



CLEMENTS WORLDWIDE

# RISK INDEX

WINTER | SPRING 2017

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](http://www.clements.com).

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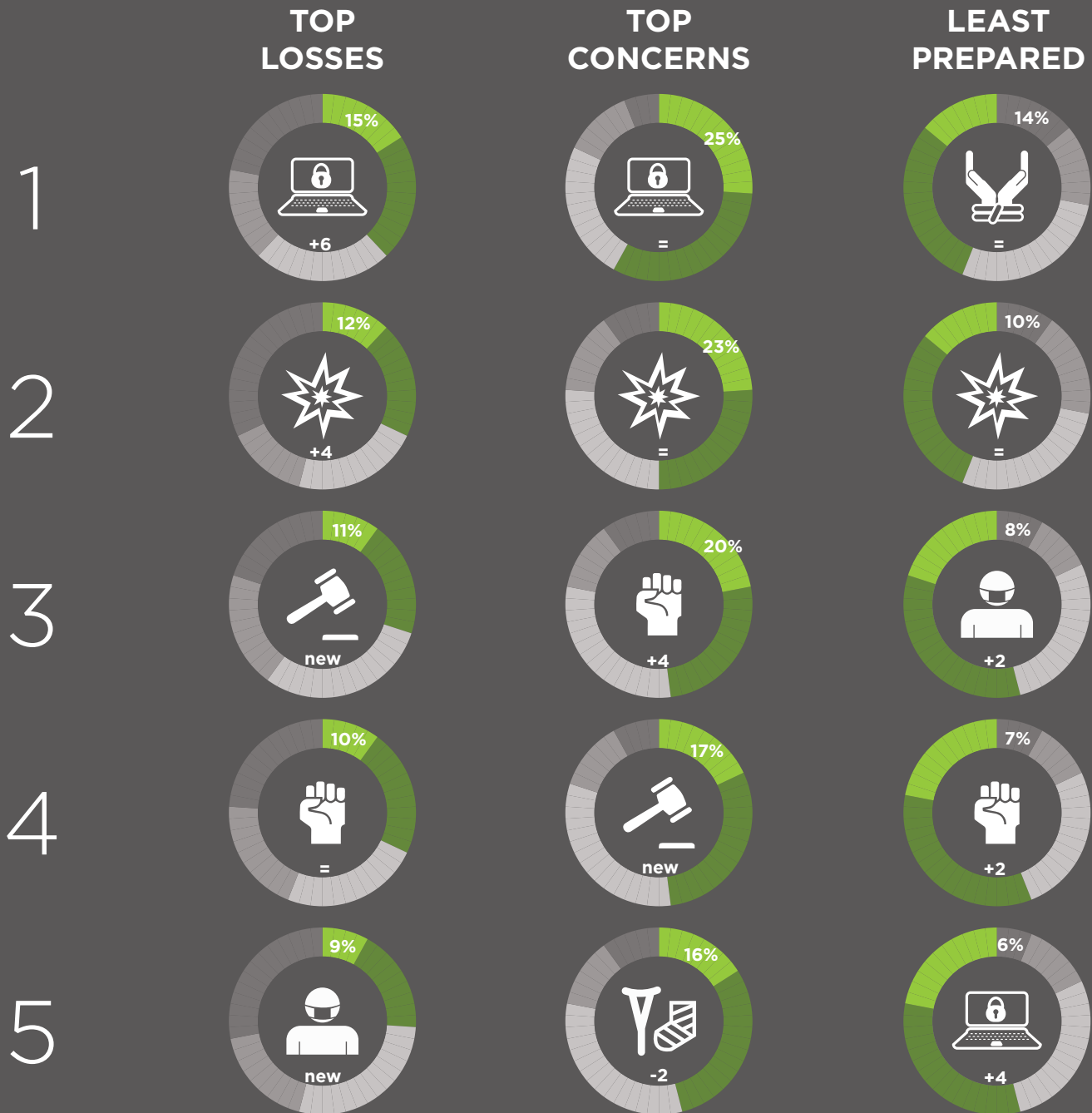
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# global overview



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# letter from the president

**Risk ...** Facing risk brings with it the possibility of significant potential gains. However, it also casts the shadow of losses that may result from it. We've dealt with risk since ancient times. The Code of Hammurabi from 1750 BC is said to have included the first concept of a risk premium on loans for maritime shipments and commerce.

Since then and throughout the years, we've worked to perfect the idea of protecting ourselves and our organizations against it. Insuring against risk has enabled us to stretch the boundaries of what is possible. Now, international insurance not only enables global NGOs, international schools and aid & development organizations to pursue their missions, but also helps to fuel the kind of global economic growth that has brought hundreds of millions of people out of poverty throughout the years.

Today, we can deploy mitigation and protection methodologies against risks that were previously unmanageable. And yet, there's never been a time in recent history that international organizations needed insurance protection more.

**Growing instability, uncertain outcomes ...** Thailand, South Africa, South Korea, Liberia, Kenya, the Democratic Republic of Congo, Rwanda, Iran, Angola, France, Hong Kong, China ... even Germany.

These are all countries facing momentous changes to their political order that could bring new rulers to power in 2017. Such potential changes may engender social turmoil, even violence, as well as an upending to the business environment in those countries.

Insurance has developed solutions to address the seismic shifts that increasingly accompany government change. Strikes, riots, civil commotion, currency shocks, and political violence would have been challenging insurable risks some decades ago. Now, we can comprehensively assist clients against all these perils.

Global economic growth depends on taking risks — and intelligently managing it. In the current era of political uncertainty, proactive risk management and tailored insurance products are a central piece of the puzzle for every organization that operates across borders.

This new edition of the *Clements Worldwide Risk Index* provides you with the latest measures of risk as seen by people like you: managing directors, risk managers and CEOs. This year, we have added a new category, changes in legislation, as we have heard that it is also one of your highest concerns. Legislative risk is joined by political violence, terrorism, and cyber liability in the following pages — as they are present in the real world.

As always, we are here to serve as your partner in managing these risks, as you continue achieving your important missions and expanding around the world.

Sincerely,



**Chris Beck** | President  
Clements Worldwide

# executive summary

Since the previous edition last Fall to the results reported in the current 2017 Winter/ Spring edition of the *Clements Worldwide Risk Index* (CWRI), there is a startling 90% growth in the number of companies stating that they had suffered a political violence event in just the past 12 months. That corresponds to 25% of all 511 respondents in this edition of the CWRI. This is just one of the indicators pointing to how political disruption, specifically political violence, terrorism and changes in legislation, are affecting businesses in 2017.

Terrorism has consistently been a top concern for respondents, ranking #2 in our last three CWRI editions. It is one of the risks respondents feel least prepared to address. This year for the first time, respondents indicated that concern had transformed into actual losses. Terrorism ranked as the #2 loss-generating risk, with 12.3% of surveyed participants indicating it was the source of greatest loss.

Political violence includes a broad range of perils, such as strikes, civil commotion, riots, demonstrations, and so on. Since the last Fall edition, political violence has moved up to a top 3 concern. It retained its #4 spot in the ranking of top losses with 10.8% of respondents. Losses to political violence have become “standard operating practice,” suggesting businesses need to find ways to address it. Political violence also joined the top 5 list of risks for which respondents feel least prepared to address (#4).

Legislation, which rounds out the trifecta of risks associated with political disruption, was added based on reader input. It ranked third in its first time being tested, with 11.2% of respondents. Addi-



tionally, 16.6% of respondents listed changes in legislation as their top concern.

Cyber liability has also been a consistent risk on the concern list. This year it is the #1 cause of losses, with 15.3% ranking cyber liability as their top loss, and 24.5% ranking it as their top concern. These four risks share one commonality: they are man-made.

Global risks did not just result in capital losses for respondents; they are continuing a trend of im-

pacting future business growth. Despite new insurance products being available that could help mitigate international risk, the number of respondents who answered that concerns about risk had caused them to delay their expansion plans has increased from the previous 27% of respondents who delayed their plans due to global risks in the beginning of 2016 to 37% in the current 2017 Winter/ Spring edition of the *Clements Worldwide Risk Index*.

## percentage of respondents experiencing the following risk event

	Winter/ Spring 2016	Summer/ Fall 2016	Winter/ Spring 2017
 political violence	16%	20%	25%
 cyber liability	31%	25%	34%



Clements Worldwide Risk Index (CWRI), 4<sup>th</sup> edition (Winter/ Spring 2017)

# about CWRI

Clements Worldwide conducted an online survey from November to December 2016, targeting executives at multinational organizations who are responsible for global risk management within their organizations. Respondents to this survey represented the IT, manufacturing, construction, government, banking, transportation, NGO, tourism, education and oil and gas sectors. This year, 511 companies responded to the survey, up from 409 for this survey's 3<sup>rd</sup> edition, in the Summer/ Fall 2016.

