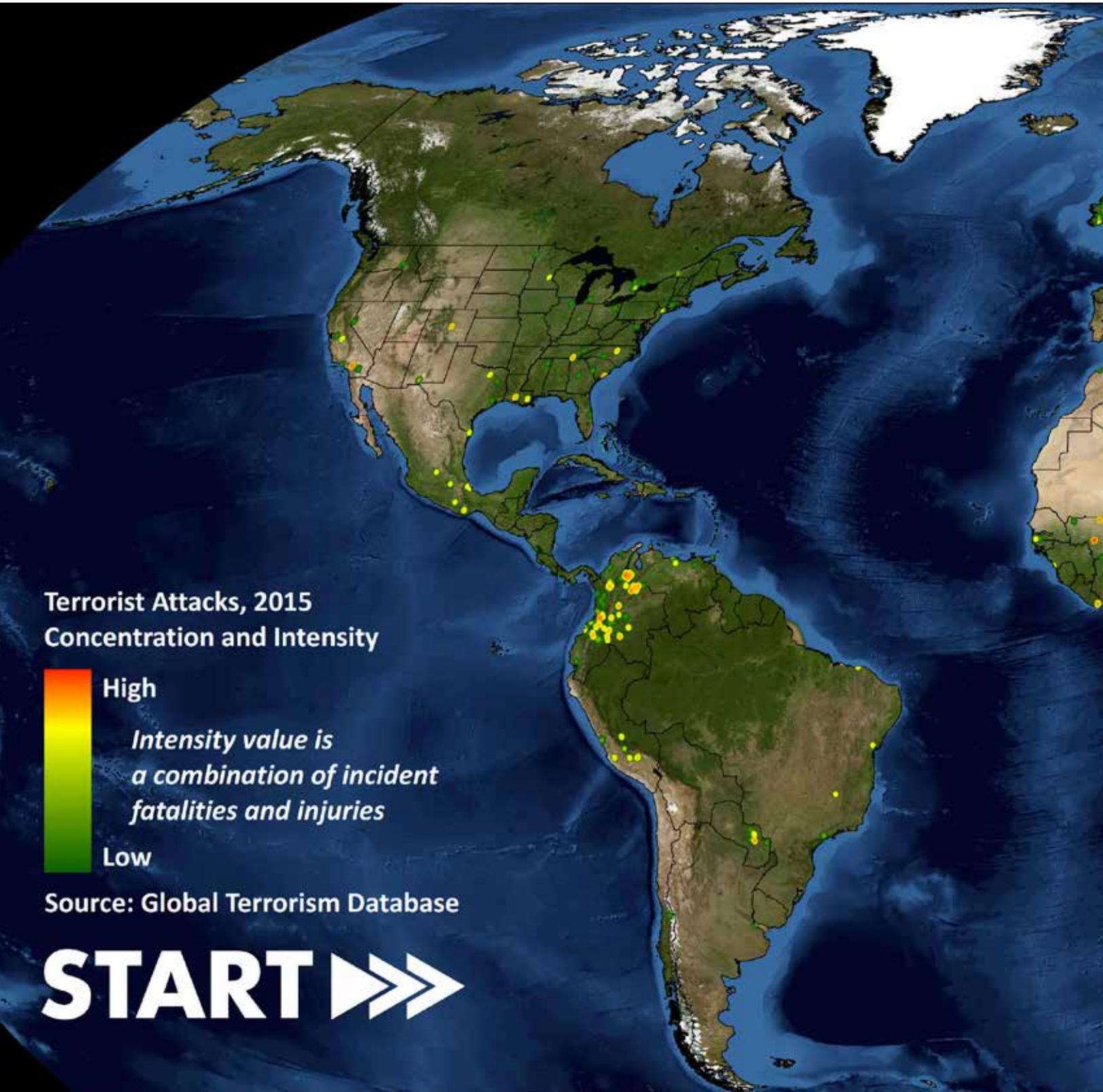
GA&GCs had a political violence event in the previous 6 months **2/5** 

