CLEMENTS WORLDWIDE

# RISK INDEX

2018

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# global overview




# welcome from clements worldwide

Having been in the business world for over 35 years, with 18 years at Clements Worldwide, one thing is certain – **change is constant, but sometimes it comes rapidly and sometimes at a snail's pace**. When I look back over the past year at some of the risks global organizations have faced, there are those risks that have been pretty consistent and some that exploded. Our 2018 edition of the *Clements Worldwide Risk Index* reflects these realities.

**In this year's index professional and management liability ranked as the 4$^{th}$ highest loss**. This can represent a claim against management for a hiring or firing decision; against a board for bad management practices that affected the stock price; or against organization management for not protecting employees from a hostile work environment or other safety risk (also known as duty of care).

One element related to this surge was a **global movement to stand up to harassment and shine a light on abuse and molestation.** And no industry proved immune. Several international humanitarian aid organizations with stellar reputations for the work they do abroad faced scandal as employees complained vocally and publically about abuse they had endured, which was reported and ignored. The legal system and the court of opinion is also clear on this subject – management will now be held accountable if they are not diligent in protecting rights of all – regardless of location and the good done by the organization.

International schools ranked professional and management as a top loss fueled by these same trends.

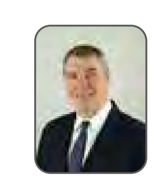
Legislative tightening has been gradual with surprise bursts. For organizations working abroad it is a real concern with large potential financial implications. In March 2018, the U.S. made a surprise announcement to increase tariffs on steel and aluminum – proving it can get tough on foreign competitors (think China). For companies working abroad, the speed with which these decisions can be made by foreign governments certainly could keep any executive up at night and the trend towards governments becoming more protectionist, or inward-focused, is clear. **A decision by one government can spark global repercussions**. I hear consistently from our clients that the cost of maintaining operations abroad keeps going up with new data regulations or bureaucracy to manage. For organizations like international schools and NGOs these increased costs are threatening the quality of education and services provided to students and beneficiaries.

And some risks that we wish would change sadly just don't. The civil wars in Syria and Yemen. Al Shabaab in East Africa and Al Qaeda in West Africa.

The encouraging news of the Risk Index, however, is that these risks are not stopping businesses from expanding. **The number of organizations that have reported they intend to delay expansion plans has fallen notably from 37% in the last edition to ONLY 13% in this edition**. Our clients are learning to adapt to geopolitical risks and becoming more resilient. We hope this is partially a result of our support.

**We believe in providing the best tools and resources to individuals and organizations to enable them to work anywhere with financial protection**. We are eager to hear your reactions to the trends outlined in the *Risk Index* and how we might be able to assist you in achieving your important missions globally.

Sincerely,



**Dan Tuman** | President

# executive summary

**Key takeaways:**

- **Professional and management liability jumps to 3rd highest loss with global spotlight on abuse, molestation, and sexual harassment**
- **For international schools and NGOs/UN agencies, professional and management liability was the top or 2nd ranking loss**
- **More than 35% of respondents predict more incidents of political violence and disruptions from elections or political environment, up from 27% last year**
- **Number of organizations planning to delay expansion drops dramatically from 37% to 13%, yet it is a significant number**

With the 2018 edition of the *Clements Worldwide Risk Index*, two risks leaped dramatically into the top loss category with a +6 and +11 position increase – professional and management liability and natural disasters. This follows a year of news related to both risks. Political violence (PV)/labor unrest and terrorism also continue to be top concerns.

**For the risk professional and management liability, 26% of all respondents answered that they had experienced a significant financial loss from this risk over the past 2 years (a 4 or 5 ranking).** International schools, NGOs/ UN agencies trended even higher, ranking this risk as a top loss or concern.

Increased focus around harassment, abuse/ molestation, gender pay gap, duty of care, equity between local nationals & expats, and increased regulatory requirements protecting workers are all affecting this trend. Additionally, the 24/7 news cycle, as well as fake news, is creating more "reporting" on organizational faults of all types. Nestlé, in March 2018, self-reported that it had discovered forced labor was used in its supply chain. This could have a number of liability implications from shareholders. Lawsuits, in the past, were most associated with western countries but that has shifted, with lawsuits being initiated in multiple jurisdictions for international organizations, projecting increased losses in this category. *Page 10*.

Terrorism and political violence maintained their spots in the top 5 concerns and risks for which organizations felt least prepared, but fell from the top 5 highest losses. More than 35% of respondents still fear political violence and disruptions from elections or political environments, up from 27% last year. This year may reflect that while terrorism and PV are part of the new normal in certain regions of the world, organizations are learning how to avoid costly losses to these risks, and are becoming more resilient. Given their potentially catastrophic and life-threatening nature, however, that remain a top concern. **Some industries, however, experienced higher losses from PV and terrorism risks, with NGOs/ UN agencies ranking terrorism and PV tied for 5th and government agencies and contractors ranking terrorism as their highest loss.** One prominent NGO was attacked in Jalalabad, Afghanistan in January 2018. No price can value the loss of life and trust in the safety of humanitarian aid workers from this cowardly attack.

Thirty percent of all respondents indicated they had experienced a significant financial loss from a natural disaster over the past 2 years (with a ranking of 4 or 5 in a scale of 1 to 5 regarding size of loss), and certain industries with many physical assets, such as construction, reported even higher rates of incidence at 55% of organizations ranking this loss as a 4 or 5.

**Experts in global affairs are already highlighting the implications natural disasters will have on political stability. An estimated 24.2 million people became climate refugees or internally displaced people in 2016** – fleeing their homes because of storms, floods, wildfire, extreme temperature, and other weather-related disaster. Only 6.9 million people were newly displaced by conflict and violence[1]. In the last several years, unrest in many developed nations has been correlated to increased refugees populations. This new wave of refugee will certainly exacerbate global instability in ways that are still difficult to predict. *Page 14*.

One trend worth celebrating in the 2018 edition of the *Clements Worldwide Risk Index* is the significant drop in the number of organizations who plan to delay expansion this year, although there is still resilience from some organizations. Reviewing the chart below, in the past, there was a significant trend towards more organizations limiting expansion, but in 2018 we saw a dramatic shift consistent amongst almost all sectors. NGOs are one exception with almost 20% of these organizations indicating they do have plans to delay expansion. *(For further analysis on this trend see page 32.)*

## percentage of respondents deciding to delay expansions

| Winter/ Spring 2016 | Summer/ Fall 2016 | 2017 | 2018 |
|---|---|---|---|
| 27% | 35% | 37% | 13% |

*Clements Worldwide Risk Index* (CWRI), 5th edition (2018)

# about CWRI

From January to February 2018, Clements Worldwide conducted an online survey for the 5th edition of the *Clements Worldwide Risk Index*. The 533 survey participants are global risk managers within multinational organizations. The received responses contained participants from international schools, non-governmental & humanitarian organizations, transportation & logistics, construction, banking, government agencies, and government contractors.

The CWRI provides risk managers with useful data on risks to which their organization could be exposed. It also informs readers about risks with high losses and risks which managers are most concerned about leading to future losses or disruptions, and enables organizations to enact proper future risk management actions.

For over 70 years, Clements has offered unique solutions to such risks in order to help our clients to continue their growth and expansion, even to high-risk markets. Through the content presented in this CWRI, Clements aims to help organizations identify new exposures and possible gaps in their coverage so they can properly protect their staff and assets.

## industry sector breakdown across participants

| | n (533) | % |
|---|---|---|
| international schools | 108 | 20% |
| NGOs/ UN | 71 | 11% |
| transportation | 55 | 10% |
| construction | 52 | 10% |
| banking | 41 | 8% |
| IT | 41 | 8% |
| manufacturing | 40 | 8% |
| tourism | 33 | 6% |
| oil & gas | 33 | 6% |
| government agencies | 24 | 5% |
| gov. contractors | 17 | 3% |
| other | 18 | 3% |

## participant global revenue range

| | % |
|---|---|
| $50M - more | 28% |
| $10M - $50M | 34% |
| $1M - $10M | 33% |
| less than $1M | 5% |

## participant company global headcount

| | % |
|---|---|
| more than 1,000 | 30% |
| 251 - 1,000 | 32% |
| 101 - 250 | 25% |
| 0 - 100 | 13% |

## percentage of organizational activity per region


# risk analysis

risk analysis

# professional and management liability

**Key takeaways:**

- **Professional and management liability makes top 5 losses in CWRI for first time**
- **International schools and NGOs/ UN rank as #1 or #2 loss**
- **Harassment and abuse claims fuel this trend**

Professional and management liability represents claims made against the organization from employees or former employees, shareholders, donors and more. They include claims against hiring practices, treatment by management of the organization, or other managerial misconduct. This risk jumped in the 2018 edition of the *Clements Worldwide Risk Index* to the 3rd highest loss from the 6th highest loss in 2017. It also climbed to the 6th highest concern from the 13th in the previous *Risk Index*.

## Sexual Harassment, Abuse, Gender Pay Gap – all Driving this Trend

There are many trends affecting these increased numbers, including both the increase in number of claims and the rising size of settlements or judgements. Statistics provided by the U.S. Equal Employment Opportunity Commission show a slight decline in cases from a high in 2011, which relates only to employment practices liability[2]. Globally, however, all types of stakeholders – including shareholders, donors, and employees – have become more aware of their rights. This is also not just a western trend, but one that is seen around the world.

Increased media scrutiny is also encouraging stakeholders to take action, whether it be empowering employees to question management indifference to repeated complaints of sexual, racial, or other types of harassment, or media highlighting misuse of funds that causes donors or shareholders to file a claim of mismanagement or a humanitarian aid organization or a commercial organization. Another trend expected to drive claims is gender pay gap. In Europe particularly, legislation is being passed to force companies to review gender pay gaps. This could result in increased discrimination claims.

*Note: Insurance policies that could protect organizations against professional and management liability risks include Employment Practices Liability, Directors and Officers Liability, Errors & Omissions, Professional Liability, and Crime. These policies differ from General Liability (also measured in this Index), which protects against third-party liability claims.*

| | all sectors | int'l school | NGO/ UN | transportation | construction | gov. agencies | gov. contractors | others |
|---|---|---|---|---|---|---|---|---|
| lawsuit or litigation against your organization | 26% | 20% | 24% | 16% | 37% | 33% | 18% | 29% |

## Construction, International Schools and NGOs/UN Organizations – Segments Most Affected by this Risk

Industries that ranked this risk higher than overall respondents include construction which ranked professional and management liability as their #1 concern; international schools as the #1 loss (tie); NGOs/UN organizations and IT organizations as the #2 loss; and transportation and logistics as the #2 concern.

Overall, 18% of organizations experienced a lawsuit in the past 6 months which is about the same as last year. Certain industries trended higher, such as international schools (28%), government agencies (25%), and government contractors (30%).

Other higher-ranking risks in the *Risk Index* may have related professional liability elements including cyber and natural disasters. While these represent insurable risks themselves, management may also face a liability claim if they do not have a preparedness plan in place for such risks. Stakeholders or donors may hold management accountable for losses, deemed preventable, if management did not plan ahead.

From an insurance perspective, one of the main drivers of increased losses is the size of settlements. Given this trend, many organizations may lack adequate coverage limits given average settlements. Therefore, reviewing limits is critical.

## employment practices charges[3]

| | 1997 | 2000 | 2003 | 2006 | 2009 | 2012 | 2015 | 2017 |
|---|---|---|---|---|---|---|---|---|
| Total charges | 80,680 | 79,896 | 81,293 | 75,768 | 93,277 | 99,412 | 89,385 | 84,254 |
| race | 36.2% | 36.2% | 35.1% | 35.9% | 36.0% | 33.7% | 34.7% | 33.9% |
| sex | 30.7% | 31.5% | 30.0% | 30.7% | 30.0% | 30.5% | 29.5% | 30.4% |
| national origin | 8.3% | 9.8% | 10.4% | 11.0% | 11.9% | 10.9% | 10.6% | 9.8% |
| religion | 2.1% | 2.4% | 3.1% | 3.4% | 3.6% | 3.8% | 3.9% | 4.1% |
| color | 0.9% | 1.6% | 1.9% | 1.6% | 3.2% | 2.7% | 3.2% | 3.8% |
| age | 19.6% | 20.0% | 23.5% | 21.8% | 24.4% | 23.0% | 22.5% | 21.8% |
| disability | 22.4% | 19.9% | 18.9% | 20.6% | 23.0% | 26.5% | 30.2% | 21.9% |
| Equal Pay Act | 1.4% | 1.6% | 1.4% | 1.1% | 1.0% | 1.1% | 1.1% | 1.2% |

*Source: U.S. Equal Employment Opportunity Commission, 2018*

risk analysis

# changes in legislation & regulatory risk

**Key takeaways:**

- **Brexit, trade wars, and GDPR are all examples of dramatic changes in legislation that will create uncertainty for businesses in 2018**
- **Changes in legislation/ regulatory risk is the #2 loss and #2 concern in this Index**
- **21% of NGOs and 20% of government agencies and contractors reported experiencing an undesirable political decision/legislation by host country over the past six months**

The trend of increased regulatory uncertainty continued in 2017 and factors such as Brexit; Trump administration's deregulation and protectionism, including dramatic changes in trade policy; increased data protection concerns, such as the General Data Protection Regulation (GDPR); and more are likely to only exacerbate this. Changes in legislation and regulatory risk has moved up to the #2 greatest loss and concern in the 2018 *Clements Worldwide Risk Index*. (It debuted in the 2017 Clements Worldwide Risk Index at #3 greatest loss and #4 greatest concern).

For the construction and banking & finance industries, this risk is even more of a challenge. Almost 32% of respondents in banking & finance ranked changes in legislation as their greatest risk. Additionally, 14% of all respondents indicated that undesirable political decision/ legislation by host country affected them over the past six months. For NGOs and government agencies the rates were even higher, at 21% and 20% respectively.

| What types of legislation risk do you find likely to occur in the next 6 to 12 months in the country you are operating? | |
|---|---|
| new capital and currency controls | 21% |
| limited access to raw materials / naturalization of natural resources | 18% |
| increased bureaucracy for business processes | 37% |
| legislation that encourages local business investments | 23% |
| difficulty in conducting business due to local business practices | 22% |
| unclear legislation impacting business operations | 24% |
| local compliance in regards to insurance and finance | 15% |
| none | 22% |

Given the prominence of this risk in the 2017 edition of the *Risk Index*, respondents were asked which type of risk they find more likely. Concerns over increased bureaucracy is a clear winner.

## Europe – Major Regulatory Effects to Come into Place in 2018 Regarding Data Protection

Many organizations have faced a data loss and consumers are being affected, reflected in this Index with cyber liability being the #1 loss and #1 concern for all respondents. Governments are reacting with laws requiring increased consumer protection. If a firm is operating from or into the European Union (EU), or even has employees from the EU, it will need to address a cluster of major new regulations this year – Market in Financial Instruments Directive (MiFID II/R), the Insurance Distribution Directive, and the European Union General Data Protection Regulation (EUGDPR). This is indicative of what is going on around the world.