The goal of the *Clements Worldwide Risk Index* has been to provide actionable data on risks that produce significant losses for global operations versus risks that may be perceived as most concerning, but may not actually be causing major financial dislocation across international

organizations. However, such perceptions may portend future mitigating action against those risks by responsible managers. This information should be used by risk managers to adequately plan for expansion and foster global growth. At Clements, we are committed to providing unique solu-

tions to such risks, allowing our customers to continue to expand globally, including into high-risk markets.

## industry sector breakdown across participants

	n (511)	%
IT	92	18%
manufacturing	84	16%
construction	67	13%
government	52	10%
NGOs	44	9%
transportation	44	9%
banking	44	9%
UN / contractors	20	4%
international schools	19	4%
tourism	16	3%
oil & gas	14	3%
none of the above	15	3%

## participant global revenue range

	%
\$50M - more	37%
\$10M - \$50M	30%
\$1M - \$10M	28%
less than \$1M	5%

## participant company global headcount

	%
more than 1,000	42%
251 - 1,000	28%
101 - 250	22%
0 - 100	8%

## percentage of organizational activity per region





risk analysis

# political violence

One in four global organizations experienced a political violence event in the past six months, which was a 56% increase from a year ago, according to a comparative analysis of the last two editions of the *Clements Worldwide Risk Index* (CWRI). The current issue (Winter/Spring 2017) indicates that the highest percentage of those events took place in Europe, against conventional wisdom that political violence tends to happen in the Middle East, Africa or even Latin America. A total of 22.7% of respondents said they had experienced an incident of political violence in their operations in Europe, whereas 21.1% reported a political violence incident in the Middle East. In Africa, reported cases of political violence had an impact on 17.2% of the businesses surveyed.

It appears that violent political events such as riots, civil unrest and labor strikes are occurring more frequently, and are no longer isolated to known, politically unstable hot spots. This past year, Europe has seen terrorist attacks in France, Germany and Belgium. In the aftermath of these attacks, businesses in Europe are becoming increasingly concerned about how these violent acts are affecting their operations.

The leading concern for businesses when it comes to political violence was the uncertainty around elections, specifically protests around elections, and the disruptive impact this may have on businesses. Some 27.2% of respondents indicated they are worried about the

impact of elections in countries where they operate, up from 19.1% the year before.

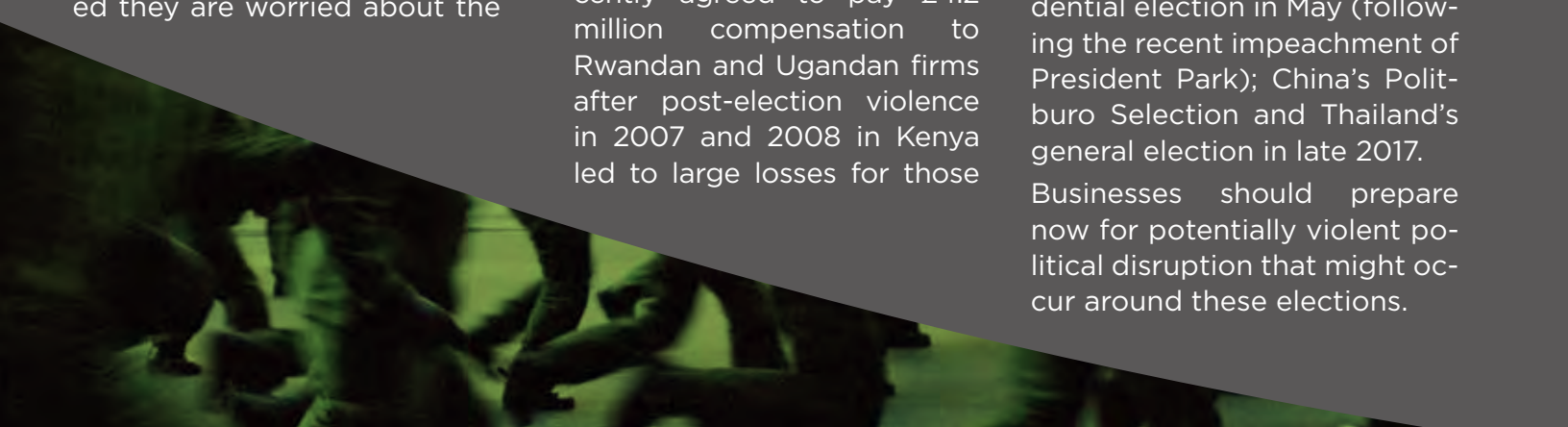
Companies have legitimate reasons to be worried about the potential violence associated with elections as history has demonstrated.

- Ahead of the Manipur assembly elections in India in March 2017, several candidates received threats and were attacked with bombs and guns by unidentified individuals, police reported at the time.
- In Ghana after the election results were announced in March 2017 and Nana Akufo-Addo was declared the president-elect, widespread violent protests took place.
- The Kenyan government recently agreed to pay £4.2 million compensation to Rwandan and Ugandan firms after post-election violence in 2007 and 2008 in Kenya led to large losses for those

firms. Around 1,200 people died and 600,000 were displaced in clashes that erupted after the poll. Talk has now turned to ensuring this does not happen again in their next election, according to news sources.

Many notable elections are set to dominate the news in the coming year, and many of them are expected to be controversial and could result in protests and riots. Elections across Europe in 2017 are expected to see gains for populist parties in France, Italy and Germany. Other important elections taking place this year include Iran's presidential election in May; Rwanda's and Kenya's general elections in August; South Korea's presidential election in May (following the recent impeachment of President Park); China's Politburo Selection and Thailand's general election in late 2017.

Businesses should prepare now for potentially violent political disruption that might occur around these elections.







Another emerging risk is currency fluctuations, with 19% of respondents answering they were concerned about the losses they might incur due to currency fluctuations in the countries in which they do business.

Currency fluctuations are the chief area of concern for members of the oil & gas (35.7%), tourism (31.3%) and banking (29.5%) – all of these industries operate across multiple jurisdictions and are significantly affected by changes in exchange rates.

Another major concern for business is the threat of an economic downturn and subsequent public unrest and demonstrations. Some 16.2% of respondents in this survey were concerned about the impact of an economic downturn on their operations, up from 10% the year before.

In the World Bank Group's Global Economic Prospects, it is reported that stagnant global trade, subdued investment, and heightened policy uncertainty marked a difficult year for the world economy. The World Bank indicates that growth in advanced economies will increase by 1.8% in 2017, and that emerging mar-

kets should grow by 4.2% this year, but the overall outlook is clouded by policy uncertainty in major economies. The World Bank also noted that key risks for businesses stemmed from heightened policy uncertainty in major economies, which will be addressed in the changes in legislation section.

This CWRI edition also points to some industries being more concerned than others by movements in the economy. The threat of an economic downturn caused the largest amount of concern for those in the construction industry. With 37.3% of respondents in this industry worried about the disruptive effects of a failing economy on their business.

The global refugee crisis is also beginning to impact business operations, with 11.2% of respondents citing the refugee crisis and subsequent political violence events as a cause for concern, up from 8.2% the year before. A substantial 28.6% of respondents in the oil & gas sector cited the refugee crisis as a politically disruptive event that is likely to impact their businesses in the coming year. Notably, a significant number of respondents in government agencies (15.4%), international

schools (15.8%) and IT organizations (14.1%) all expected the refugee crisis to be the chief cause of political disruption in their businesses in the coming year.

The violence, controversy and uncertainty associated with the refugee crisis is clearly a top cause for concern for businesses. So much so that recently, the United Nations Refugee Agency and the UN Global Compact called on global organizations to create a more welcoming environment for refugees through skill development and employment.

The impact of globalization, the global economic downturn and the increase in religious extremism, among other things, have changed the world and how businesses operate in it. Political violence and its disruption to business is now commonplace and organizations around the world have no choice but to ensure their employees and assets are properly protected in all the countries in which they do business and that their business strategies adequately take into account the various risks.

risk analysis

# changes in legislation

The age of legislative and regulatory uncertainty has dawned. The rise of nationalism, changing governments and corresponding changes in policy, trade barriers rising and falling and currency fluctuations, are now all key risks of doing business, not just in emerging markets but around the globe. Legislative is a sub-component of political risk, defined as the risk to businesses from political instability or political change in countries. Legislative uncertainty is partially caused by changes in government, which often lead to new policies and fluctuations in foreign exchange rates, but may also be a result of existing governments responding to economic slowdowns or other socio-economic factors.