 **2/3** 67% of GA&GCs in Asia report terrorism as the highest loss

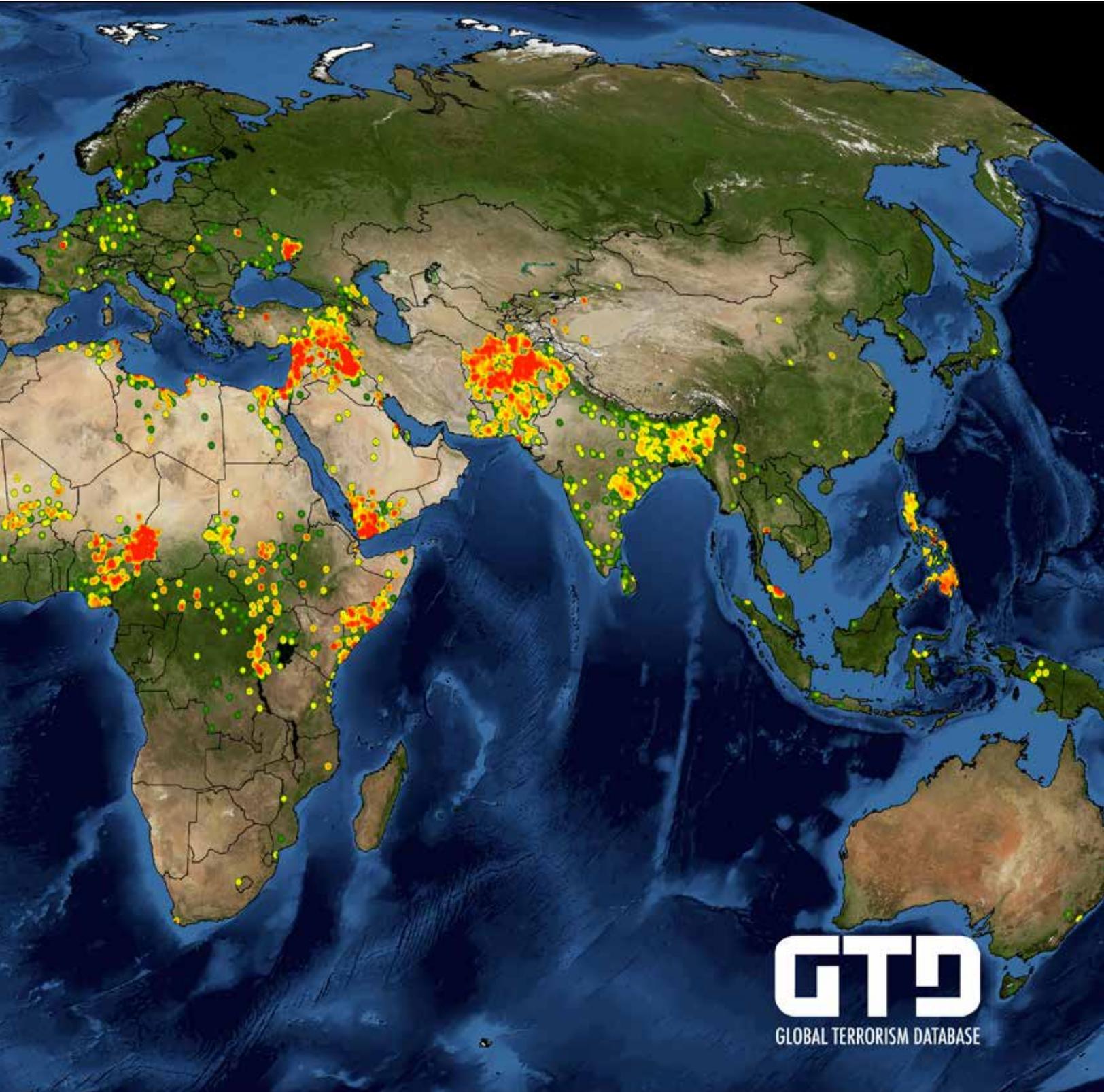
More than 36% of GA&GCs experienced a cyber liability incident in the past 6 months **1/3** 



Sites of terror attacks, 2015



All rights to image attributed to and reproduction permission granted by National Consortium for the Study of Terrorism and Responses to Terrorism (START). (2016)