The Thomas Reuters Regulatory Intelligence platform tracks regulatory alerts and continues to see a year-on-year increase[4]. The ability to filter through increased alerts – already more than 200 a day - for ones that are truly relevant to a given business is becoming more and more difficult.

This constant barrage may be creating "regulatory fatigue," but management and boards must monitor for this while ensuring there are still resources left for business improvement and development. Regulatory changes are compounded by an increasingly wide range of sanctions being used by regulators. One way that some organizations are trying to "stay ahead" of changes is by investing in personnel that can monitor and respond to policy changes, while lobbying for changes that are simpler to comply with.

For many industries covered by the survey, such as humanitarian aid organizations and international schools, this continued focus will be a challenge given their limited resources. Except for the largest of these organizations, NGOs and schools typically do not have a compliance or a data protection officer, which makes keeping up with these changes even more challenging.

## Tariffs and Taxes Complicate International Operations

U.S. President Trump's decision in March 2018 to impose new tariffs on steel and aluminum is the type of change in regulations that is most feared by organizations – because it is difficult to predict or plan for what happens next. Organizations make operational decisions months or even years in advance that impact the current products or services they offer and where they offer them. This tariff will certainly affect demand for domestic aluminum and steel and prices for those commodities in America, with corresponding business consequences, but the real concern is the aftermath.

Impacted countries may well retaliate by ordering tariffs on American goods, and they could carefully target goods to cause economic or political pain. The fact that the Trump administration used national security as the rationale behind the tariffs could set dangerous precedents along with global outrage. Given the unique use of this reasoning, the World Trade Organization may find it harder to arbitrate disputes, which adds to the unpredictability which organizations hate.

Unpredictability in tariffs and tax policies makes it harder for organizations to plan and forces organizations to rapidly adjust to changes, which costs money. Understanding the implications of changes in tariffs and taxes also may not be simple. Interpreting these changes may require outside expertise, adding another cost. For organizations like NGOs and international schools, these costs put pressure on already stretched budgets.

## Most Legislative Risk is Speculative and Uninsurable

For a risk to be insurable, insurers must be able to model the likelihood of the risks and develop a risk adequate premium. Most changes in regulations represent a speculative risk as they have the potential to result in a gain or a loss, often based on choices the organization is making or has made in the past. In comparison, a pure risk will only result in loss. So, tariffs and taxes may hurt some organizations, but could benefit others. This variability makes it very hard for organizations to plan or budget for these types of risks and increases the overall cost of doing business in multiple markets, particularly those with a propensity for high regulatory change.

The only type of legislation risk that is insurable is confiscation, expropriation or denial of access because of government decisions. While there is a low likelihood of this risk, the potential cost is significant, so it is a recommended insurance for organizations working in risky markets.

Personal liability for compliance officers has become a persistent worry. The emergence of culture and conduct risk as global regulatory themes has exacerbated the increase in personal liability for all senior managers.

There are several ways to better manage the effect of regulatory changes on operations. One is increased coordination and cooperation between the organization's risk function with compliance. The second is improved communication to executive leadership of these risks to ensure appropriate resources are allocated to their aggressive monitoring and management.

risk analysis

# natural disasters

**Key takeaways:**

- **Global disasters cost the world 306 billion USD, nearly double the cost of 2016**
- **Natural disasters moved to 4$^{th}$ highest loss, from 15$^{th}$ in the previous edition**
- **U.S., China, and India lead the list of countries with the most costly disasters**
- **NGOs and international schools rank natural disaster as top concern**

"Extreme hurricanes and wildfires made 2017 the costliest U.S. disaster year on record" reported The Washington Post in January 2018[5]. Moreover, global disasters cost the world 306 billion USD, nearly double the cost of 2016[6]. While natural disasters have consistently been in the top 5 risks that organizations of all types felt least prepared for, this year natural disasters are in the top 5 list for greatest loss (#4 this year up from #15 in last year's index) and the greatest concern (#3 this year up from #8 last year).

The rise in the number of natural catastrophes is predominantly attributable to weather-related events like storms and floods, not geophysical events such as earthquakes, tsunamis, and volcanic eruptions. Weather-related events typically fall into 3 categories:

- Meteorological: storms
- Hydrological: floods, landslides, and avalanches
- Climatological: extreme temperatures, droughts, and forest fires

The trend curve for the number of loss-relevant natural catastrophes worldwide reveals an increase by a factor of about three within the last 35 years. This growth is not entirely driven by an increase in incidents, but also a rise of urbanization that has made disasters costlier around in the globe. Loss of property value is the most likely financial loss in developed countries.

Certain countries, including the U.S., China, and India, have seen the most natural disasters, although they also are large in land mass and population, which accounts for some of that trend.

The loss of life in developed countries seems to be diminishing as early warning systems and storm proof structures provide more protection for people. This is not the case for developing nations. From 1995 through 2014, 89% of storm-related fatalities were in lower-income countries, even though these countries experienced just 26% of storms[7]. The 306 billion USD loss referenced above only really captures financial losses, undervaluing the death and destruction in poorer countries around the world.

Poor infrastructure and preparedness in the country of operation might be one reason why certain industries are more prone to natural disaster concerns and losses – these industries rely more heavily on roads, hospitals, and supply chains in developing markets. These industries may also possess physical assets, like buildings or inventories, that are damaged when a natural disaster strikes.

## Natural Disaster Risk Tops Lists for Construction, Humanitarian Aid Organizations and International Schools

International schools and humanitarian aid organizations ranked natural disasters as their #1 concern; humanitarian aid organizations also ranked natural disasters as their top loss along with the construction sector. These organizations may have ranked this risk higher than others because the damage caused by natural disasters is often costly and long-impacting, especially in developing countries due to limited infrastructure. It can also keep local kids from going to school and international students may return home until the region is restored. And that restoration may take years, representing a significant business interruption challenge.

Puerto Rico has the economic power of the U.S., and still is struggling to rebuild infrastructure six months after Hurricane Maria hit. For the countries in Southeast Asia, which suffered a devastating tsunami in 2004, or the people of Haiti after the earthquake in 2010, the wait was exponentially longer as it relied on foreign aid to manage recovery efforts.

Organizations with operations in Asia and South America ranked natural disasters as a higher concern than all respondents and organizations in the Middle East ranked it as the top loss.

## Are Natural Disasters Linked to Political Violence?

Tens of millions of people are leaving their homes and becoming climate refugees or internally displaced people (IDP). Weather-related events are producing four times the number of refugees as compared with conflict and violence[8]. The concern regarding refugees and their impact on political violence has been steadily increasing through the years from 10% in early 2016 to almost 18% in the 2018 *Risk Index*. Large amounts of refugees of any kind in an area typically result in a strain on resources and increased concerns/incidents of crime, which spurs increased nationalism. This elevated nationalism may lead to more inward-looking regulatory conditions, reflecting the interconnectedness of many of these risks.

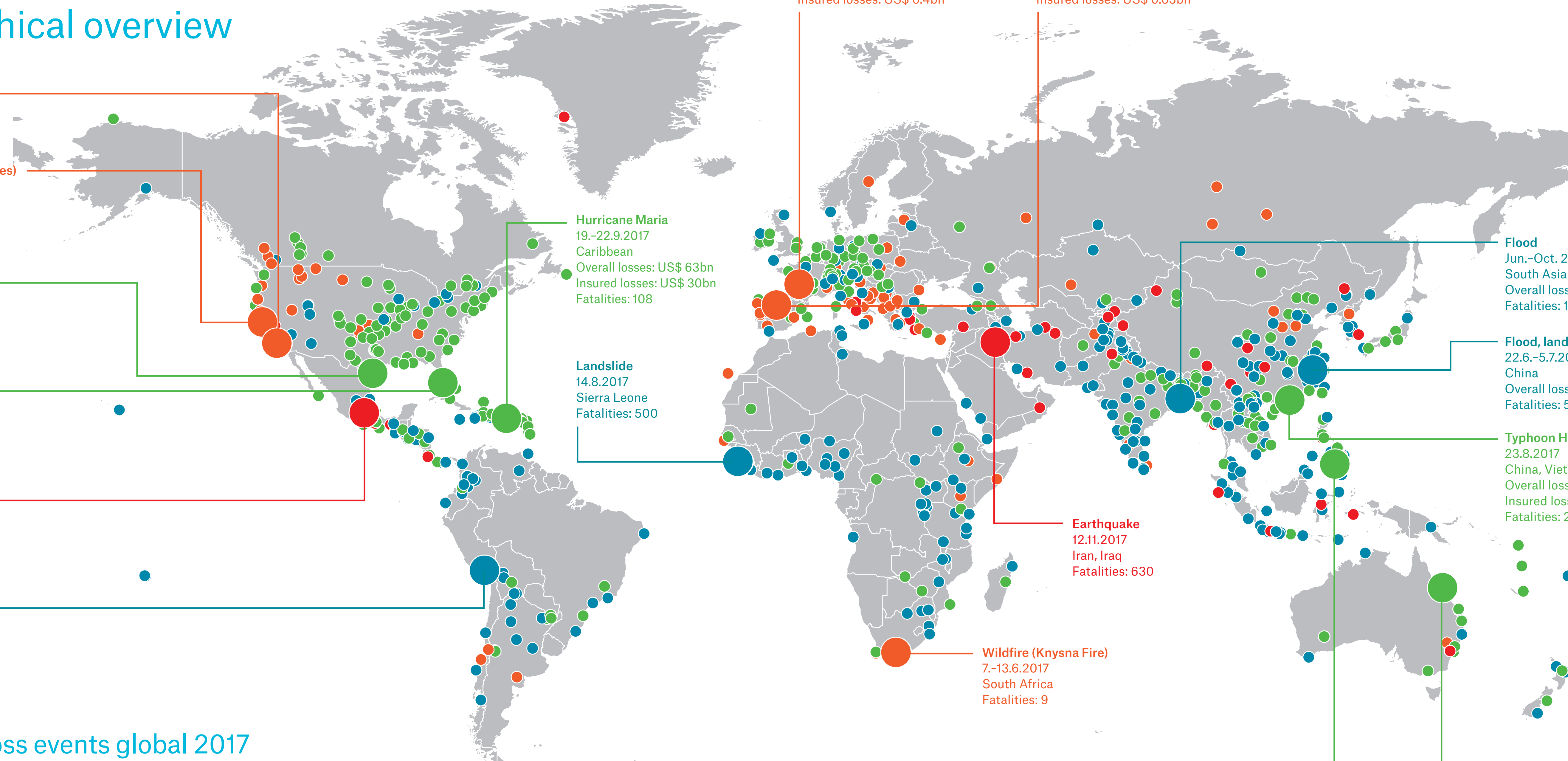
## Will Insurance Remain Available for Natural Disaster Risk?

Organizations have been able to insure themselves against natural disaster loss for decades, principally as it relates to property loss, business interruption, and more recently, emergency evacuation. If insurers can model the risk from weather-related disasters and the insured can afford a risk adequate premium, these risks will remain insurable. For insurers, this will mean investing more into analysis as natural disasters reflect a dynamic, changing hazard pattern. According to the 5th assessment report of the Intergovernmental Panel on Climate Change (IPCC), global warming will result in increases in the frequency and intensity of weather extremes in many regions, which will need to be monitored and incorporated into risk models[9]. The most likely effects of these changes from an insurance perspective will be intense precipitation events.

| What types of arrangements are you making to be prepared for incidents caused by natural disasters/climate change? | |
|---|---|
| developing new procedures and emergency plans in case of an incident | 41% |
| examining insurance solutions to address financial risks from natural disaster | 32% |
| considering moving operations from areas with high natural disaster risk | 28% |
| exploring adaptions to buildings or operations to be better prepared | 24% |
| contingency plans for temporary relocations of operations | 22% |
| none | 18% |

NatCatSERVICE

# Loss events worldwide 2017
# Geographical overview




## Significant loss events global 2017

10 costliest events ordered by overall losses

| Date | Event | Affected area | Overall losses in US$m original values | Insured losses in US$m original values | Fatalities |
|---|---|---|---|---|---|
| 25.8.–1.9.2017 | Hurricane Harvey, storm surge, flood | USA | 85,000 | 30,000 | 88 |
| 6.–14.9.2017 | Hurricane Irma, storm surge, flood | Caribbean and North America | 67,000 | 32,000 | 128 |
| 19.–22.9.2017 | Hurricane Maria, flood | Caribbean, esp. Puerto Rico | 63,000 | 30,000 | 108 |
| 8.–20.10.2017 | Wildfire (Central and Southern LNU Complex Fires) | USA | 13,000 | 9.800 | 30 |
| 19.9.2017 | Earthquake | Mexico | 6,000 | 2,000 | 369 |
| 22.6.–5.7.2017 | Flood, landslide | China | 6,000 | | 56 |
| Jan.–Oct. 2017 | Drought | Europe, esp. Spain | 3,800 | 400 | |
| 15.4.–9.5.2017 | Winter damage, frost | Europe | 3,600 | 650 | |
| 23.8.2017 | Typhoon Hato | China, Vietnam | 3,500 | 800 | 22 |
| Jun.–Oct. 2017 | Flood | Bangladesh, India, Nepal | 3,500 | | 1,787 |

○ Loss events

○ Selection of catastrophes

● **Geophysical events**
(Earthquake, tsunami, volcanic activity)

● **Meteorological events**
(Tropical storm, extratropical storm, convective storm, local storm)

● **Hydrological events**
(Flood, mass movement)

● **Climatological events**
(Extreme temperature, drought, wildfire)

Source: Munich Re, NatCatSERVICE, January 2018

risk analysis

# terrorism & political violence

**Key takeaways:**

- **Terrorism has been a top 5 concern since the start of the CWRI**
- **The concern of a PV or terrorism event occurring is no longer limited to high-risk locations**
- **NGOs and construction have reported highest occurrences of such events in comparison to any other sector**

This is the 5th edition of the CWRI in which terrorism has been a top concern for respondents. In the past 2 years we have seen political violence/labor unrest break into the top 5. Political violence (PV) is difficult to anticipate and can be very disruptive, making it such a high-ranking concern among different companies and organizations. Terrorism is considered a form of political violence. PV is a broader term that could include terrorism, riots, strikes, labor unrest, and other types of violence.

More than one third (35%) of respondents said that a disruption from elections or political events is likely to happen in the next six to twelve months, while 28% responded the same regarding terrorism. Both responses show significant growth regarding these concerns compared to the prior edition of the CWRI. NGOs were the sector most concerned about the likeness of some sort of political disruption occurring (46%), while 58% of government agencies reported terrorism as their main concern.