According to Daniels, Radebaugh, & Sullivan, the common types of political risks are systemic, procedural, distributive, and catastrophic. Systemic political risk refers to changes in government policy and legislation that might impact a business. It might also refer to changes in the economy such as a downturn, which will influence an organization's ability to make money in that country. Procedural political risk refers to the cost of complying with a host country's laws and regulations as well as the level of corruption found in that country. Distributive political risk refers to public interest conditions placed on multina-

tional businesses by the host country. As foreign investors in a host country set up businesses and start to generate profit, the country might look at how this is impacting its citizens and introduce laws ensuring they also benefit from any investment. All of these risks are closely tied to legislative uncertainty.

The fourth type of political risk, catastrophic political risk, is defined as the large and unplanned political changes in a country that affect how businesses operate there. This includes conflict and war, which may make it difficult or dangerous for organizations to continue to operate there. For the purpose of the *Clements Worldwide Risk Index*, this is more closely tied with political violence.

The election of Donald Trump in the United States, for example, has come with a shift towards protectionism in global trade policy. In addition, the closing of borders, the proposed implementation of trade barriers and the cancellation of multilateral trade deals all signal that nationalist interests will take precedence over an integrated global economy. In general, there has been a revival of interest in trade restrictive measures around the world as protectionism and nationalism take hold. These policy changes increase risks to businesses which must ensure they remain legally compliant by monitoring every country where they operate for new regulations and legislation. They have to comply with various tariffs, taxes and sanctions imposed by countries where they do business.





According to the survey, changes in legislation and regulations are a top loss and concern for all respondents with 11.2% ranking it as their top loss (#3 ranking) and 16.6% answering that it is their top concern (#4 ranking). Additionally, five industries ranked changes in legislation and regulations as either their #1 or #2 loss, including oil & gas (21.4%), IT (16.3%), banking (15.9%), international schools (15.8%), and manufacturing (8.3%).

The potential large losses for companies operating in areas of political and legislative uncertainty are outlined in a report by FTI Consulting - *What companies do right (and wrong) in emerging markets*, which surveyed 140 North American and European-based companies with revenues over \$1 billion. The report found that

along with potential growth, large emerging market investments can generate huge losses - more than \$1 billion per company over the past five years. The report said that the losses stemmed from regulatory violations, loss of business and fines resulting from bribery and fraud, and reputational damage from business operations in emerging markets.

Walmart, one of the world's biggest multinationals, has invested heavily in infrastructure and e-commerce around the globe. Walmart used the Worldwide Governance Indicators from the World Bank to evaluate how factors like government effectiveness, the rule of law, control of corruption and government stability affected the risk of non-compliance in facilities in a particular country. This global organiza-

tion is clearly feeling the impact of global legal compliance and the need to be prepared for the risks inherent in having an international presence.

As multinationals continue to spread across the globe, we can expect legal compliance and political uncertainty to grow in complexity and create increasingly complicated risks for businesses operating across borders. Some of these risks, but not all, are insurable. Including insurance as part of an overall risk mitigation plan is crucial.

risk analysis

# cyber liability

Cyber liability refers to the losses suffered by businesses due to risks relating to information technology infrastructure and activities. These may include losses due to breaches to data and privacy, hacking and extortion liability, security fees and professional advisory fees following a cyber attack. Just over 15% of respondents in this survey said that cyber attacks had caused their biggest business losses in the last year and 24.5% said it was their biggest cause of concern in the coming months.

Cyber crime is no longer about lone cyber attacks and petty credit card fraud. The crime has grown into a full-fledged industry with massive organizations manned by highly experienced IT experts. The industry has become so sophisticated that new and frightening ways to steal and use an organization's information are being exposed daily. The evolution of financial cyber crime means that it is no longer lone PC users that are targeted but rather high-value financial institutions and multinational organizations. The industry has grown from single instances of credit card fraud to the hacking of large corporate databases and payment systems, creating heavy losses for the victim organizations. Also, gaining in frequency is cyber extortion and ransom-

ware, which force businesses to pay up by holding hacked information hostage.

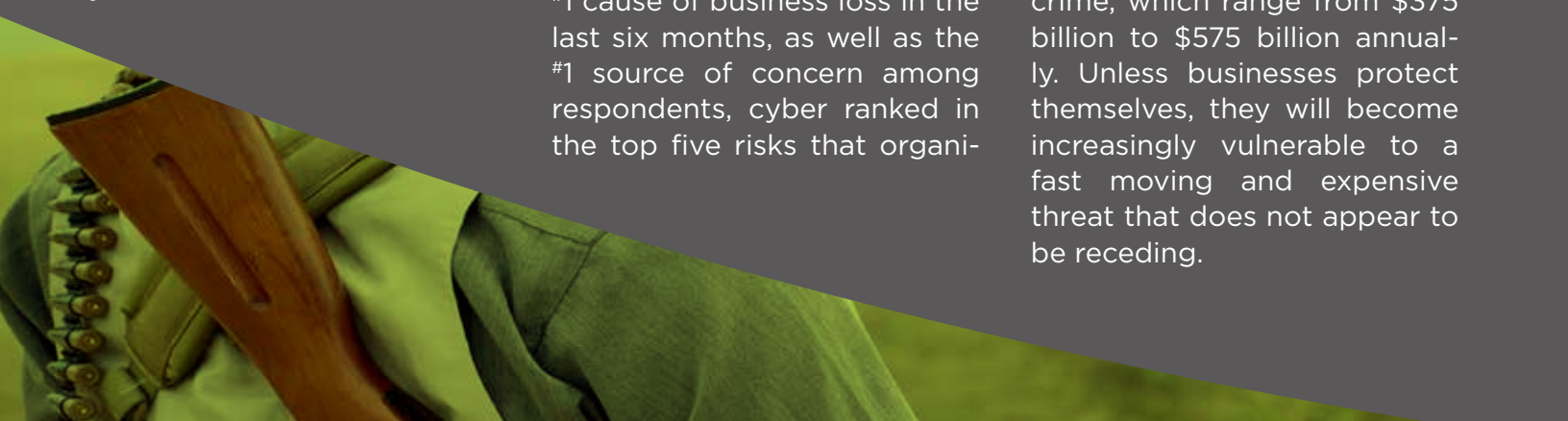
In the survey, certain industries are shown to have suffered more than others. Predictably, the IT and banking industries suffered the highest losses due to cyber attacks in the last six months, with 25% of respondents in both sectors saying cyber attacks were the top cause of loss for their business. The construction industry was also targeted by cyber attacks, with 22.4% of respondents citing this as their biggest business loss.

Yet, despite the numerous high-profile cyber attacks in the last year, many organizations do not have cyber liability protection. While cyber security was listed as both the #1 cause of business loss in the last six months, as well as the #1 source of concern among respondents, cyber ranked in the top five risks that organi-

zations felt the least prepared to address.

Last year, British government research into cyber security showed that two-thirds of large companies in Britain had experienced a cyber breach (Department for Culture, Media & Sport and Ed Vaizey MP). The country subsequently launched the National Cyber Security Centre, which urged Britain's businesses to better protect themselves from cyber criminals. It was found that only half of all firms in the UK had acted to reduce their vulnerability.

According to the A.T. Kearney *Foreign Direct Investment Confidence Index*, two-thirds of executives today are worried about cyber attacks and the global losses due to cyber crime, which range from \$375 billion to \$575 billion annually. Unless businesses protect themselves, they will become increasingly vulnerable to a fast moving and expensive threat that does not appear to be receding.







risk analysis

# terrorism

Terrorism is widely described as the use of violence and intimidation against civilians that is politically motivated. In this survey, 23.3% of respondents said they were concerned about the effects of terrorism on their businesses, ranking it #2 behind cyber liability, slightly down from 25.2% last year. Terrorism also ranked #2 for top losses faced by organizations at 12.3%. In addition, around 10% of respondents (#2 ranking) still felt completely unprepared for the impact of terrorism on their businesses, despite this being one of the top causes of loss and a concern for respondents.

The threat of global terrorism shows no signs of abating. According to a report by A.T. Kearney entitled *Divergence, Disruption, and Innovation Global Trends 2015-2025*, the continued fragmentation of global power and the rise of new global challenges has created an increasingly volatile, complex and uncertain world. The report stated that the geography of violent extremism had spread significantly over the past decade, with the most activity occurring in Syria, Iraq, Yemen, Lebanon, Somalia, Libya, Mali, Nigeria, Afghanistan and Pakistan. The report said there were also smaller threat cells around the rest of the world, including within G-20 nations.

In addition, the Global Peace Index 2016 states that deaths

from terrorism have increased by 80% from 2015 to 2016. The report noted that there were signs that terrorism was becoming more common around the world, with almost every region seeing an increase in its terrorism impact score from 2008 to 2016. According to the Institute for Economics & Peace, acts of terror cost the world \$89.6 billion in 2015.