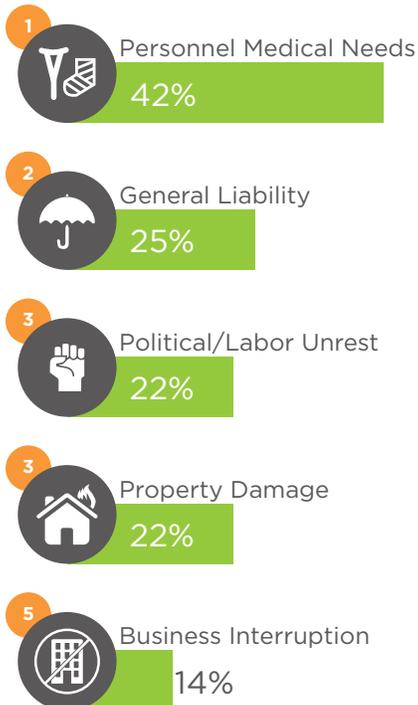


International Schools

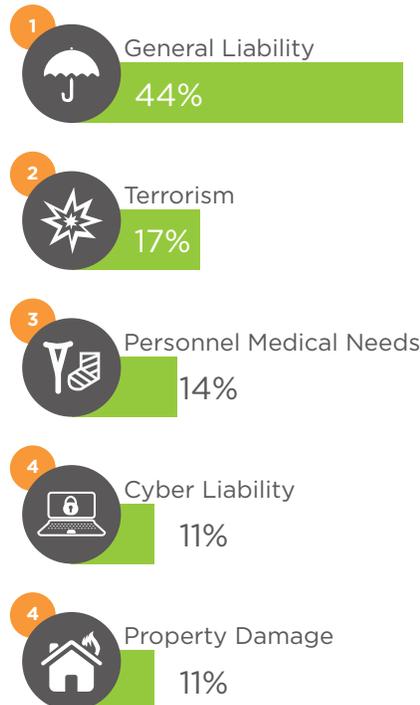
Very rational approach to understanding top losses by making them top concerns

The employment profile of an international school typically includes a largely expatriate staff, who therefore are away from doctors, hospitals, and pharmacies in their home country. Schools provide them with competitive insurance to help ease this transition and recruit top talent, but it is logical that employee medical expenses are the top loss.

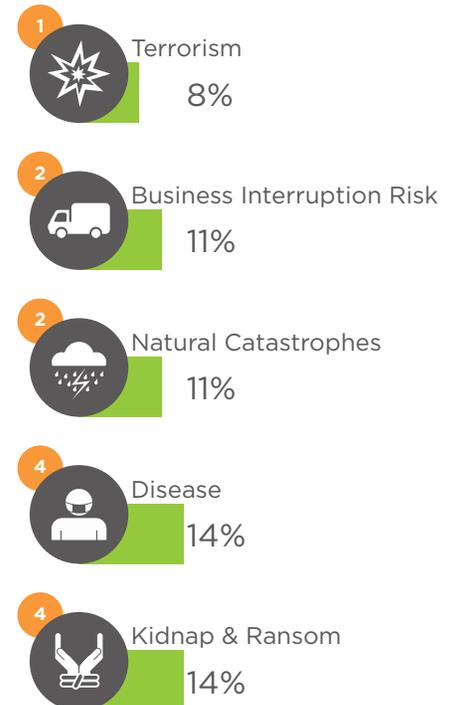
TOP LOSSES



TOP CONCERNS



LEAST PREPARED



Personnel Medical Needs

#1 LOSS

#3 CONCERN

#1 CONCERN

#2 LOSS



General Liability

International schools have a narrower focus than the other industries' surveyed. It is therefore not unexpected that there is a greater degree of congruence between their losses, concerns and levels of preparedness than the other operational sectors.

General liability is a top trend for the *Clements Worldwide Risk Index Summer / Fall 2016 Edition*, and schools are no exception. Schools need to monitor their care and protection of students or lawsuits are inevitable. It is hard to manage all the areas of risk to student safety from violence, abuse, or simple road accidents. Schools must therefore demonstrate that they have built multi-layered contingency plans across the risk spectrum to protect their students and that they are actually managing to these plans - not just sitting them on a shelf to gather dust.

Kudos to the school community for focusing on losses that are affecting their staff and bottom line most directly.