## what type of political/ labor unrest do you find likely to occur in the next 6 to 12 months?

| | all sectors | int'l school | NGO/ UN | transportation | construction | gov. agencies | gov. contractors | others |
|---|---|---|---|---|---|---|---|---|
| demonstrations regarding economic downturns | 26% | 20% | 24% | 16% | 37% | 33% | 18% | 29% |
| disruptions from elections or political environment | 35% | 35% | 46% | 22% | 38% | 21% | 12% | 38% |
| disruptions as a result of refugees/ migration | 18% | 9% | 24% | 18% | 23% | 25% | 35% | 16% |
| currency challenges | 31% | 41% | 23% | 22% | 29% | 38% | 29% | 31% |
| civil unrest or labor strikes | 23% | 25% | 21% | 15% | 19% | 33% | 24% | 23% |
| insurrection or ongoing war | 13% | 6% | 25% | 13% | 12% | 25% | 6% | 13% |
| terrorism | 28% | 15% | 37% | 31% | 31% | 58% | 18% | 27% |
| looting | 6% | 3% | 8% | 2% | 6% | 21% | 0% | 7% |
| riots | 9% | 5% | 14% | 7% | 10% | 21% | 6% | 9% |

## "Contagion Effect" Raises the Concern of an Attack

According to Lloyd's of London, events like the Arab Spring show potential for a "contagion effect" that could trigger other independent occurrences. The "contagion effect" could be a driver of increased likelihood of PV occurrences and general instability[12]. PV occurrences, and the accompanying instability, happen in the traditional risky markets, but with increased frequency in what were once considered safer areas in Europe and North America. Lloyd's report also points out that countries already with some sort of conflict combined with specific types of government, young population, and a growing access to the internet could be more prone to this violent pandemic. Conflicts, concerns, and threats making headlines in 2018 include:

- North Korea nuclear threats – many countries are involved and the threat expands beyond the Korean Peninsula
- Islamic State – their territorial control in Iraq and Syria has resulted in military and other strategic engagement from the U.S., Saudi Arabia, and Israel
- Myanmar democracy – An Arakan Rohingya Salvation Army (ARSA) attack led to retaliation by the military and subsequently 655,000 refugees fleeing to Bangladesh
- Yemen war – hunger, disease, and 3 million displaced to date
- Re-elections in South America – Brazil, Colombia, Mexico, Paraguay, and Venezuela to hold presidential elections in 2018, a frequent trigger for political violence
- Europe tensions – Brexit, Catalonia, Italy elections, and Greece experiencing slow economic recovery
- African instability – Kenya, Angola, Gabon, Cote d 'Ivory, DR of Congo, and Zimbabwe

The construction and NGOs sectors reported the highest occurrences of PV incidents, at 31% and 27% respectively, compared to 16% among overall responses. Of those 16% that have experienced a major political violence event, more than one third of respondents claimed to have had it in Europe (35%), whereas fewer of these events occurred in Asia (21%) or the Middle East (23%).

## Less Overall Attacks, More Locations Impacted

In 2017, there were 16% less terrorist attacks than in the prior year, as well as 45% less fatalities by these attacks recorded[13]. Although the overall number of attacks decreased, more locations were affected. This suggests that, while some regions might be familiar with this risk, all organizations need to have operational and risk management plans in place to address political violence. This is further reflected in 2017 when four countries historically uncommon to these risks were chosen as the focus of the report - Egypt, Germany, Philippines, and the U.S.[14]

In the same report, the Global Political Violence score hit its highest level since 2003, with 19 countries having their risk rating increased and only 10 seeing a decrease. The report also highlights the growth in reach of the Islamic State's threat in the last few years.

In the 2018 edition of the *Risk Index*, concerns regarding civil unrest or labor strikes, as well as insurrections or ongoing war, has tripled from the 2017 edition, currently at 23% (was 7%) and 13% (was 4%) respectively. Also, highly rated are currency challenges at 31% overall and at 41% for the international school sector.

risk analysis

# cyber liability

**Key takeaways:**

- **For the 2nd year in a row, cyber liability is a top loss and top concern**
- **26% of respondents experienced a cyber security breach in past 6 months**
- **One of the biggest threats for stealing data and information continues to be ransomware**
- **Nation-state cyber attacks are often politically motivated**

Cyber liability risk has been rapidly evolving due to data breaches and crimes that use technology and information systems as a point of entry to a company. Sophisticated criminals seek to penetrate a company's system to access private information or for financial gain. As a result, few companies have the resources or expertise to truly guard themselves from these risks. For the second year in a row, cyber liability is the top risk in both the loss and concern categories.

According to the 2018 edition of the *Risk Index*, 26% of respondents experienced a cyber security breach in the past six months. For certain industries, this number was much higher. Thirty-six percent of respondents from banking and finance reported experiencing a cyber security breach; 32% of construction companies.

The use of computers and information technology is the lifeblood of any corporation, whether they use them to communicate, to store data or provide information. That's why a data breach can be so detrimental—it impacts every aspect of your business, from customers to employers to infrastructure.

In February, a report issued by the White House Council of Economic Advisors stated that cyber attacks on the U.S. cost between $57 and $109 billion in 2016[15]. These attacks also have spillover effects, meaning they can frighten investors – but not only in the attacked company but in comparable companies too. A Harvard Business Review article cited a breach at Nvidia, a visual computing company, which affected 400,000 accounts. Subsequently, its competitor, Advanced Micro Devices, suffered a drop-in stock price valued at $48 million when the breach was reported[16].

While cyber professionals are continually building methods to protect companies and data, at the same time cyber criminals are learning to circumvent this protection. One of the biggest trends in cyber crimes in 2018 concerns artificial intelligence (AI). A recent report from Webroot revealed that AI is utilized by nearly 87% of U.S. cybersecurity pros, but most are concerned that hackers will soon use AI to launch more sophisticated cyber attacks[17].

These new trends come on top of years of cyber crimes, often known as ransomware or phishing.  Malware infiltrates a company's computer system via employee interaction with pop-ups or email attachments and can hold data hostage until the company makes a "ransom" payment to access the data or to prevent a data leak. Phishing is another crime vehicle where emails that look legitimate from known associates or vendors prompt some action, like paying a bill. However, that payment goes to the cyber criminal, not the vendor. Or a more serious threat is that this scheme gives the cyber criminal access to accounts that can result in identity theft and financial loss.

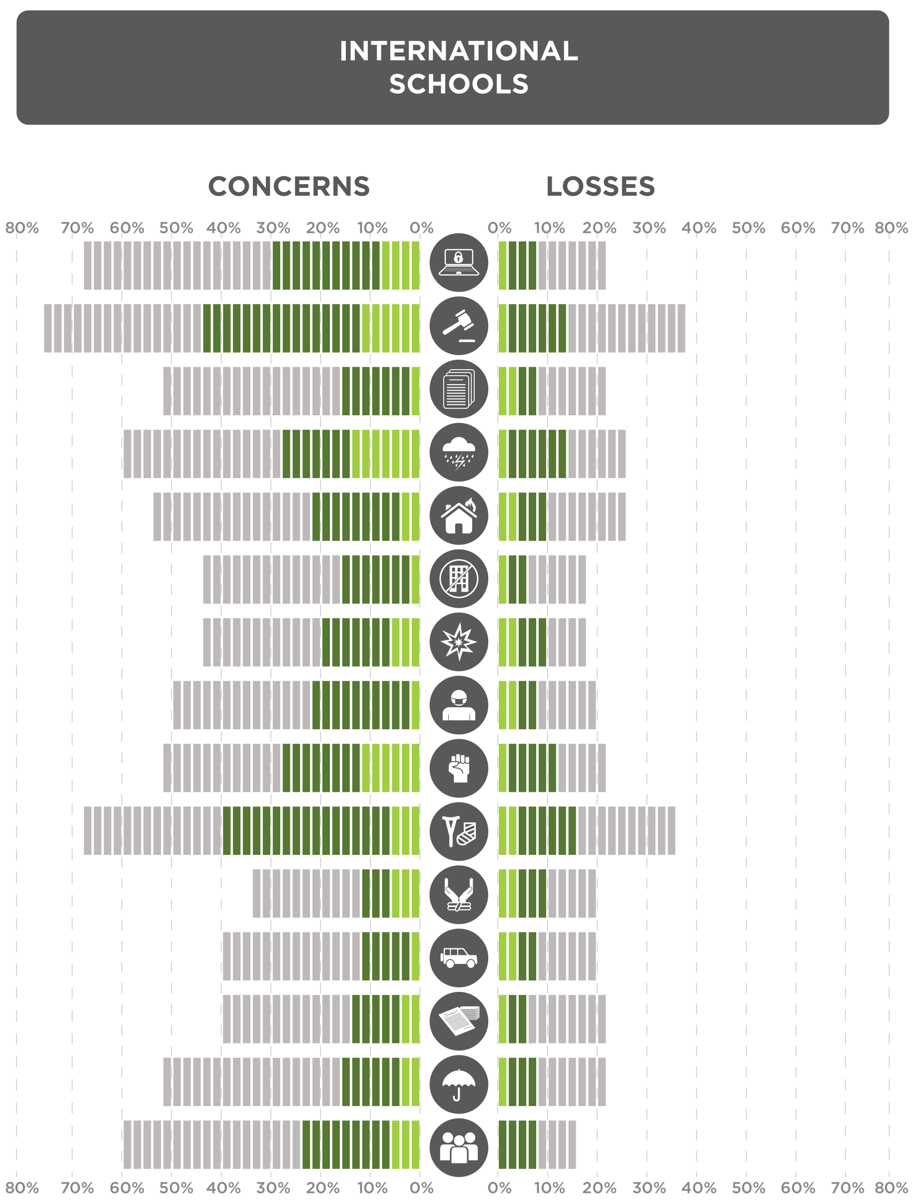
New trends in ransomware include the ability to steal from the cloud. Considering most companies have started putting all their important information in cloud services, this is particularly alarming. With malware, there are new drive-by-attacks where an employee does not actually need to click a link or open a malicious attachment. They work by exploiting security vulnerabilities in browsers, software applications or operating systems that are out-of-date.

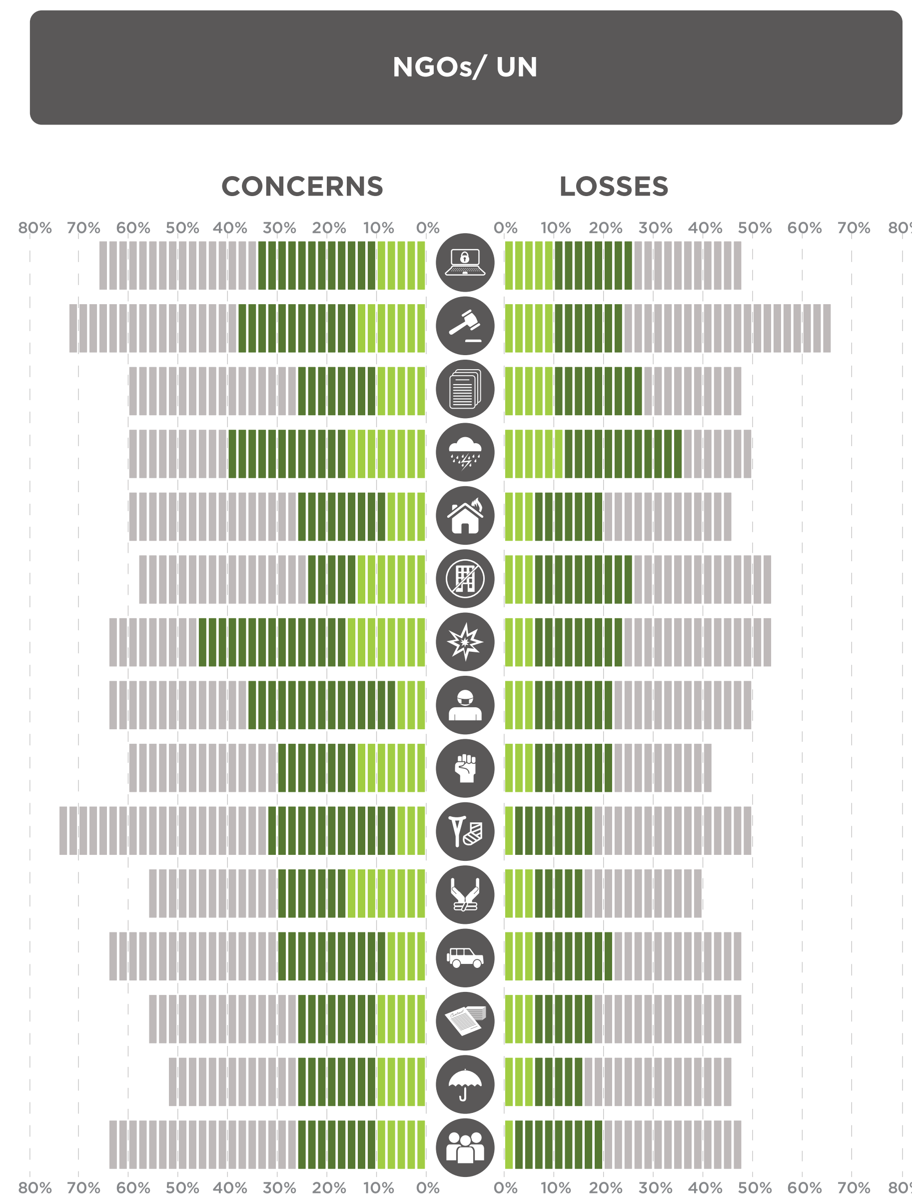
One of the most publicized ransomware attacks in 2017 was the WannaCry ransomware attack in May 2017, a worldwide cyberattack by the WannaCry ransomware crypto worm, which targeted computers running Microsoft Windows operating systems by encrypting data and demanding ransom payments in the Bitcoin cryptocurrency. It took advantage of government agencies and companies which had not updated their operating systems, with estimates of potential losses topping $4 billion.