In terms of industries that are affected by terrorism, the construction, transportation and government sectors all ranked terrorism as their biggest concern and one of their top losses. Twenty-two percent of respondents in the construction industry identified terrorism as the biggest cause of business loss. In addition, 15.9% of those in the transport industry and 13.5% of those in the pub-

lic sector cited terrorism as a top loss. It appears that multinational organizations with extensive networks across the world are the most concerned about the threat of terrorism on their businesses.

As the global risk of terrorism grows and spreads, businesses must ensure that they protect their assets and their employees from a range of seismic events that could cause loss of life and destroy profits. The new business reality is that political disruption and violence insurance coverage is no longer a luxury and as the threat continues to grow, businesses are taking a dangerous risk if they do not have adequate protection in place.

industry focus

# IT organizations

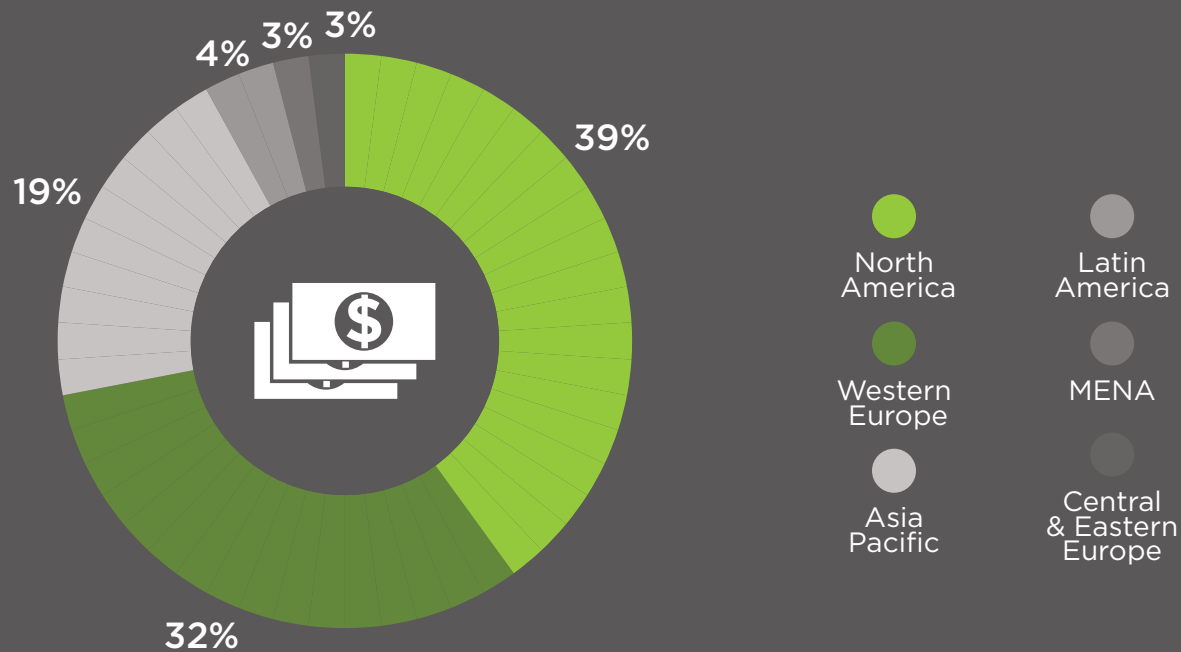
In this edition of the *Clements Worldwide Risk Index*, 18% of total respondents operate in the IT industry. Their responses on the Index's top categories differed in some key areas from overall respondents.

	TOP LOSS industry/ overall	TOP CONCERN industry/ overall	LEAST PREPARED industry/ overall
1	 cyber liability	 cyber liability	 kidnap & ransom
2	 changes in legislation	 personnel medical needs	 terrorism risk
3	 DBA	 changes in legislation	 political violence
4	 professional liability	 professional liability	 disease risk
5	 terrorism risk	 general liability	 fleet

## The facts about IT

Worldwide IT spending is forecast to reach \$3.5 trillion in 2017, up 2.9% from 2016, with software and IT service segments leading the growth. The revenue is concentrated overwhelmingly in North America and Western Europe with over 70% and Asia Pacific contributing almost 20% (Gartner, 2016; Accelerance, 2017).

## Share breakdown of IT services spending worldwide in 2015 by region



Source: Accelerance, 2017

Given the relatively digitally native nature of their businesses, it is not surprising that survey respondents from the IT segment suffer from cyber liability events at a higher proportion than the rest of the respondents.

experienced a cyber liability event in the past 6 months	
overall	33.5%
this industry	45.7%

Other differences in the top losses and concerns categories generally relate to staff costs and liabilities, including workers' compensation, professional liability, general liability and personnel medical needs. In the IT industry, however, responses did not show a greater propensity to experience more lawsuits than the average of survey respondents.

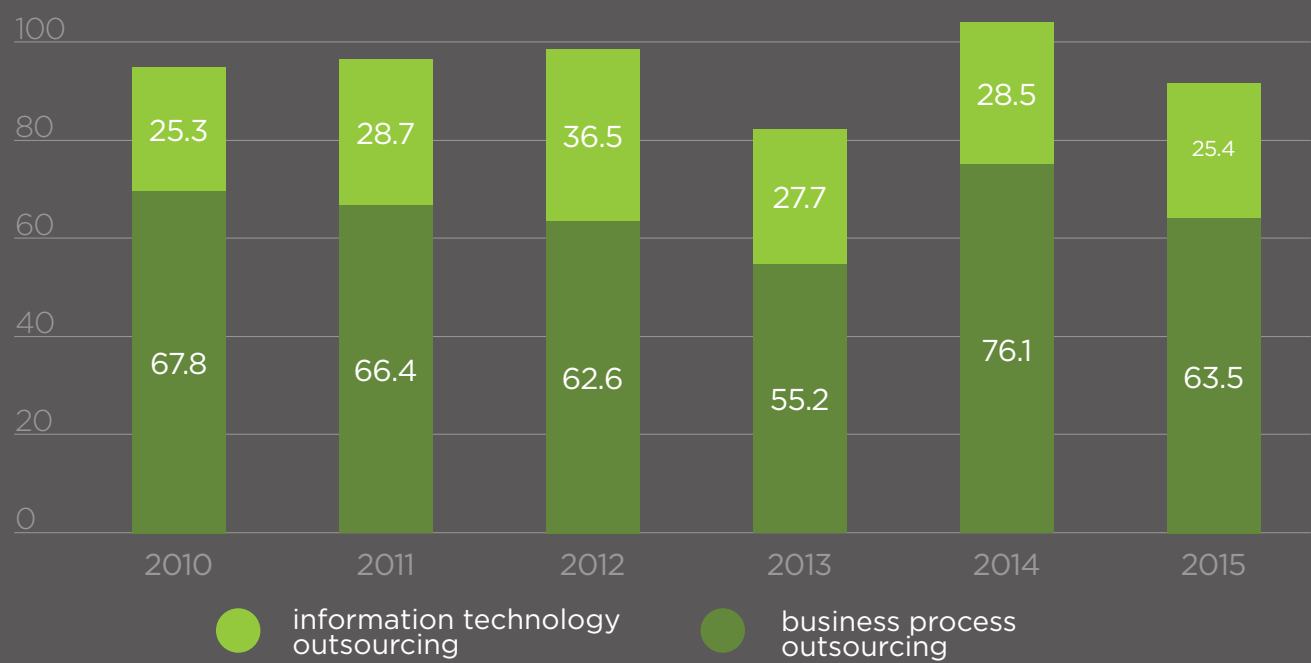
experienced a lawsuit in the past 6 months	
overall	18.4%
this industry	15.2%

Payroll tends to represent a higher percentage of overall expenses across the IT industry compared to manufacturing, for example, which had the second largest number of respondents to the survey. That may account for the increased costs and concern for staff-related exposures.



While IT is certainly a global industry, responses show a revenue concentration in North America and Europe. An additional element to consider as it relates to global supply chains, is the outsourcing component of IT.

## Global outsourcing industry revenue from 2010 to 2015, by service type (in billion U.S. dollars)



Source: Accelerance, 2017

## Perspective on Political Violence

The IT industry mirrors overall respondents as it relates to what respondents see as the most likely political and labor unrest they expect to experience in 2017. It is interesting that this segment is slightly less concerned about currency fluctuation and economic downturn as this could have a significant effect on business operations. This sector is slightly more concerned about labor strikes, which could be extremely costly in the outsourcing sector, and refugees.

	all sectors	this sector
currency fluctuations	19.0%	16.3%
economic downturn	16.2%	13.0%
elections	27.2%	26.1%
labor strikes	7.2%	9.8%
looting	0.8%	1.1%
refugees	11.2%	14.1%
riots	1.4%	2.2%
terrorism	13.5%	14.1%
war	3.5%	3.3%



## Delayed expansion plans

The international IT industry is more likely than overall population to delay expansion plans in 2017.

overall respondents	37%
this industry	41.3%

industry focus

# manufacturing organizations

In this edition of the *Clements Worldwide Risk Index*, 16.6% of total respondents were from the manufacturing industry and their results on top categories differed in key areas from overall respondents.