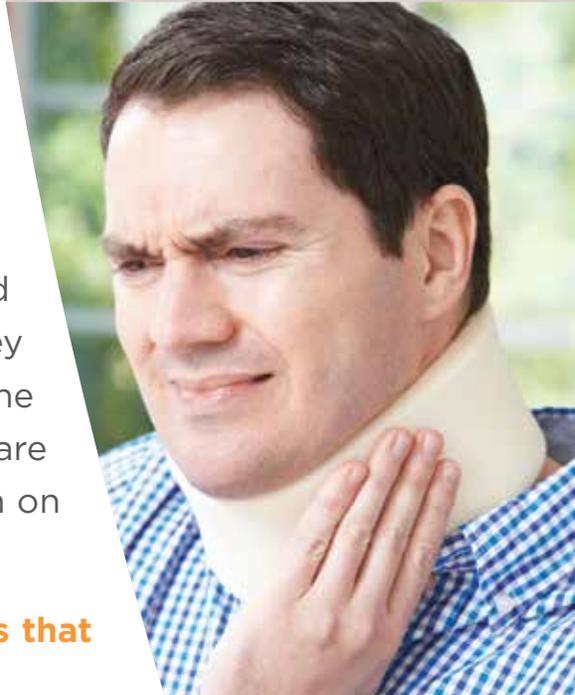


Primary concerns for international schools moved from cyber liability and business interruption in last index to general liability and terrorism in the *CWR/ Summer / Fall 2016 Edition*



Schools say evacuation is their main medical concern versus 1/4 of respondents overall

Schools said elections are their biggest concern in regards to political risk (vs. 25% of all respondents)



Looking Ahead

Globalization has led to enormous gains in wealth, innovation, personal freedom and cross-cultural understanding and respect. It has also created tensions. Resistance to change and struggles against perceived or actual inequity has increased in nearly every region of the world. The result is volatile protests and violence in even historically stable countries. There are also heightened risks from the globalization of communicable disease and extreme weather resulting from climate change. As a consequence, we live in a less predictable world than before, but every single organization can continuously improve the way it handles risks to protect all its stakeholders, including employees and investors.

Start being more proactive in managing your global risk by asking the following key questions:

Where are your gaps?

The Summer / Fall 2016 Edition of the Clements Worldwide Risk Index provides fresh insights into business interruption, property, general liability and other risks. Risk managers should map their claims over the past year against these benchmarks and document areas for improvement. Levels of preparedness should mirror your greatest risks. There are resources available to help, including your insurance broker, who can work with you to mitigate against those specific risks that are identified as being a potential challenge for your organization.

Where are you operating?

If you are not creating special operating procedures in the extreme risk countries (according to Lloyd's of London), you are not actively managing your risk. These countries require specialized strategies, not least of which is the added security of political violence extensions to existing primary insurance policies. You also need a process to monitor developments in all your operating countries and interact with employees when crises emerge.

But as shown on the Global Terrorism Map (pages 26-27), political violence and terrorism can happen anywhere. Increased access to risk information from in-country experts has to be part of the new norm.

What are your next steps?

The important thing is to act. It is our hope that the number of companies that state they are limiting expansion because of risk will fall in 2017, because preparation and proactive risk management have reduced the level and profile of risk for more organizations to make it possible for them to invest in growth. Let us know if we can help.

Severe + extreme risks countries as designated by Lloyd's of London



Afghanistan	DRC	Israel	Russia
Algeria	Egypt	Lebanon	Somalia
Burkina Faso	Guinea	Libya	South Sudan
CAR	India	Mali	Thailand
Chad	Iraq	Nigeria	Ukraine
		Pakistan	Yemen

About the Clements Worldwide Risk Index

Clements Worldwide conducted an online survey from March to May 2016, targeting executives at multinational organizations and NGOs who are responsible for global risk management within their organization.

Contributions were received from 409 respondents, and the key findings are presented in this third *Clements Worldwide Risk Index*.

Our goal is to interrogate actual versus perceived risks when working in the global marketplace, particularly in high-risk, developing economies. We believe risk managers can use this information to better plan for continuing and future operations, as well as educate their entire organization about the criticality of indentifying and then managing risk in international operations.

2/3

63% of the respondents conduct some business in Europe, 44% in Asia, 40% in South America, 32% in Africa, and 31% in Middle East

1/2

51% of the organizations have their headquarters situated in North America, and nearly a third are in Europe

More than 2 out of 5 of the organizations employ more than 1,000 full-time staff

41%

39% of the organizations have annual revenues exceeding U.S. \$50 million

2/5

1/2

52% of the contributors reported an increase of international risks facing their organization over the past year

4/5

Of the organizations had risk management occurrences in the last 12 months

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