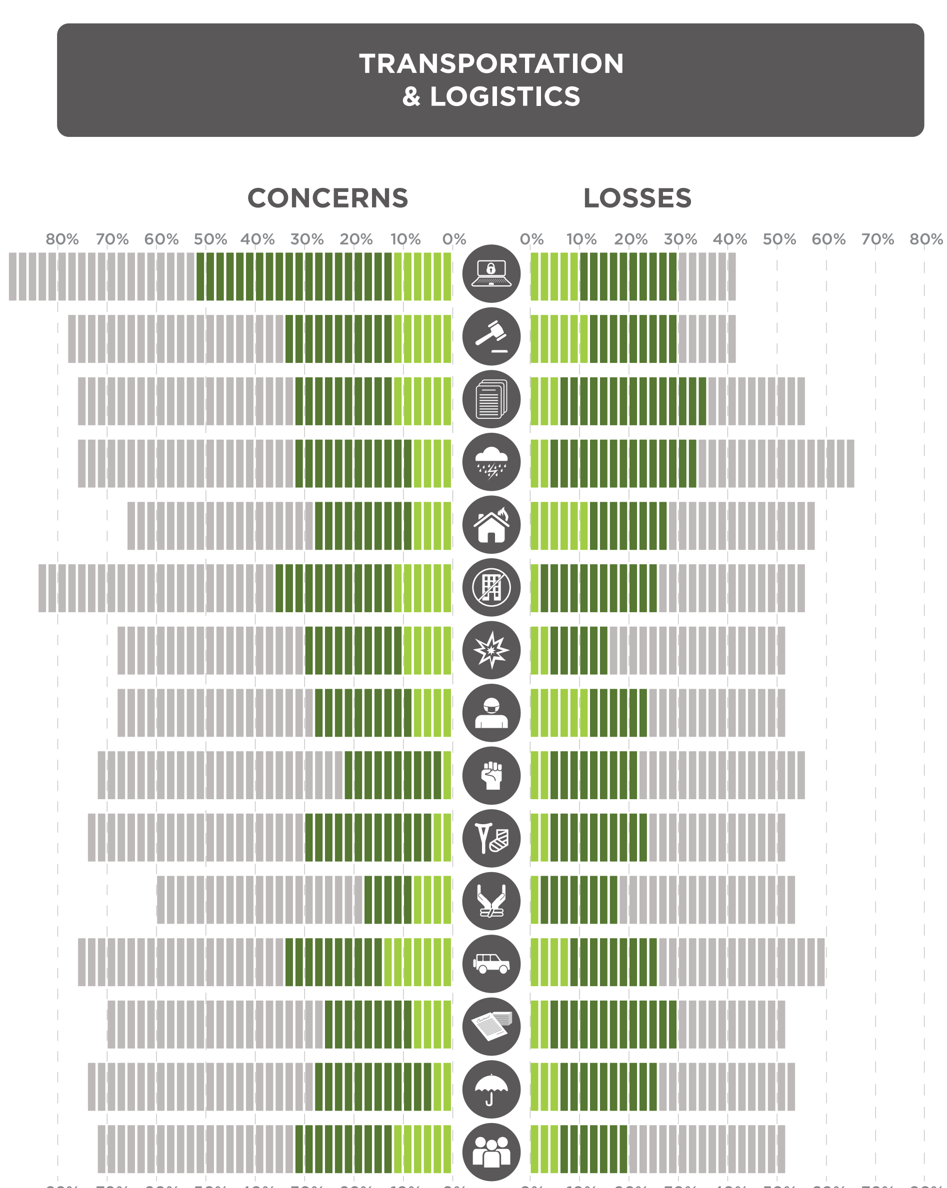
Not all cyber attacks are for financial gain. Nation-state cyberattacks are often politically motivated and are designed to acquire intelligence that can be used to obstruct the objectives of a given political entity. These are normally targeted, sophisticated, well-funded attacks and can be detrimental to a company or organization.

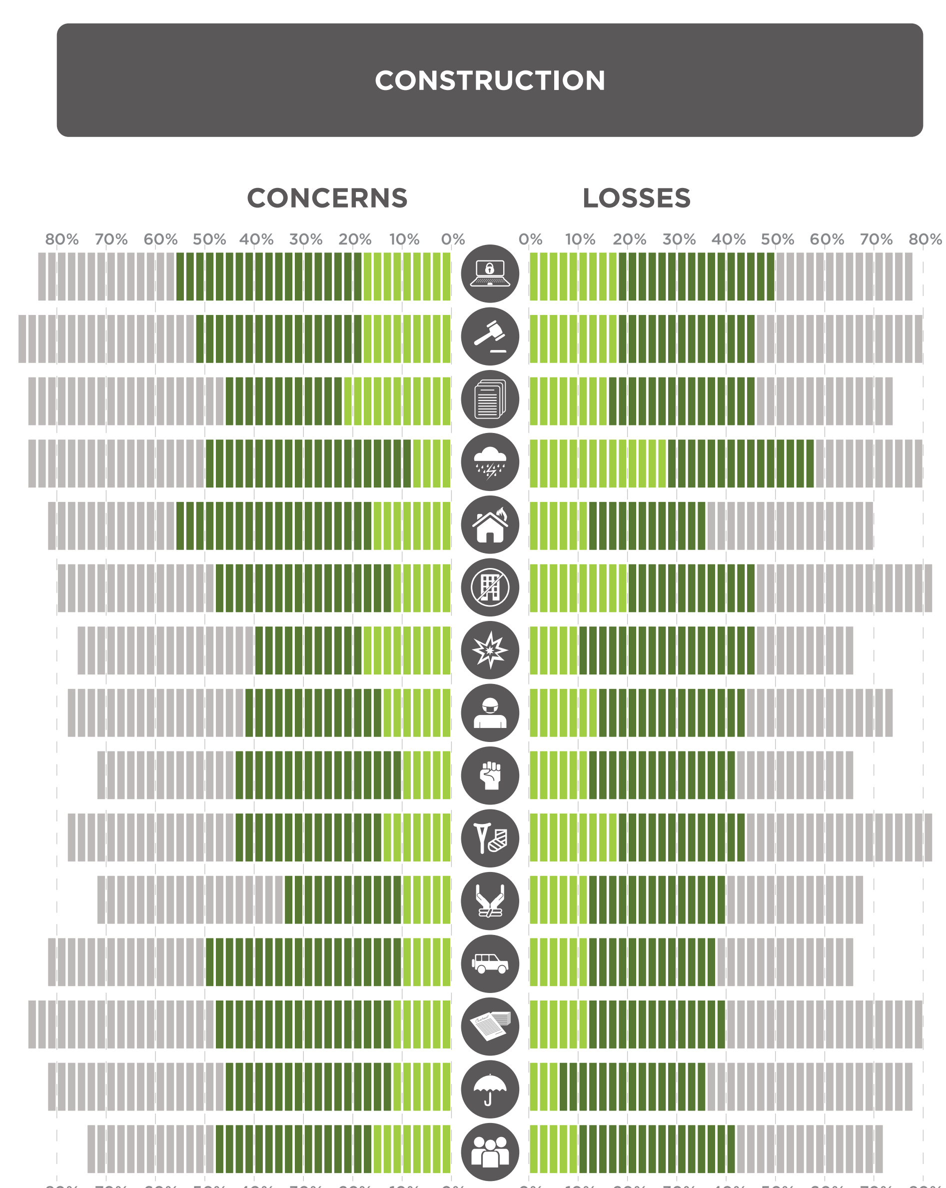
Even in this tumultuous environment, however, there are options your company can take to limit these risks and safeguard against any damage. Cyber insurance is expanding to address these new risks with policies designed for not only data breaches and public relations support for reputational damage, but also for financial crimes, extortion for data release, business interruption, and even property damage.

# industry rankings



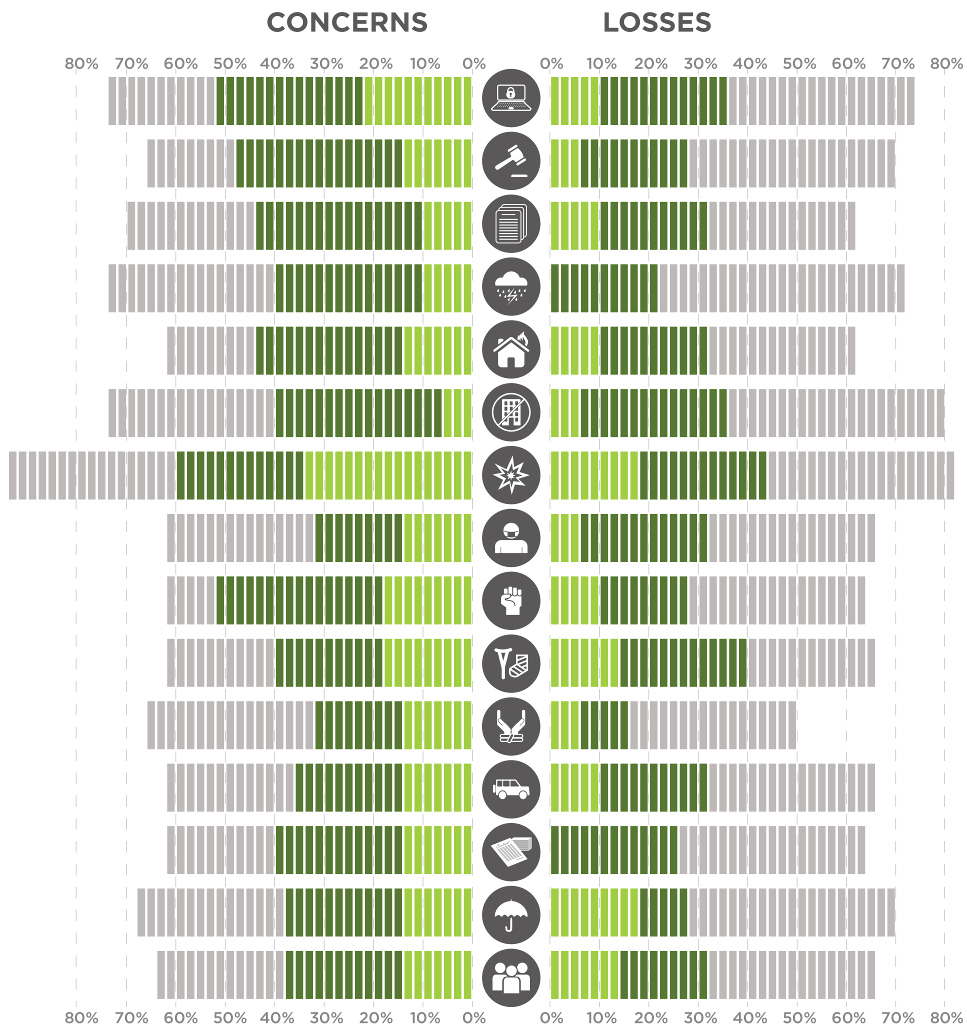




5 - most
4
3

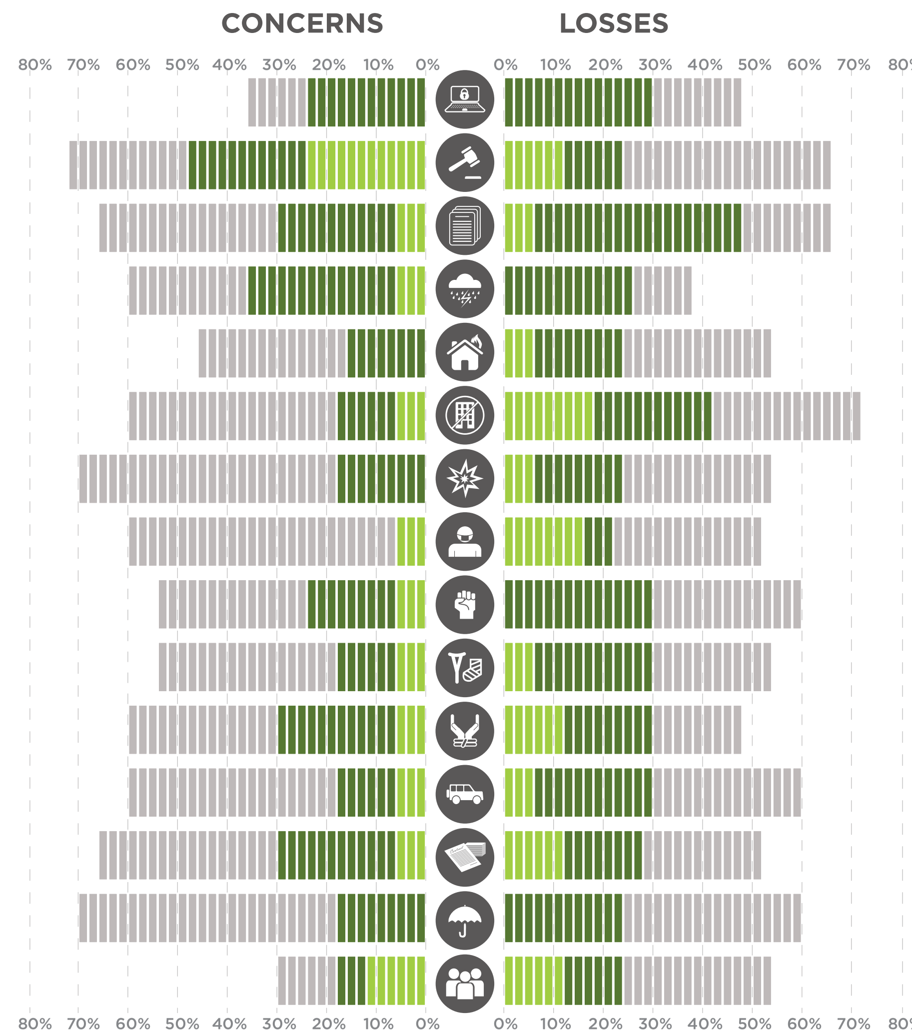
cyber liability
professional management liability
property damage
terrorism
political violence
kidnap & ransom
DBA
group travel accident
changes in legislation
natural disasters
business interruption
disease
personnel medical needs
fleet
general liability