	TOP LOSS industry/ overall	TOP CONCERN industry/ overall	LEAST PREPARED industry/ overall
1	 cyber liability	 cyber liability	 kidnap & ransom
2	 political violence	 terrorism risk	 disease risk
3	 disease risk	 changes in legislation	 terrorism risk
4	 natural disaster	 group travel accident	 political violence
5	 changes in legislation	 political violence	 personnel medical needs

## The facts about manufacturing

The Global GWP is USD 74 trillion and almost 15% of that is composed of manufacturing services, according to the World Bank. In most developing countries, the share of manufacturing to GDP is closely watched because manufacturing jobs are on average much better paid than other jobs. In 2015, the average manufacturing worker in the United States earned \$81,289 annually, including pay and benefits. The average worker in all non-farm industries earned \$63,830 (NAM, 2016).

The top 10 manufacturing powerhouses are dominated by North America and Asia, with only the UK and Germany making it into the top 10. Asia dominates the up-and-comers.

## Global CEO survey: 2016 global manufacturing competitiveness index rankings by country

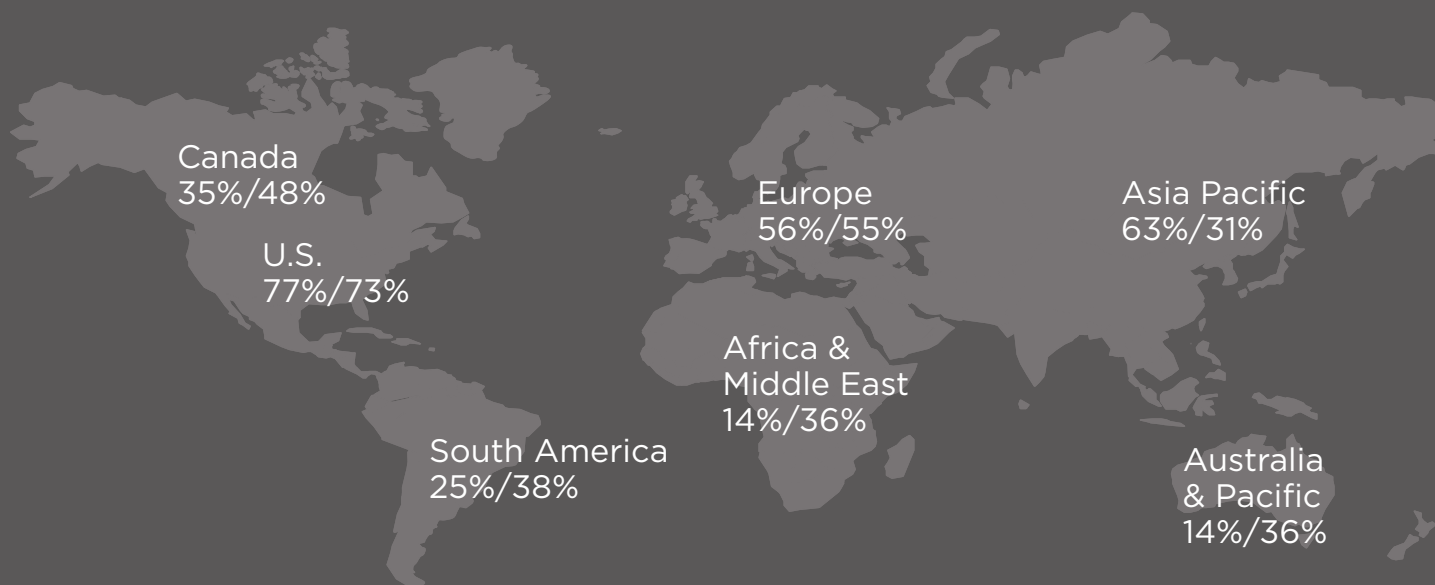
2016 (current)			2020 (projected)		
	country	index		country	index
1	China	100.0	1	▲ U.S.	100.0
2	U.S.	99.5	2	▼ China	93.5
3	Germany	93.9	3	= Germany	90.8
4	Japan	80.4	4	= Japan	78.0
5	South Korea	76.7	5	▲ India	77.5
6	UK	75.8	6	▼ South Korea	77.0
7	Taiwan	72.9	7	▲ Mexico	75.9
8	Mexico	69.5	8	▼ UK	73.8
9	Canada	68.7	9	▼ Taiwan	72.1
10	Singapore	68.4	10	▼ Canada	68.1
11	India	67.2	11	▼ Singapore	67.6
12	Switzerland	63.6	12	▲ Vietnam	65.5
13	Sweden	62.1	13	▲ Malaysia	62.1
14	Thailand	60.4	14	= Thailand	62.0
15	Poland	59.1	15	▲ Indonesia	61.9
16	Turkey	59.0	16	▼ Poland	61.9
17	Malaysia	59.0	17	▼ Turkey	60.8
18	Vietnam	56.5	18	▼ Sweden	59.7
19	Indonesia	55.8	19	▼ Switzerland	59.1
20	Netherlands	55.7	20	▲ Czech Republic	57.4

Source: Deloitte, 2016

The Asian markets are less likely to see terrorism as a high threat, but have numerous examples related to political violence creating business disruption, including protests and civil commotion, notably in Thailand in recent years. Additionally, in the Asian markets natural disasters, particularly earthquakes and tsunamis, are a top concern.

The complexity of global supply chains and the fluidity of trading partners drive the importance of business interruption as a key risk. As the next chart represents, both customers and suppliers will exist in complex manufacturing webs. What this means for risk is that it is essentially expanded, as the top risks a managing director must look at in Europe are very different than those in Asia Pacific. While most companies try to assure they have built redundancies in their supply chain, such as an alternative coffee source from Vietnam if a monsoon halts distribution, that is not always possible.

## Mapping the global supply (suppliers/ customers)



Percentages of companies having suppliers/ customers in each region.  
Source: Aberdeen Group, 2017

An epidemic or earthquake in one part of the world could affect the ability to deliver to customers in another, again highlighting why losses from natural causes are more predominant, such as diseases and natural disasters for this business sector. Globalization and vulnerability to natural phenomena results in significant concerns around business interruption for this industry, more so than for other sectors. The actual stated number of business interruption events, however, is not significantly higher than overall responses.

experienced a business interruption event in the past 6 months	
overall	12.9%
this industry	14.3%

## Perspective on Political Violence

The manufacturing industry mirrors overall respondents as it relates to what respondents see as the most likely political and labor unrest they expect to experience in 2017. It is interesting that this industry is slightly less concerned about economic downturns as manufacturing production might see slowdowns with a poor economy. This industry is slightly more concerned about currency fluctuations and terrorism. Interestingly, this segment was much less likely to experience a political violence event than overall respondents, with only 13.1% of this industry citing a political violence event versus 25% of all respondents.

	all sectors	this sector
currency fluctuations	19.0%	23.8%
economic downturn	16.2%	11.9%
elections	27.2%	25.0%
labor strikes	7.2%	7.1%
looting	0.8%	2.4%
refugees	11.2%	8.3%
riots	1.4%	3.6%
terrorism	13.5%	16.7%
war	3.5%	1.2%



A man with dark hair and a light beard stands in a warehouse, wearing a grey jacket over a light blue shirt and a bright yellow high-visibility vest. He has his arms crossed and is looking directly at the camera. The background shows tall blue metal shelving units filled with cardboard boxes, typical of a large industrial or distribution center.

## Delayed expansion plans

The manufacturing industry is not any more likely than overall population to delay expansion plans in 2017.

overall respondents	37%
this industry	36.9%

industry focus

# construction organizations

In this version of the *Clements Worldwide Risk Index*, 13.1% of total respondents were from the construction industry and their results on top categories differed in key areas from overall respondents.

	TOP LOSS industry/ overall	TOP CONCERN industry/ overall	LEAST PREPARED industry/ overall
1	 political violence	 terrorism risk	 terrorism risk
2	 cyber liability	 political violence	 kidnap & ransom
3	 terrorism risk	 cyber liability	 political violence
4	 disease risk	 kidnap & ransom	 cyber liability
5	 natural disaster	 professional liability	 professional liability

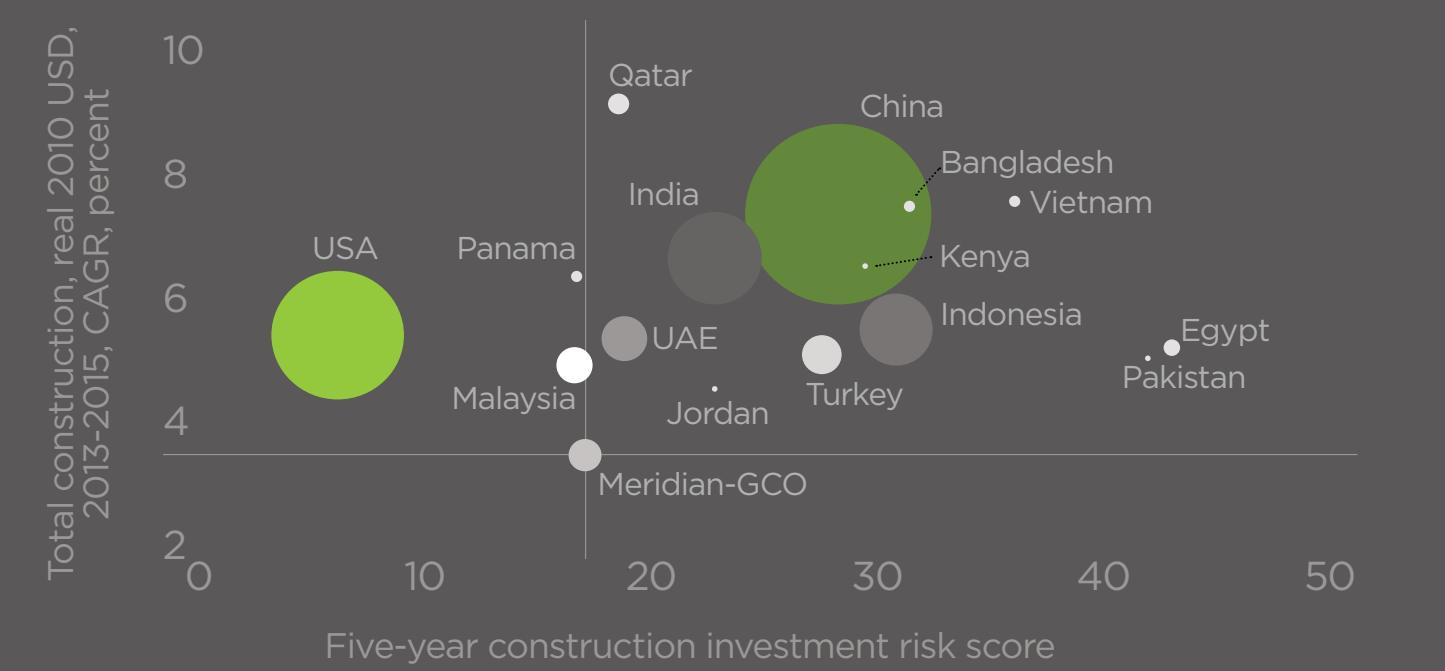
## The facts about construction

The Global GWP is USD 74 trillion and almost 10% of that is composed of construction services (KHL, 2016). Additionally 10% of gross written premiums in insurance are aimed at construction services. Construction industry growth trends very closely to overall GWP and is primarily driven from the developing markets, particularly in the Middle East and Africa, which is expected to overtake Asia Pacific as the growth markets for the segment.



While economic powerhouses such as the U.S. and China continue to dominate the construction market, much of the growth in this industry is coming from Africa and the Middle East, where developing economies have a greater demand for buildings and infrastructure. However, industry players in this segment see potential risks such as political violence and terrorism concerns as challenges affecting their expansion plans.

## Top 10 fastest-growing construction markets



Source: IHS, 2015

Specifically, this sector has experienced more political violence events over the past 6 months when compared to other industries, as reported in this edition of the CWRI:

experienced a political violence event in the past 6 months	
overall	25%
this industry	31.3%

The construction supply chain is truly global, with different regions and companies dominating different sub-sectors of the industry. The complexity of these supply chain networks creates considerable disruption if there is a catastrophic event within a certain region. The construction industry ranks natural disasters as the #4 highest loss-generating risk, with 19.4% of respondents indicating it as such.

## Projected top 10 markets by subsector (2018)

	HVACR	Lighting	Plumbing Products	Wood Products	Insulation	Doors & Windows	Glass
1	Canada	Canada	Mexico	China	Mexico	Canada	Hong Kong
2	Mexico	Mexico	Canada	Canada	Canada	Mexico	Canada
3	China	China	Saudi Arabia	Mexico	China	Bahamas	Mexico
4	Saudi Arabia	Korea	UAE	Japan	UK	Australia	Colombia
5	Germany	Saudi Arabia	Taiwan	Vietnam	Korea	Saudi Arabia	UAE
6	UK	Germany	UK	UK	Australia	Russia	South Africa
7	Brazil	Japan	Venezuela	Italy	Brazil	UK	Turkey
8	Australia	UK	Korea	Turkey	Japan	Japan	Australia
9	Japan	Taiwan	Australia	Australia	France	Venezuela	Venezuela
10	France	Netherlands	South Africa	Spain	Germany	Netherlands	Kuwait

Source: U.S. Department of Commerce/ International Trade Administration, May 2016

Another area where respondents in this industry differ from others is in regard to having experienced medical evacuations, expressing a higher percentage rate of occurrence. This likely is a result of the physical nature of construction work, and the potential likelihood of employees being more prone to accidents than desk workers in other industries.

### experienced a medical evacuation event in the past 6 months

overall	26%
this industry	34.3%

Other risks that rank in the top 5 in the losses category for this industry are general liability and professional liability. That is reflected in the frequency of lawsuits for this sector over the past six months in comparison to overall respondents.

### experienced a lawsuit in the past 6 months

overall	18.4%
this industry	25.4%

## Perspective on Political Violence

This industry differs from the overall respondents as it relates to what respondents see as the most likely political and labor unrest they will experience in 2017. There is a much stronger concern regarding an economic downturn. This may reflect the greater interconnectivity of construction to economic growth. Unlike other industries such as manufacturing that may experience a lag effect, construction is typically immediately affected when growth slows. As it relates to all other categories, particularly elections, construction seems less concerned than the general population about political risk or violence.

	all sectors	this sector
currency fluctuations	19.0%	17.9%
economic downturn	16.2%	37.3%
elections	27.2%	11.9%
labor strikes	7.2%	9.0%
looting	0.8%	0.0%
refugees	11.2%	9.0%
riots	1.4%	1.5%
terrorism	13.5%	11.9%
war	3.5%	1.5%



## Delayed expansion plans

The international construction industry is much more likely than overall respondent population to delay expansion plans in 2017. This sector is only second to oil & gas regarding their plans to delay expansion. Based on their concerns described in this section, this is probably directly connected to their concerns regarding economic slowdowns.

overall respondents	37%
this industry	52.2%

industry focus

# government organizations

In this version of the *Clements Worldwide Risk Index*, 10.2% of total respondents were from the government industry and their results on top categories differed in key areas from overall respondents.

	TOP LOSS industry/ overall	TOP CONCERN industry/ overall	LEAST PREPARED industry/ overall
1	 terrorism risk	 terrorism risk	 kidnap & ransom
2	 cyber liability	 political violence	 professional liability
3	 disease risk	 cyber liability	 business interruption
4	 property damage	 kidnap & ransom	 property damage
5	 personnel medical needs	 personnel medical needs	 DBA

## The facts about government

Government agencies operating abroad promote their respective country overseas, pursuing national security initiatives and engaging in international trade and humanitarian activities in many parts of the world.

There are several categories that exemplify where government agencies would operate and spend money outside of their host country. Some of those categories are defense, operation of embassies, and foreign aid. For the U.S., these categories represent more than \$350 billion of spend.