# industry rankings

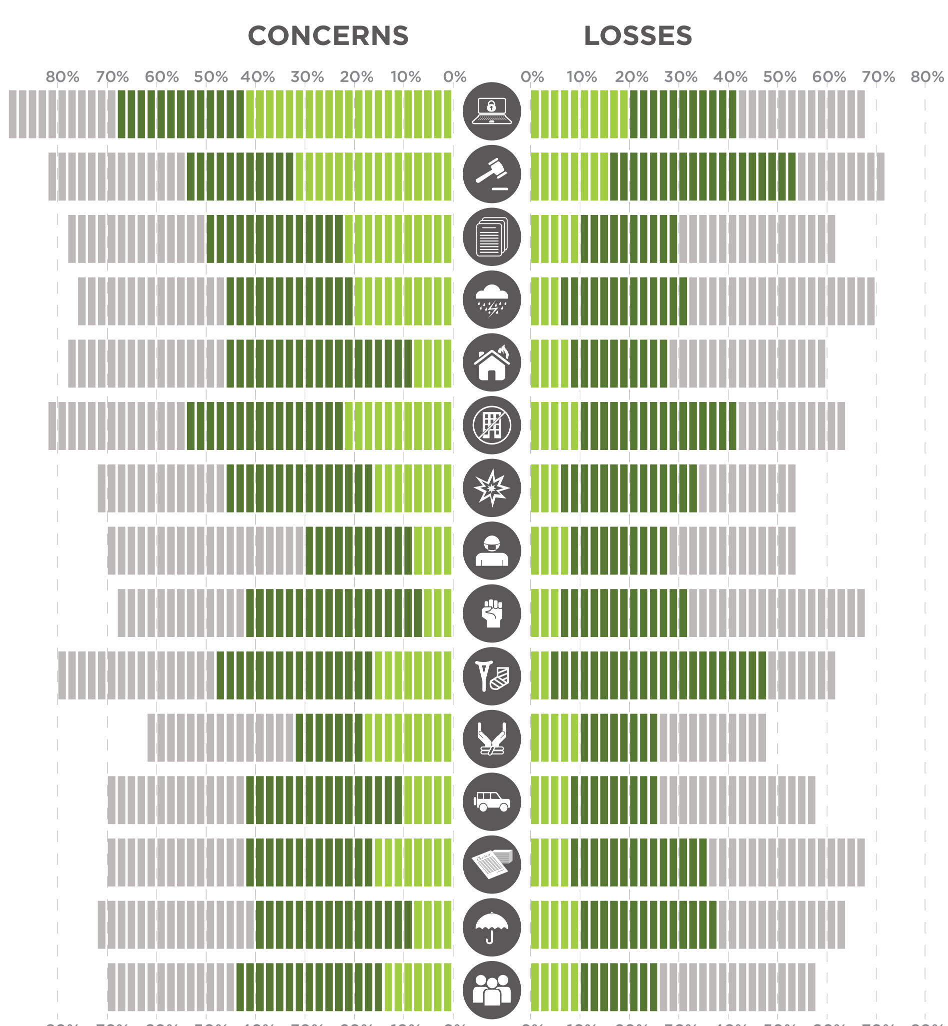
## GOVERNMENT AGENCIES



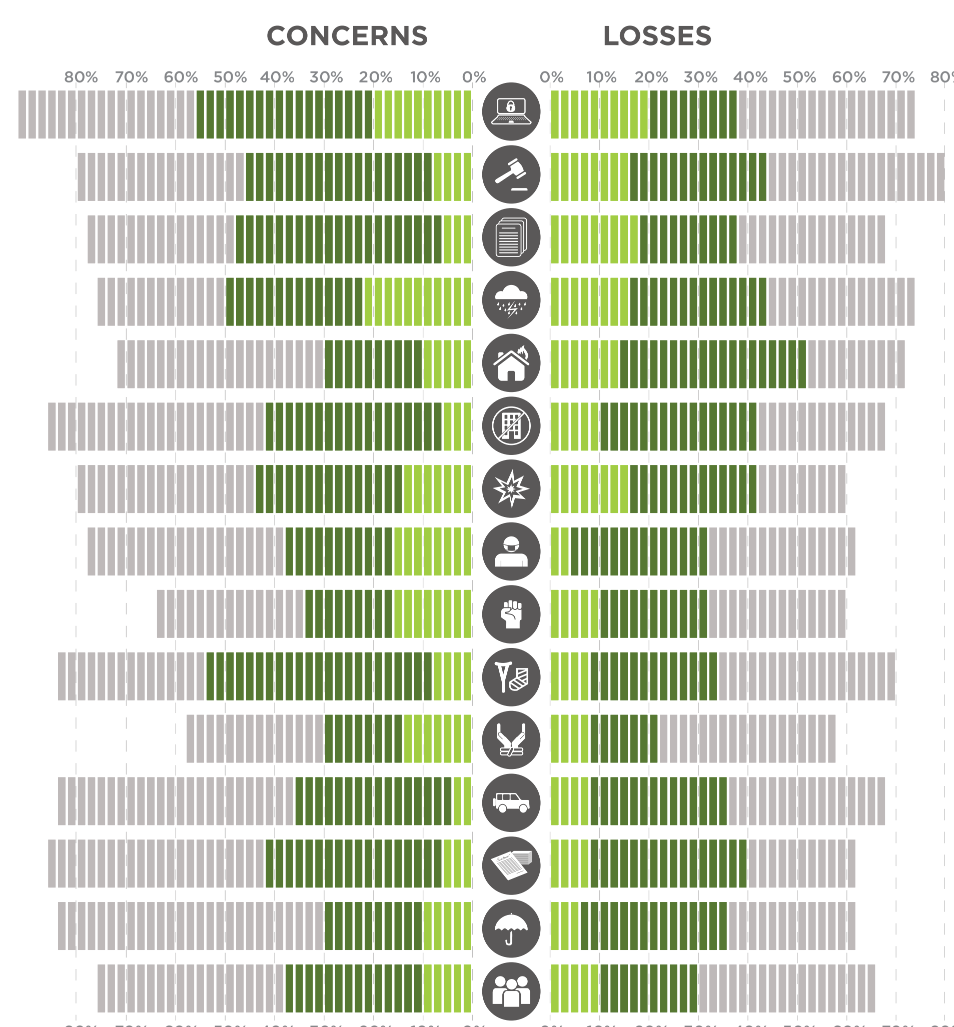

## GOVERNMENT CONTRACTORS




## BANKING & FINANCE



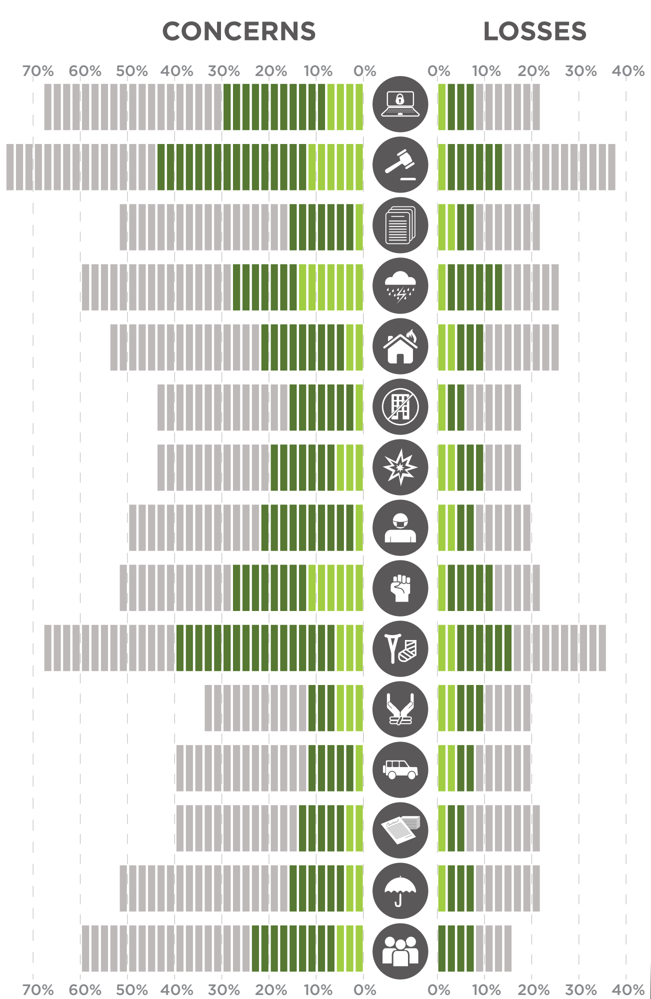

## IT




industry focus

# international schools

The international school market has seen huge growth in recent times and that is expected to double in the next 10 years. Today there are more than 9,300 international schools, serving 5 million students with 470,000 teachers – creating 480 million USD in fee income[18]. International schools were originally created to support the children of embassy staff, journalists, NGO staff, technicians, and corporate expatriates, but are increasingly educating the children of wealthier local nationals who want to give their children the opportunity to participate in the global market place.




## Personnel Medical Needs – Greater Concern and Loss for Schools

Given the large number of teachers that schools are moving to foreign environments, risks like personnel medical needs are both a larger loss category and a larger concern than the overall respondent base according to the 2018 edition of the CWRI. When asked which health related concerns were most worrying, schools unequivocally pointed out the rising cost of healthcare.

| | all sectors | this sector |
|---|---|---|
| spread of outbreaks and diseases | 26% | 32% |
| evacuation services | 30% | 23% |
| better facilities | 29% | 19% |
| standardized health insurance plans | 23% | 12% |
| cost increases | 36% | 50% |
| good mental health counselling | 17% | 29% |
| none | 15% | 14% |

The rising cost of healthcare is an issue for all organizations. Schools may be feeling the budget squeeze more acutely than other organizations for a couple of reasons. First, healthcare costs are typically their largest expense after teacher salaries, so shifts in premiums and medical costs more directly affect profitability. Second, the revenue of a school usually does not grow significantly, while most businesses look to continuous growth. Fees are raised only incrementally and, with full enrollment, new students are not being added resulting in increases in costs without increases in revenue.

Schools are also more concerned than overall respondents about outbreaks of viruses/diseases and the availability of quality mental health counseling for staff.

## Natural Disasters – Number 1 Concern

Natural disasters was the top concern for the school segment and 12% of respondents answered that they had experienced a loss of 4 or 5 (representing most significant) in this category. Natural disasters pose a threat to any global operations but this threat has more severe implications in developing countries that lack the infrastructure to both rebuild and provide quality healthcare after a disaster.

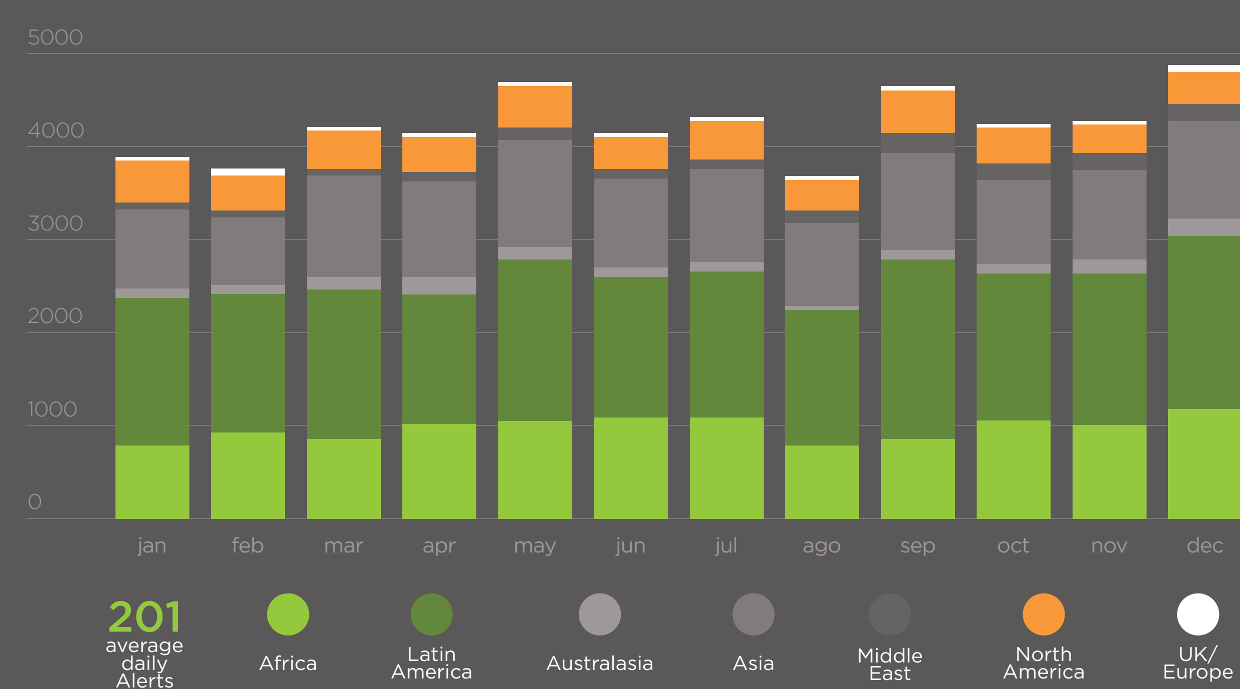
In the event of natural disasters, expatriate may leave the country and may be able to void their payment obligations to schools as a result of a force majeure. International schools, as well as some other industries, often have contractual obligations to pay salaries even if they cease operations or lose fee revenue. This significant cost could greatly impact a school's profitability and perhaps even its ongoing viability.

## International Schools Also Very Concerned About New Legislation

International schools ranked changes in legislation and regulations highly in terms of losses and concerns. Changes in legislation was the 2nd highest rated concern, after natural disasters and 11% of respondents answered that they had experienced a loss of 4 or 5 (representing most significant) in this category. This broad category can affect anything that refers to the cost of complying with a home or host country's laws and regulations, including underlying corruption. According to the Cost of Compliance 2017, a report by Thomson Reuters, even monitoring changing regulations has significant costs given the large number of daily alerts that could affect an organization[19].

One particular regulation that will affect many schools operating procedures is the European Union General Data Protection

### regulatory activity tracked in 2016[20]




*Source: Thomson Reuters, 2017*

Regulation (EUGDPR), which was adopted on April 27, 2016. Organizations are obligated to comply with these regulations starting May 25, 2018, which is no small feat.

This applies to many international schools outside of Europe because unlike the previous E.U. Data Protection Directive, the GDPR will apply not only to organizations with a physical presence in the E.U., but also to any organization worldwide that processes the personal information of E.U. residents, which could include students and teachers. The regulations around storage and movement of data are strict. This is just one example of many regulations that international schools have to face in a global world where a change in a regulation thousands of miles away could have worldwide implications.

Most international schools – like many small to mid-size businesses – lack a data protection officer so understanding and complying with these guidelines represents a huge cost. That may be reflected in the answer to most likely types of legislation risk. Schools were more likely to answer that unclear legislation will impact business operations than overall respondents, potentially as a result of their lacking expertise to feel comfortable with interpreting new regulations.

| | all sectors | this sector |
|---|---|---|
| new capital and currency controls | 21% | 23% |
| limited access to raw materials/naturalization of natural resources | 18% | 11% |
| increased bureaucracy for business processes | 37% | 35% |
| legislation that encourages local business investments | 23% | 9% |
| difficulty in conducting business due to local business practices | 22% | 27% |
| unclear legislation impacting business operations | 24% | 38% |
| local compliance in regards to insurance and finance | 15% | 17% |
| none | 22% | 25% |

## Lawsuits and Liability – Growing Trend

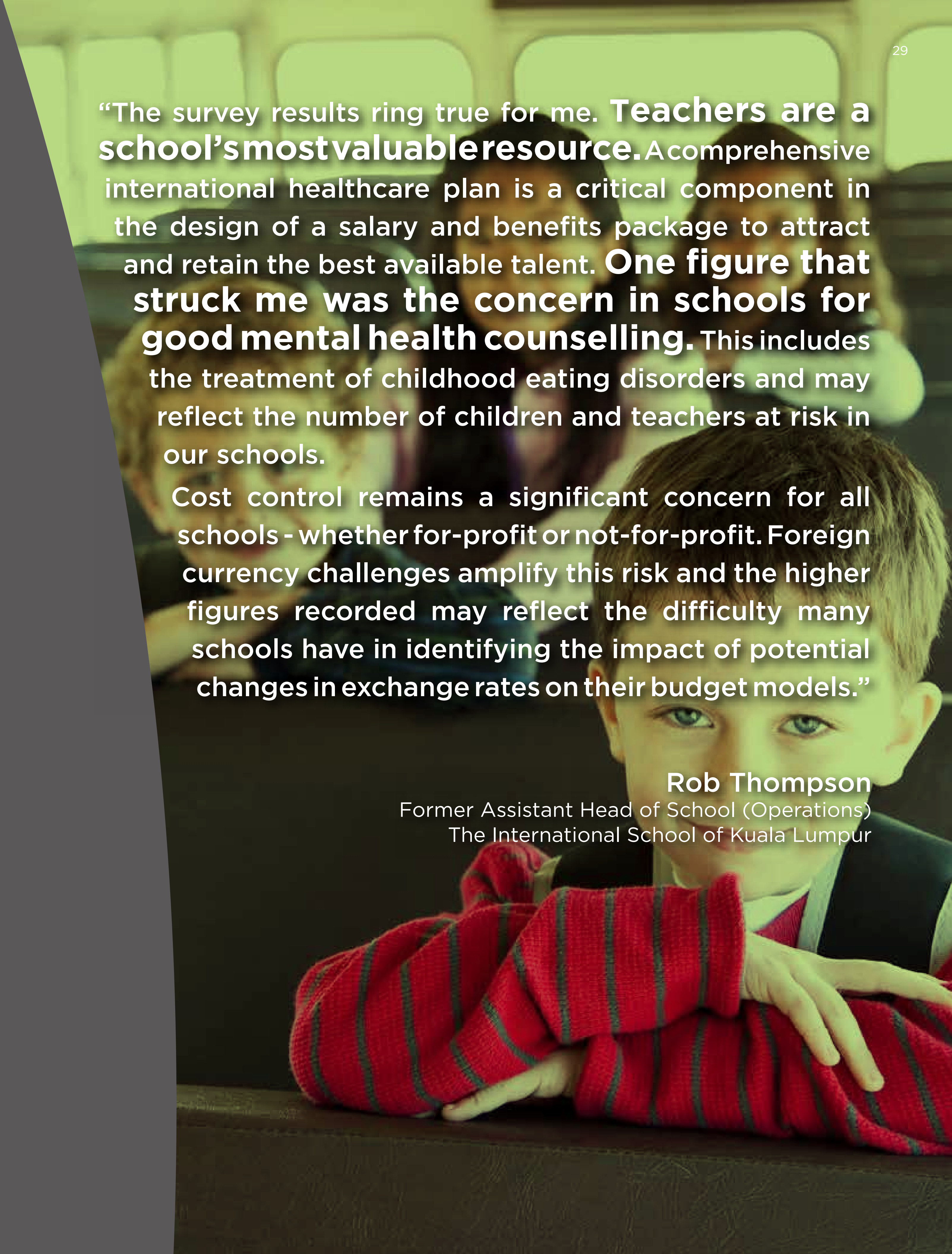
International schools were much more likely than overall respondents to have experienced litigation or lawsuits against them in the past six months. Abuse and molestation is a primary driver for this segment. The source may be school staff or staff from service providers, including cleaning staff, bus drivers, security and more. Increased awareness and support is encouraging children to come forward, thankfully. Schools are making prevention and risk management a priority, but in the near-term the liability claims will not go away.

Increased liability claims may also result from how critically their clients (students and parents) evaluate the education provided to those students. These children have accidents and fall as children everywhere do. They get hurt playing in a sports tournament or can even create a fire during a science experiment. They may be treated by the school nurse and have a bad experience. They may not get into a good college and the parent blames the institution. The number of potential liabilities is truly endless.

| lawsuit or litigation against your organization in the past 6 months | |
|---|---|
| overall | 18% |
| this industry | 29% |

Therefore, international schools must be particularly diligent in ensuring they have both third-party and management liability policies in place with appropriate limits and minimal exclusions, particularly in regards to student abuse and molestation.



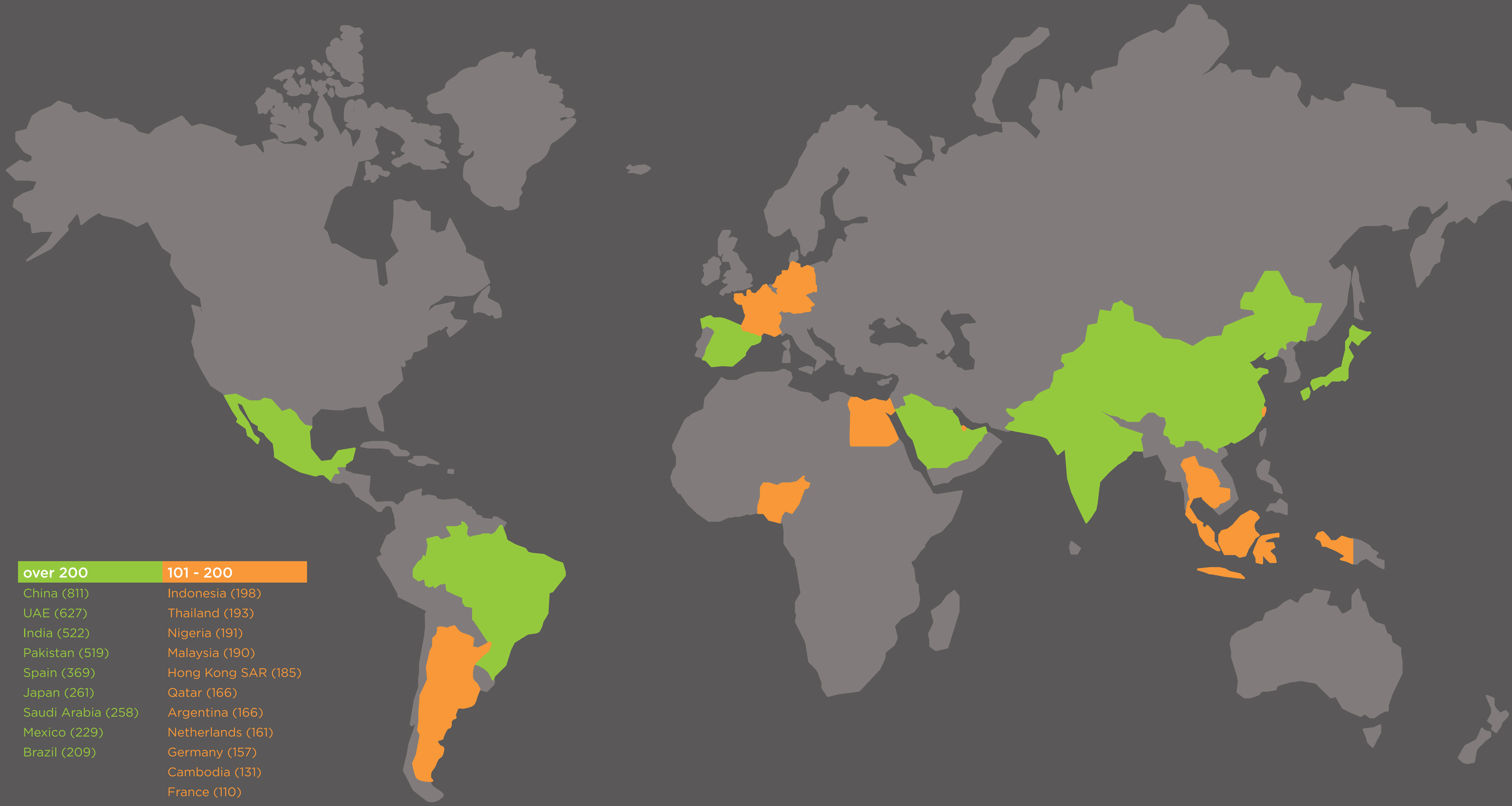


"The survey results ring true for me. **Teachers are a school's most valuable resource.** A comprehensive international healthcare plan is a critical component in the design of a salary and benefits package to attract and retain the best available talent. **One figure that struck me was the concern in schools for good mental health counselling.** This includes the treatment of childhood eating disorders and may reflect the number of children and teachers at risk in our schools.

Cost control remains a significant concern for all schools - whether for-profit or not-for-profit. Foreign currency challenges amplify this risk and the higher figures recorded may reflect the difficulty many schools have in identifying the impact of potential changes in exchange rates on their budget models."

**Rob Thompson**
Former Assistant Head of School (Operations)
The International School of Kuala Lumpur

# Countries with over 100 English-medium, K-12 insternational schools[21]

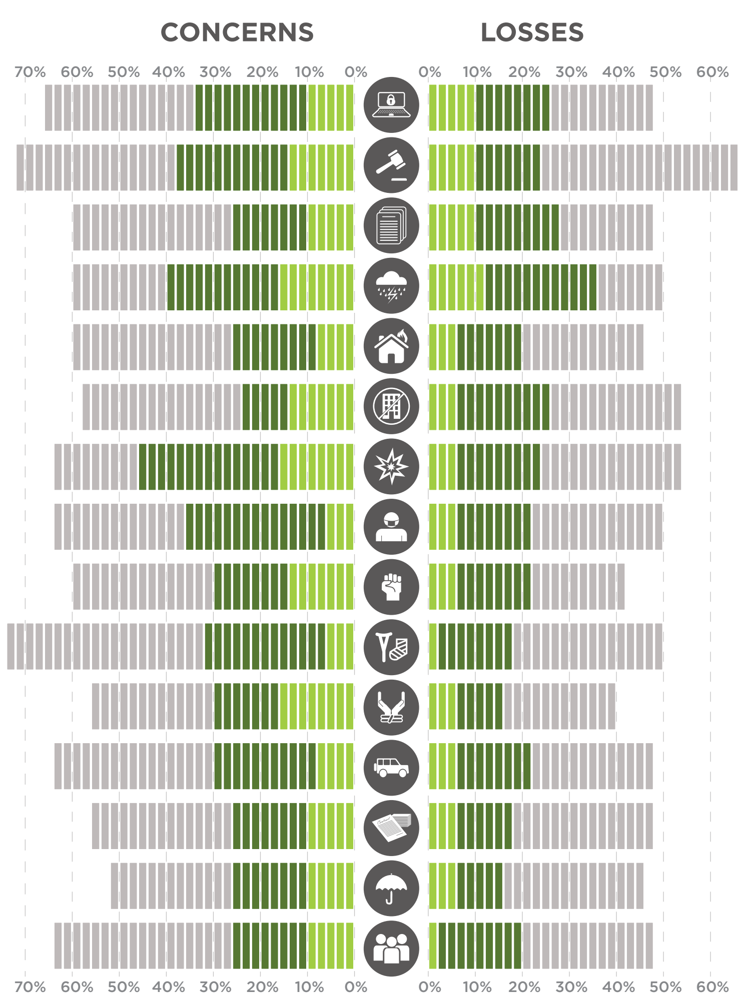



*Source: ISC Research, February 2018*

industry focus

# international NGOs/ UN

In previous versions of the *Clements Worldwide Risk Index*, humanitarian aid organizations and United Nations agencies had proved more resilient to international risk than other types of organizations. Essentially, their mandate is to work in areas of the world struggling with poverty, war and conflict, as well as environmental issues, social degradation, and more. Therefore, it had been no surprise that these organizational types did not retreat from risk the way for-profit organizations have. However, that has changed with the latest edition of the index.




The percentage of organizations which plan to delay expansion plans in the **following year fell dramatically from 37% to 13% for all respondents. However, almost 20% of international NGOs and UN organizations plan to delay expansion.** In previous years, international NGOs/UN organizations had always been lower than the overall trend, whereas this year they lead organizations in their plans to delay expansion.

This may be influenced by this industry's experience with political violence and terrorism.

In January 2018, the office of a prominent international NGO was attacked in Jalalabad, Afghanistan. Humanitarian aid organizations around the world are concerned that any protected status for them under international humanitarian law has eroded to the point of uselessness given the lawlessness in many regions.



## Political Violence and Terrorism Still Major Risks for NGOs and UN

Compared to other industries, NGOs and UN organizations rate terrorism and political violence as higher losses. Where overall respondents named political/labor unrest as the 9th highest loss, humanitarian aid organizations and UN organizations rated it 5th, with 22% of these organizations answering a 4 or 5 in terms of the extent of their losses from this risk. Additionally, while only 16% of all respondents answered that they had experienced a major political violence event in the past six months, 27% of NGOs answered that they had. Losses from terrorism also trended higher than the overall respondent base.

When asked what types of political/labor unrest is most likely to occur in the next 6 to 12 months, NGOs and UN organizations were much more concerned about ongoing wars and terrorism than the overall population. They were also more concerned about disruptions from elections and refugees.

| | all sectors | this sector |
|---|---|---|
| demonstrations regarding economic downturn | 26% | 24% |
| disruptions from elections or political environment | 35% | 47% |
| disruptions as a result of refugees/ migration | 18% | 24% |
| currency challenges | 31% | 23% |
| civil unrest or labor strikes | 23% | 21% |
| insurrection or ongoing war | 13% | 26% |
| terrorism | 28% | 37% |
| looting | 6% | 9% |
| riots | 9% | 14% |
| none | 21% | 17% |

The Aid Work Security Database (AWSD), a project of Humanitarian Outcomes, collects information regarding attacks, injuries, and fatalities against aid workers. Additionally, the group has done interviews with non-state actors to better understand their motivations in the hope of providing insights to NGOs/UN organizations to mitigate these catastrophic risks.

Trends they cited as enabling violence against aid workers, despite their protected status under international humanitarian law, are:

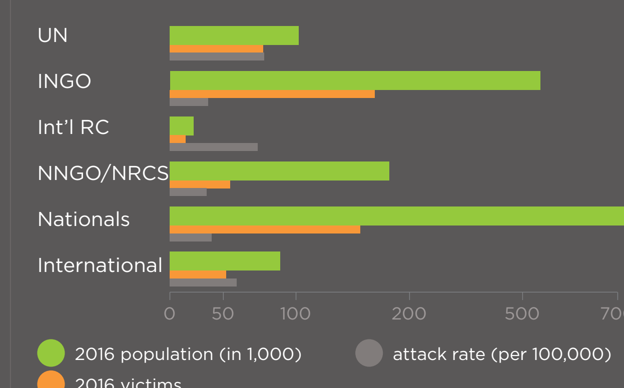
- Increased intractable conflicts where little respect for rule of law exists
- Atmosphere of impunity for armed actors
- Perceived benefits, which includes dominating local populations and delegitimizing the government[22]

The majority of attacks are instigated by national level non-state armed groups, such as Al Shabaab, the Taliban, and Tehrik-i-Taliban. Aid organizations are at times viewed as proxy targets for western governments. When armed groups feel more in control, however, they may negotiate with these same aid organizations to provide medical and other aid to the populations they manage. The concept of a professional humanitarian sector is alien to many of the cultural contexts in countries across the Middle East and Africa. Affected populations, not just terrorist groups, may view aid groups with suspicion and cynicism, even when they have been in the country for decades.