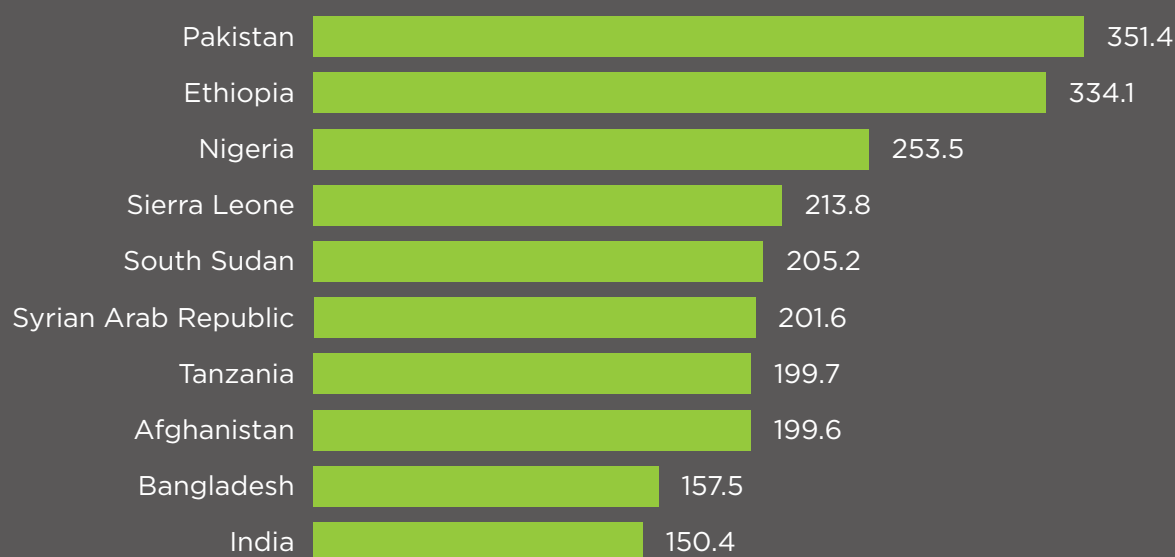
In the United Kingdom, UK DfID, a governmental organization focused on humanitarian work, is budgeted to provide over £12.2 billion in aid in 2017.

The United States government recently approved budgets for the following initiatives:

- U.S. Department of State: FY2017 requested budget was \$50.1 billion with overseas contingency operations fund set at \$14.9 billion
- USAID assistance is \$22.7 billion, of which \$11.0 billion is in core USAID-managed accounts: Development Assistance, Global Health Programs-USAID, International Disaster Assistance, Food for Peace Title II, Transition Initiatives, Complex Crises Fund and USAID Administrative Expense accounts
- U.S. Department of Defense: total overseas contract obligations for FY2015 totaled \$275 billion, more than all other agencies combined with 44% on services, 47% on goods, 9% on research & development. For 2017, government appropriations budget for this category is expected to grow by more than 15%

The above funding includes renewed commitment to named projects in support of a democratic Ukraine, supporting Israel and Jordan, and the U.S. strategy in Central America, Afghanistan and Pakistan. Aid activity, both from the U.S. and other large aid providers like the UK, also generally occurs in countries that lack the healthcare infrastructure and other support systems typically available in Western markets.

## Largest country recipients of Official Development Assistance from the UK (in million £)



Source: [www.theweek.co.uk](http://www.theweek.co.uk), 2017

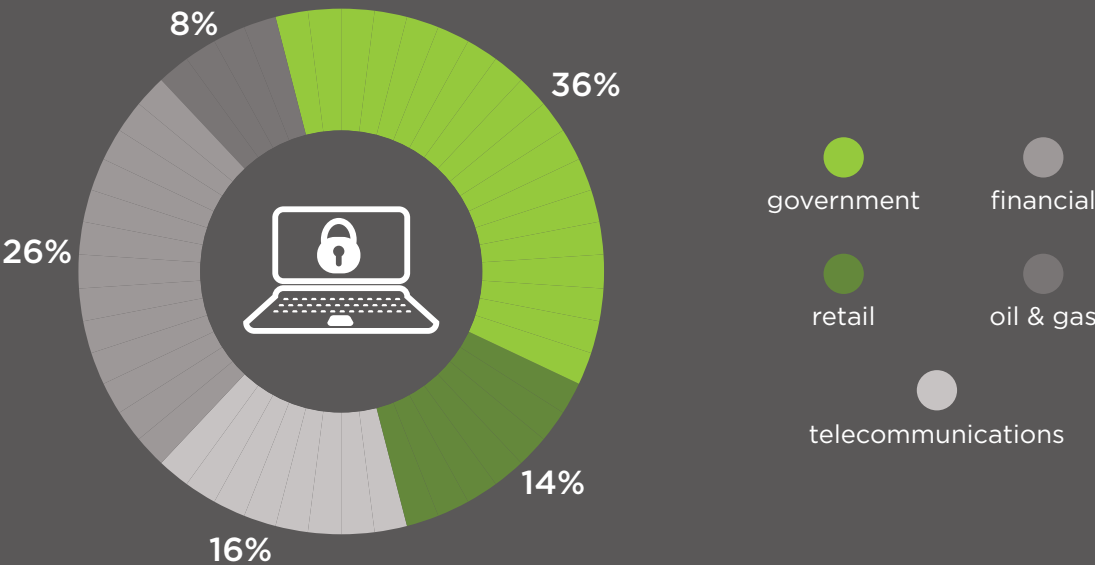
Therefore, it is no surprise that medical evacuations may occur at a higher rate than other industries, given activities described for the government industry, including aid, security and embassy work.

experienced a medical evacuation event in the past 6 months		experienced a cyber liability event in the past 6 months	
overall	26%	overall	33.5%
this industry	69.2%	this industry	48.1%

One of the top losses and concerns for government organizations is cyber liability and this is supported in the number of events the government industry experienced.

Per a major report, 36% of all cyber attacks in 2015 targeted government organizations. The focus of such attacks is to break down system integrity thus causing wider leaks and increased media and public negativity towards government institutions. (Control Risks, 2016)

Industries targeted (% total cyber attacks)



Source: Control Risks, 2016

The latest *Clements Worldwide Risk Index* identified that government entities are much more likely than other organizational types to experience a political violence event. There has been an increase in smaller, targeted acts of terrorism in a diverse spread of territories and locations. Domestic populations, as a result, feel threatened and frustrated by a perceived lack of action from their government. This in turn may create unrest among the resident populations and can lead to an even further increase in political violence. As such, government agencies might suffer more violent attacks and need to ensure their assets and staff are suitably protected.

experienced a political violence event in the past 6 months	
overall	25%
this industry	53.8%

Perspective on Political Violence

The government industry is more concerned about the likelihood of disruptions around elections. With the number of major elections around the world slated for 2017, there is the opportunity for significant turmoil. Governments are reportedly less concerned about currency and economic downturns even though these geo-political disruptions could have significant security impacts.

	all sectors	this sector
currency fluctuations	19.0%	3.8%
economic downturn	16.2%	7.7%
elections	27.2%	36.5%
labor strikes	7.2%	5.8%
looting	0.8%	0.0%
refugees	11.2%	15.4%
riots	1.4%	0.0%
terrorism	13.5%	15.4%
war	3.5%	15.4%





## Delayed expansion plans

The Government industry is much less likely than the overall respondent population to delay expansion plans in 2017. This is not surprising. From defense to aid, government spending and financial commitments often remain stable in a challenged political and risk environment.

overall respondents	37%
this industry	25%



industry focus

# non-governmental organizations

In this version of the *Clements Worldwide Risk Index*, 8.6% of total respondents were from the non-governmental industry and their results on top categories differed in key areas from overall respondents.

	TOP LOSS industry/ overall	TOP CONCERN industry/ overall	LEAST PREPARED industry/ overall
1	 personnel medical needs	 political violence	 kidnap & ransom
2	 natural disaster	 kidnap & ransom	 cyber liability
3	 terrorism risk	 terrorism risk	 terrorism risk
4	 property damage	 personnel medical needs	 DBA
5	 business interruption	 natural disaster	 disease risk