International non-state armed groups, such as the Islamic State and Al Qaeda, are less interested in negotiations, as their goal is to eliminate any dependence on the international community.

While local nationals by absolute numbers are much more likely to be injured, that is probably attributed to their larger numbers. Ultimately, the percentage of those attacked is much higher for international workers, with UN personnel most likely to be targeted.

## attack rates[23]




*Source: Abby Stoddard, 2017*

## Kidnap & Ransom – a Bigger Concern for NGOs and The UN

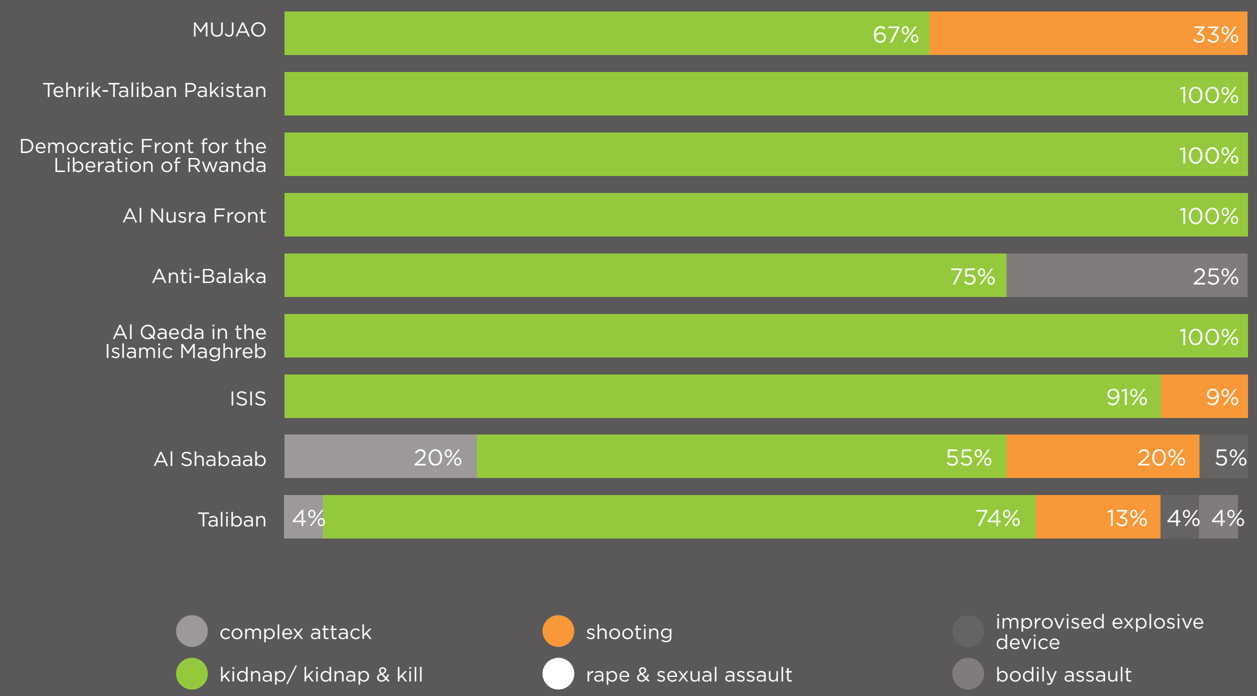
The 2nd largest concern for the NGO and UN sectors is kidnap & ransom. (Compared to ranking 7th for overall respondents.)

In the Aid Worker Security Database, when looking at attacks perpetrated by the 10 most cited non-state actors, the most frequent type of violence is kidnaping.

The reasons highlighted for kidnapping include:

- Revenue generation, with groups targeting nationalities that are known to pay ransoms
- A form of "informal registration" of aid workers in territories controlled by the group
- Prisoner swaps
- Revenge, either as a proxy for the state or more directly against an organization's ideals

## incidents by means of violence, 2011-2016[24]




*Source: Abby Stoddard, 2017*

## Changes in Regulation and Legislation Troublesome and Costly for NGOs and UN, too

NGOs and UN organizations mirrored overall respondents with 23% of respondents in these industries stating they had experienced high losses from changes in regulation, answering either a 4 or 5 for this category. These organizations did report much higher rates of an event over the past six months.

| lawsuit or litigation against your organization in the past 6 months | |
|---|---|
| overall | 18% |
| this industry | 29% |

Changes in legislation is a broad category – with many components. As NGOs typically hire a large number of local nationals to complete their mission, keeping up with local labor laws is a challenge, as are data protection laws and more. Given their lean staffs and lack of local compliance expertise, this risk could place huge burdens and divert resources, including financial, from life-saving missions.

Anecdotally, Clements Worldwide is hearing from NGOs that keeping up with regulations in every jurisdiction where they operate is becoming more complex and costly. This cost is even affecting the feasibility of entering new markets.



## Harassment, Abuse Scandals, and Not Protecting Staff – All Plaguing NGOs and The UN

Professional & management liability was the 2nd highest loss category for the NGO/UN segment in the latest version of the *Risk Index*. The NGO sector has unique policies for directors and officers to protect them from liability claims regarding their management of the organization. In the past year, there have been a lot of questions regarding management ignorance of staff misconduct, which has resulted in liability claims. All organizations, even those with a humanitarian mission, must provide a safe environment for staff and beneficiaries or they could face a lawsuit. Given the #metoo movement and increased focus on systematic child abuse, the number of lawsuits against organizations that did not create rigorous systems to ensure safe environments will grow. This may spur additional liability claims if overall the ability to carry out organizational missions based on donor requirements is compromised.

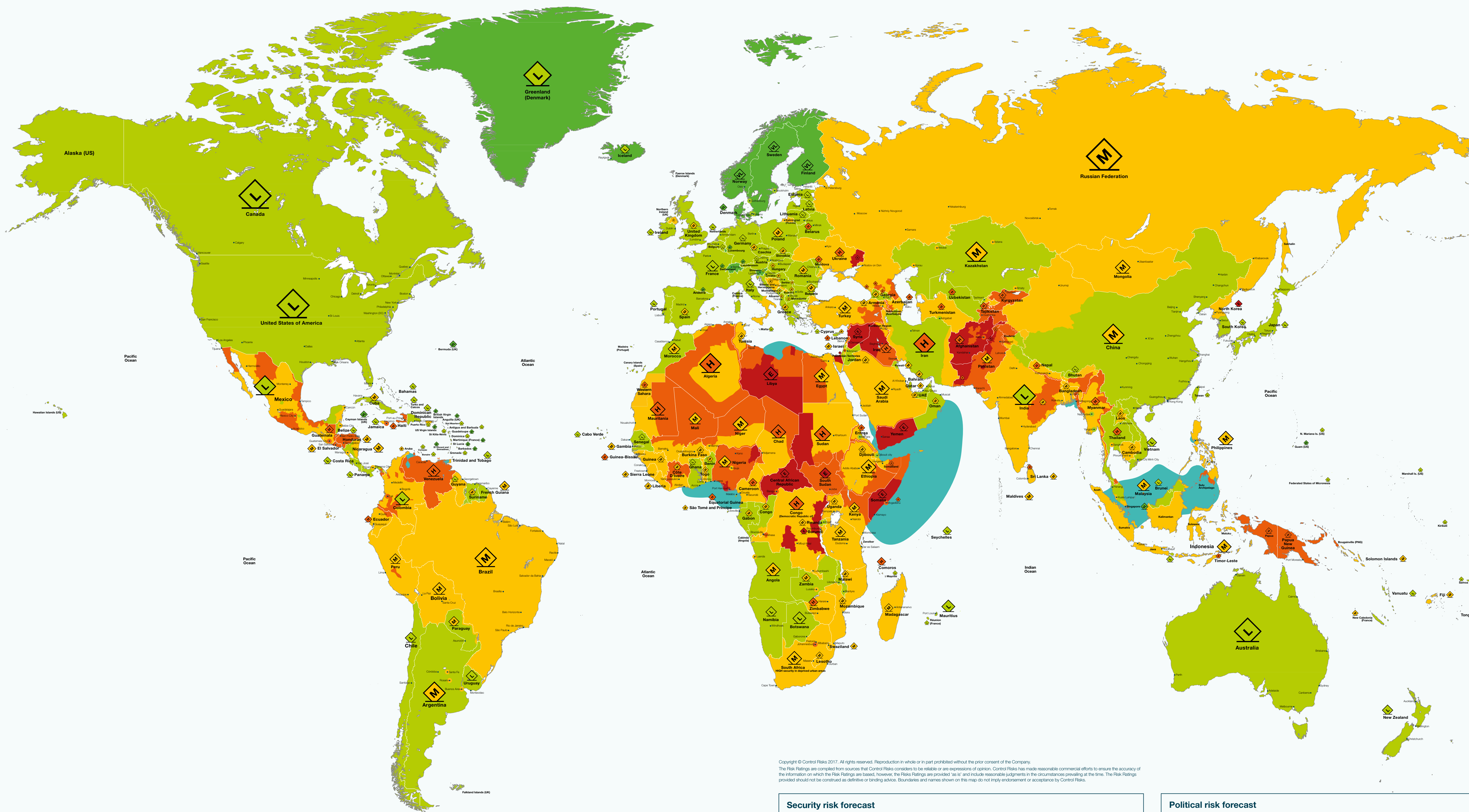
The concept of liability used to be limited to a primarily "western" concept. Clements Worldwide is seeing more claims coming from developing markets that could be made in home or host country. These trends – increased transparency and increased propensity to file a claim globally – portend no weakening of the risks from professional & management liability over the coming year.

"That international NGOs continue to be plagued with **concerns of and by actual losses from political violence** and instability is **no surprise**. The risk factors that most impact international NGOs are all interrelated: election-related violence and civil disturbances, political instability, refugee crises, terrorism and even compromised medical response all arise under similar conditions where we operate throughout the world. **It's not uncommon for one of our projects to experience election-related violence, for example, only to turn around and experience a subsequent terrorism incident in the same location** within a few years or even months. Ultimately, regardless of the specific incident we're dealing with, our key concerns are the same: **how do we keep our employees safe during and after the incident, and can we move forward and effectively carry out our mission after the incident?** Understanding the appropriate response for these various risk factors is key to ensuring that we can effectively maintain our operations, despite constant risk fluctuation."

**Laura Schauble**
Vice President | Risk Management and Office Operations
ACDI | VOCA

# RiskMap | 2018

Control Risks






The Risk Ratings are compiled from sources that Control Risks considers to be reliable or are expressions of opinion. Control Risks has made reasonable commercial efforts to ensure the accuracy of the information on which the Risk Ratings are based, however, the Risks Ratings are provided 'as is' and include reasonable judgments in the circumstances prevailing at the time. The Risk Ratings provided should not be construed as definitive or binding advice. Boundaries and names shown on this map do not imply endorsement or acceptance by Control Risks.

**Security risk forecast**

Very Low | Low | Medium | High | Extreme | Piracy Risk

Security risk evaluates threats to the financial, physical and human assets of a company, as well as the willingness and capability of public security forces to protect corporate assets and personnel. Factors assessed include military conflict, insurgency, terrorist attacks, strikes and riots, vandalism, kidnapping, and violent and acquisitive crime. Security risk may vary for companies and investment projects because of factors such as industry sector, investor nationality and geographic location.

Areas of heightened piracy risk.

**Political risk forecast**

VL Very Low | L Low | M Medium | H High | E Extreme

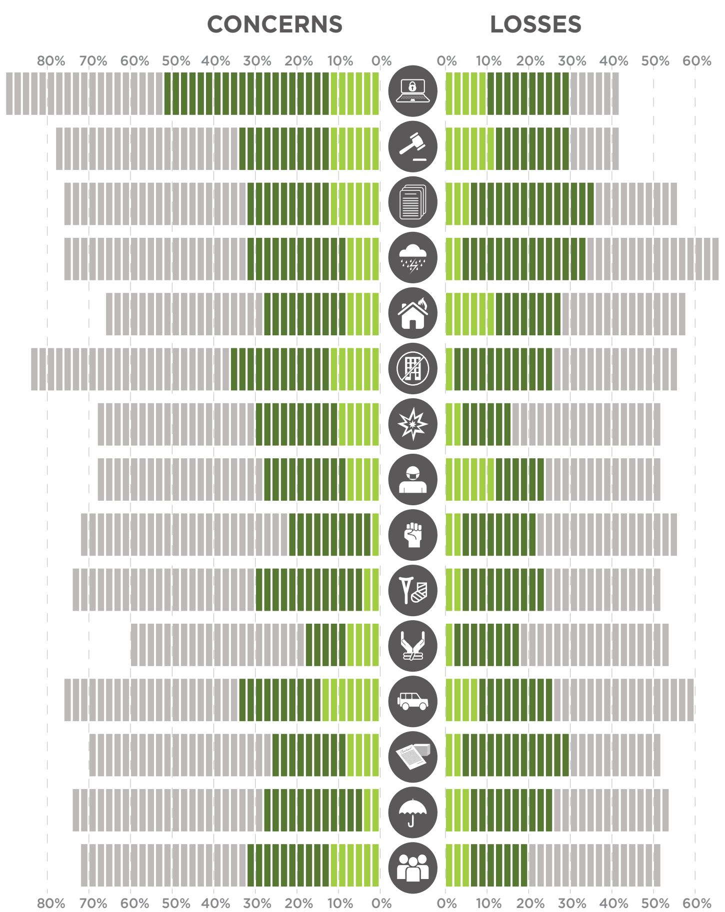
Political risk evaluates the likelihood of government interference and political instability, and their impact on the business environment. Political risk assesses general political stability and policy issues such as regulatory change, high-level corruption, reputational risk, expropriation and nationalisation, contractual interference, sovereign default and non-payment, and international sanctions. While the rating applies generally to the designated jurisdiction, political risk may vary considerably between industry sectors and investor nationalities.

controlrisks.com

industry focus

# transportation and logistics

This sector is navigating on troubled waters. The global economic and political instability, in view of Brexit, NAFTA, U.S. proposed tax cuts and increased tariffs, as well as currency weakness, makes the outlook for the transportation and logistics sector questionable. The Global Transportation Services market is expected to witness modest growth and reach an estimated 2,735 billion USD in 2017 with a CAGR of 2.5% over the next five years[25].