## The facts about NGOs

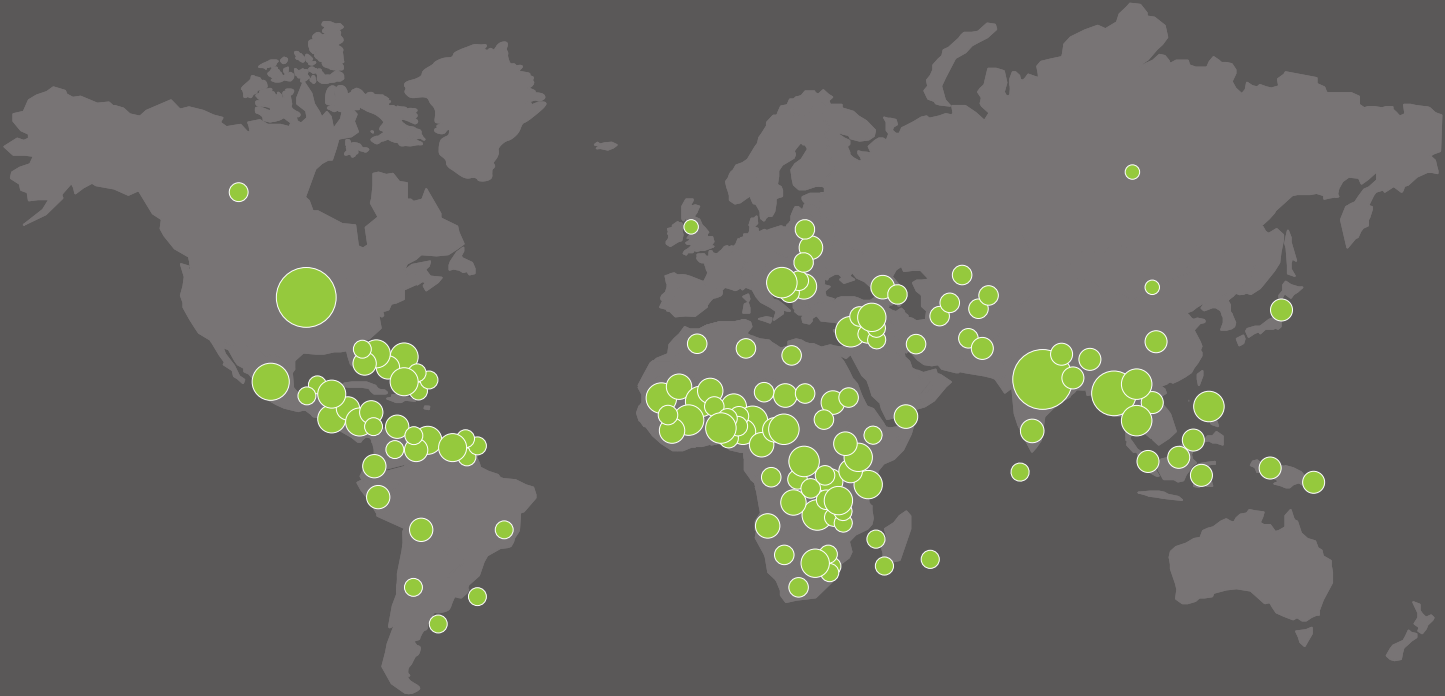
An ever-increasing number of non-governmental organizations (NGOs) are operating internationally, including in high-risk locations. Just one source reports over 2,600 NGO projects underway conducted by over 100 different organizations. The majority of these missions focus on providing aid relating to health in developing countries. Education is the second most active mission type, with over 600 projects in action, providing the knowledge and tools to help individuals on a ground level.

- Total projects estimated budgets: \$4,499,265,131
- Health projects estimated budgets: \$2,488,322,431
- Education projects estimated budgets: \$480,529,484

(NGO Aid Map, 2017)

The geographical spread of NGO activity is wide and far-reaching. Projects are ongoing in areas that many would choose to avoid due to natural disaster, political unrest or conflict. In Haiti, for example, there are over 90 active projects focusing on health and education alone. Moreover, since Hurricane Matthew hit Haiti in 2016, more economic and structural development projects were initiated. Given their areas of operations and nature of work, it is not surprising that the top losses and concerns from NGOs differ than overall respondents.

## NGO projects around the world



Source: NGO Aid Map, 2017

Tied for reported top losses for NGOs, along with natural disasters and terrorism, is personnel medical needs. NGO losses resulting from those three risks, unless they are mitigated further, will likely continue as increased political unrest, potential terrorism activity and even environmental events will surely re-occur. Proper training, and the coverage of health insurance and personal accidents for overseas-based staff is critical for NGOs, as part of their duty of care. This edition of the *Clements Worldwide Risk Index* highlights the fact that international NGO staff were much more likely than staff in other segments to experience a medical evacuation.

experienced a medical evacuation event in the past 6 months	
overall	26%
this industry	36.4%

According to an industry source, in the last 10 years there have been over 280 international workers wounded while on a mission abroad. The next chart shows that many of these incidents have taken place in areas of conflict such as Afghanistan and Sudan. It's unlikely that NGOs will stop the vital work they do in high-risk locations, suggesting that personal accidents and related medical costs will remain a major source of costs and losses for NGOs if they are not properly insured against them.

country	wounded
Afghanistan	63
Sudan	29
South Sudan	26
Somalia	23
Yemen	14
Chad	11
Syrian Arab Republic	11
Kenya	10

country	wounded
Haiti	9
Pakistan	9
DR Congo	8
Central African Republic	7
Libya	5
Indonesia	4
Niger	4

Source: Humanitarian Outcomes, 2017

Another point to note is that NGOs responded that they had experienced a recent lawsuit more often than in other industries, yet they did not rank any liability protection as a top concern. Given their public exposure, NGOs would be well served to be fully cognizant of their liability risks and ensure they are getting the protection they need against them.

experienced a lawsuit in the past 6 months	
overall	18.4%
this industry	25%

## Perspective on Political Violence

Participating NGO respondents also indicated that terrorism represented a top loss-generating risk for them. Political violence and terrorism were both major concerns (ranking #1 and #2 respectively). This is validated by responses from NGOs that stated they experienced more political violence-related events than other industries.

This industry also differs from the overall respondents in terms of what respondents see as the most likely political or labor unrest they will experience in 2017. Members of this segment responded in higher numbers that violence around elections will likely occur this year, compared to responses from participants from other industries. In contrast, NGO respondents did not show major concern regarding refugees or terrorism.

experienced a political violence event in the past 6 months	
overall	25%
this industry	31.8%

	all sectors	this sector
currency fluctuations	19.0%	18.2%
economic downturn	16.2%	18.2%
<b>elections</b>	<b>27.2%</b>	<b>50%</b>
labor strikes	7.2%	4.5%
looting	0.8%	0.0%
<b>refugees</b>	<b>11.2%</b>	<b>2.3%</b>
riots	1.4%	0.0%
<b>terrorism</b>	<b>13.5%</b>	<b>2.3%</b>
war	3.5%	4.5%

A woman wearing a red headscarf with a blue and white patterned band is sitting outdoors. She is looking towards the camera with a serious expression. In the background, there are other people, including children, and a small hut. A large tin can is visible in the lower right corner.

## Delayed expansion plans

NGOs are slightly less likely than the overall respondent population to delay expansion plans in 2017. This is not surprising given their willingness to work in riskier places and sometimes under uncertain circumstances in the field.

overall respondents	37%
this industry	34.1%



# looking ahead

As businesses grow and spread across the globe, so does their business risk. The rise in global political instability is causing major disruption to businesses, which is not expected to ease. Political instability and regulatory changes, coupled with the increase in cross-border business transactions, are generating expensive legal compliance risks. Terrorism, previously mostly confined to high-risk areas of the world, is spreading into every jurisdiction. Furthermore, the threat of cyber attacks grows at the same pace as technology. In an increasingly complex and unstable world, risk management and global insurance protection are now vital for business survival.

This report outlined some of the key risks and concerns facing multinational businesses today. More importantly, it identified major loss drivers for global businesses. Each organization should carry out their own risk assessment, incorporating the key issues addressed here. They can then benchmark this information against the survey results. Business risks that might not have been immediately apparent could come to the forefront, allowing organizations to address any gaps and ensure they are prepared. If the last year in global news is anything to go by, the business world is in for an interesting ride and those who can comprehensively adapt, prepare, and protect themselves will reap the rewards.

## 5 strategies for managing your global business



### global risk assessment and mitigation

Complete a full risk assessment and identify areas where gaps in coverage may exist. Improve your organization's risk protection particularly against political violence and upcoming legislative changes. Clements Worldwide has experts who can do a review of your company's current risk plans and your insurance portfolio to highlight opportunities for savings while ensuring your assets, your staff and your finances are fully protected.



### high-risk notifications

Subscribe to a service that provides updates on safety, security, medical and travel, as well as political briefings on countries where your company operates. Additionally, most global travel management companies can provide alerts when emergencies or extreme events take place where staff is travelling. Finally, visit [www.clements.com](http://www.clements.com) regularly, where you

can find a global risk map right on the home page, with FCO and CIA updates per country.



### document liability exposures

For many industries, liability exposure continues to be a key gap in their business protection. As organizations become more global, they open themselves up to lawsuits in numerous jurisdictions. A U.S. - or European - based policy may not be enough financial protection. For example, NGOs should not assume their humanitarian work will keep them protected from lawsuits. Organizations should take a holistic approach to liabilities, as most policies are narrow (auto liability, professional liability, crime and fiduciary liability, etc.). Ensuring adequate coverage is crucial.



### staff training

Make staff training a priority. Many insurance programs, such as Kid-

nap & Ransom policies, can include training from crisis consultants for your company's staff. Duty of care is essential and at Clements, we help organizations design staff training plans, including assisting your company's staff in executing training programs. Developing and varying the training based on the risk of the country where the employee will be relocated to, even temporarily, is critical.



### connect with peers

Protecting staff and assets is a universal challenge among global organizations. Tools like the *Clements Worldwide Risk Index* can help you learn from organizations like yours facing the same challenges. Many organizations, including Clements Worldwide, hold industry forums to enable this type of networking. The Overseas Security Advisory Council (OSAC), part of the U.S. Department of State, also offers networking forums in Washington, D.C. and abroad, to promote security and safety.

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