## Highly Regulated Transportation Industry Struggles With Cost of Doing Business

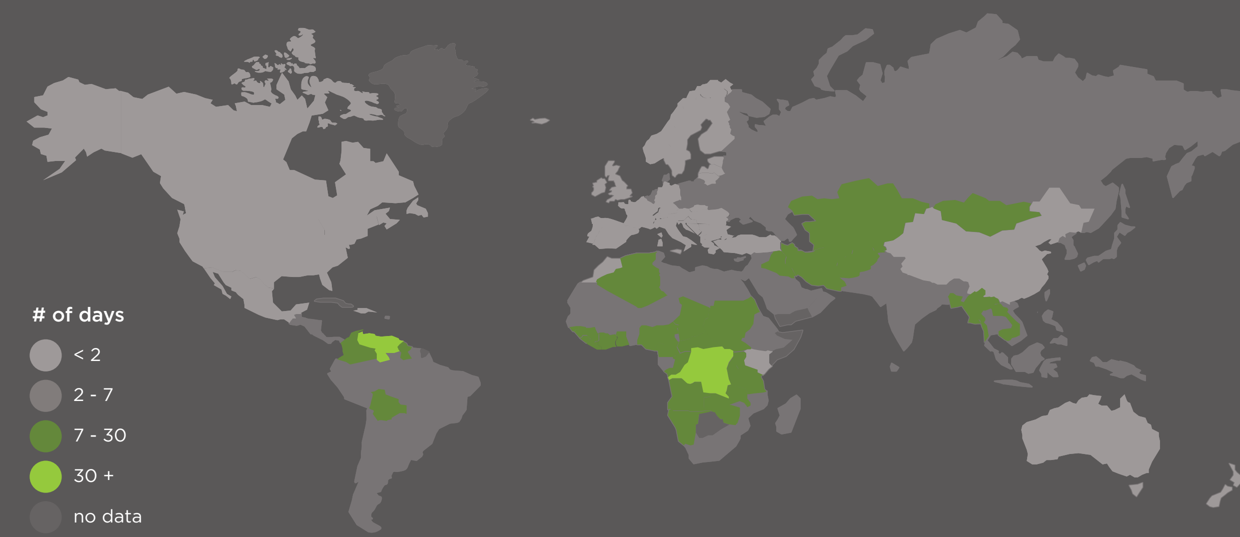
Changes in legislation is the #1 loss and the #2 concern for this segment. Transportation and logistics is a highly regulated industry. One example of this regulation is the custom and border controls this segment must follow that govern inter-country commerce. Work weeks may also be regulated by country for this segment as it is seen as a safety precaution for the surrounding population.

When regulations change, the transportation industry is impacted in several ways. First, the monitoring and interpreting of new regulations is burdensome and costly. Second, often complying with new regulations requires development or enhancement of information systems to track or transfer data. Requirements differ by country, creating additional system complexities.

Looking at customs, for an example, an organization must make arrangements to file entry documents at the port of entry, pay the estimated import duties and secure the release of the goods from the customs and border protection agency. Many governments now allow electronic transfer of documents via electronic data interchange, but there is not a standard protocol. An integrated cross-government policy for improving efficiency of intermodal freight would enable greater efficiencies and lower costs for this segment. Opportunities also exist for further process streamlining, including regarding payment and rationalization of tax and other regulations.

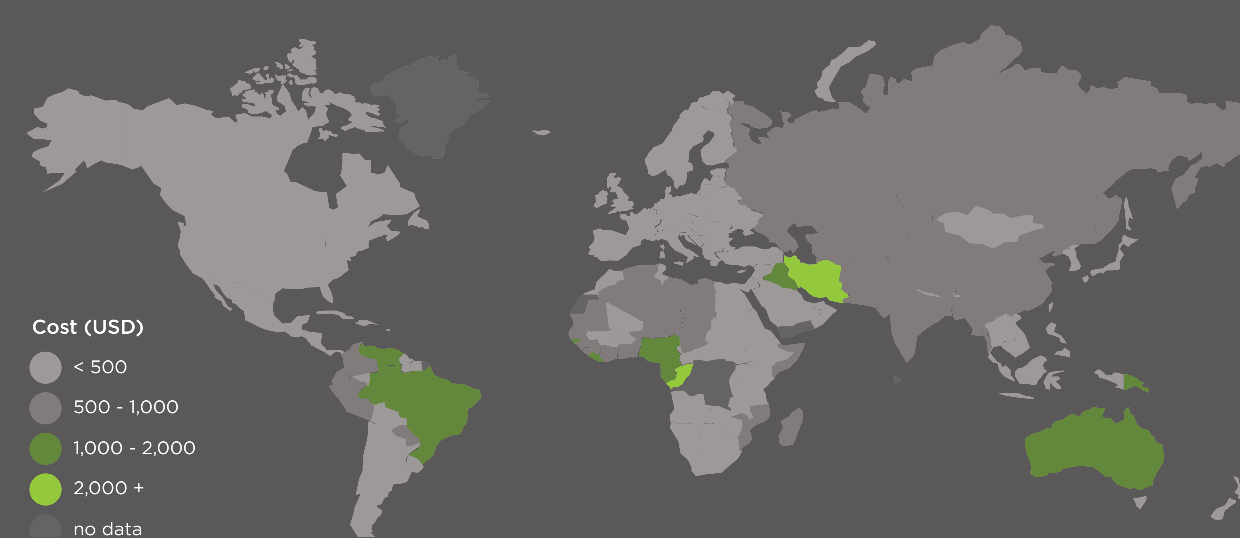
The charts below highlight the complexities involved in cross-border transactions and the variance of business practices across countries which result in much higher transportation timelines.

### time required for documentary and border compliance to export goods by country[26]




*Source: U.S. Department of Commenrce, 2018*

### cost associated with documentary and border compliance required to export goods by country[27]




*Source: U.S. Department of Commenrce, 2018*

In addition to the costs to comply with different regulations, increased tariffs and protectionism, along with increased customs bureaucracy that lengthens shipping times, has the potential to reduce inter-country trade, causing lost revenue for transportation and logistics companies.

## Business Interruption Event More Likely for This Segment

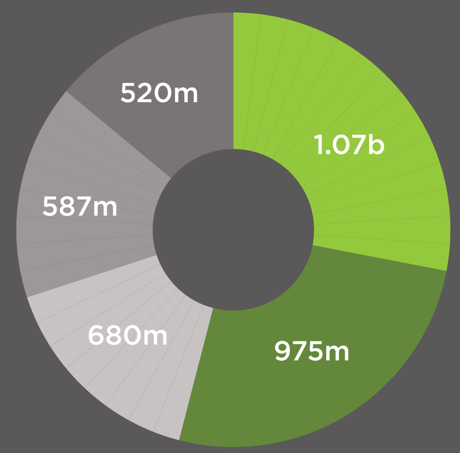
Changes in customs or other regulations could result in a business interruption event where operations must even be halted while the organization tries to comply with the new regulations. Business interruption events trended higher for this segment compared with others. It ranked as the #2 concern and 27% of respondents cited a significant financial loss from this risk (a 4 or 5 ranking). Other possible sources could be natural disasters or political violence, which could affect infrastructure so severely that business operations must cease for a period. Thirty-two percent of organizations in this sector experienced a significant loss from natural disasters. As discussed in the risk section on natural disasters, see page 14, the disruptions to infrastructure often take weeks or months to resolve with serious implications for this sector. Ensuring that business interruption insurance or cargo insurance has no exclusions for natural disasters is critical.

| Business interruption that caused revenue disruption for over 3 months | |
|---|---|
| overall | 10% |
| this industry | 15% |

## Understanding Fleet Costs - #1 Loss for This Segment

Fleet and auto-related accidents & costs including liability ranked as the highest concern for the transportation and logistics segment and the 5th highest loss. For overall respondents it ranked 11th for losses and 14th for concerns. Given the sector, it is logical that this risk ranks so highly. Fleets are an important part of many other types of organizations, such as NGOs, where fleet is often the 2nd highest expense after payroll. The chart below demonstrates how important logistics is to the supply chain of the World Food Program, which is often outsourced to external transportation and logistics companies.

### five components of WFP's supply chain[28] (in USD)




Cash-Based Transfers
Goods and Services Procurement
In-Kind Food Assistance
Logistics
Food Prcurement

*Source: World Food Program, 2015*

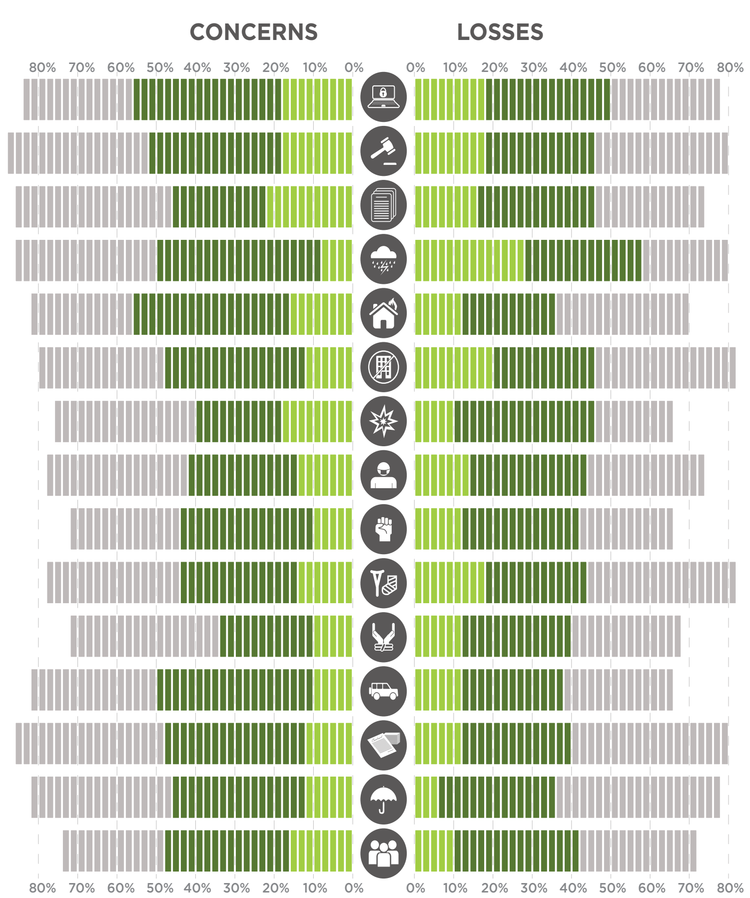
Despite its importance, fleet management does not receive enough attention from leadership. According to another report by Clements Worldwide, *Fleet Risk 360°*, 58% of survey respondents indicate that risk management capabilities, structure, and accountabilities needs to be overhauled for fleet management. Additionally, the total cost of ownership (TCO) is not transparent – 58% of respondents indicate postponing necessary fleet investments and another 58% report having no reserve funds[29].

The cost of fleet mismanagement goes beyond vehicles to costs related to lost or delayed inventory. USAID conservatively estimated that one percent of shipments is lost to spoilage. USAID and World Food Program together indicate that each year about USD 30 million is lost in transportation for aid goods, such as food and medications[30].

industry focus

# construction

The construction industry has been growing at a steady pace since 2011. The global construction industry is projected to grow to 15.5 trillion USD by 2030. Three mega-economies – the U.S., China, and India – are driving this growth, with a huge dependence on economic stability and government investment in infrastructure. While other top markets are primarily European, emerging markets are growing briskly, as well.




## Global Construction Market by 2030[31]

21% China

15% United States

7% India

6% Japan

3% Canada

3% Indonesia

3% France

3% UK

3% Australia

2% Spain

Other leading markets: Russia, Mexico, Brazil, Italy, South Korea, Saudi Arabia, Nigeria, UAE

*Source: Dsouza, 2017*

## Natural Disasters Major Risk for Construction

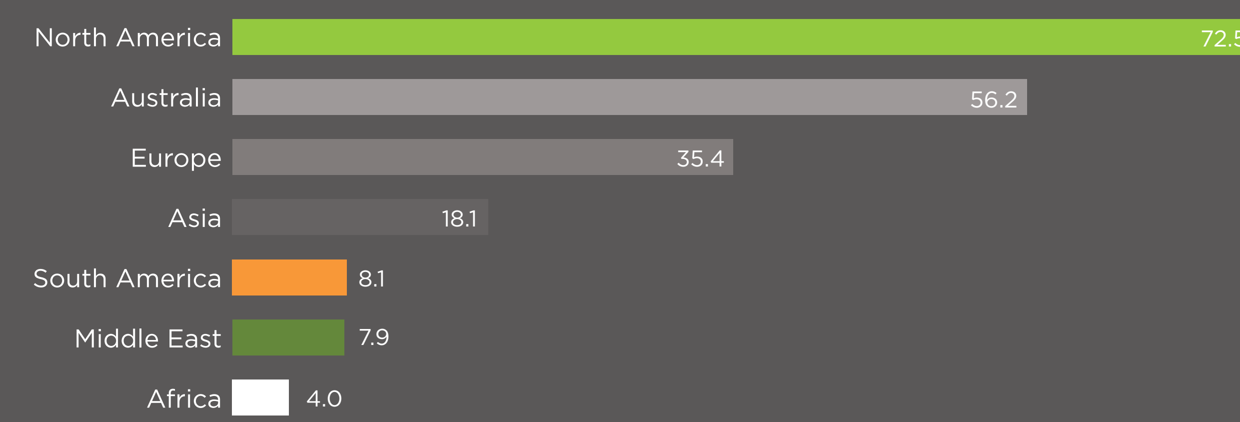
Fifty-six percent of respondents answered that they experienced a significant financial loss over the past 2 years (a ranking of a 4 or 5) from a natural disaster. Furthermore, 44% reported that they had experienced a significant financial loss from terrorism. The same percentage stated they had experienced losses from a business interruption event. These numbers are all significantly higher than answers for overall respondents, reflecting the challenges for this industry as well as the increased likelihood of property damage.

| major property damage | |
|---|---|
| overall | 13% |
| this industry | 17% |

Many of the top global construction markets are in geographic areas with significant risk for natural disasters, partly a result of the size of these countries (U.S., China, etc.). Forty-four percent of construction organizations are considering moving operations from areas with high natural disaster risk, vs only 28% of overall respondents.

The construction market, like most industries, is extremely competitive so many multinational construction firms are looking at projects in emerging markets, where the competition may be less intense. Governments in these markets are pursuing investment in infrastructure necessary for continued growth. Additionally, costs driven by labor and raw materials are lower in these emerging markets, offering the potential for greater profitability.

## the cost of labor[32] (average hourly wage in USD)




*Source: Turner & Townsend, 2017*

The expansion into these emerging markets may be driving increased incidents of political violence. Construction projects tend to have a long life-cycle. When a given project had started, the geopolitical environment may have been stable but has since deteriorated. Because of the longevity of projects and this increased propensity for losses, the construction industry must really consider how to plan for future violent outbreaks in areas of operations. While acts of political violence have plagued the headlines of European markets, there is a greater likelihood of civil commotion, strikes, riots, and even terrorist events in emerging markets that make up the top 10 construction markets, such as Nigeria, with the possibility also in Indonesia, Turkey, and more.

| major political violence event | |
|---|---|
| overall | 16% |
| this industry | 31% |

## Political Risks Create Uncertainty for Sector Growth

Construction firms, like other respondents indicated that regulatory concerns and government actions were a major source of loss with 44% of all respondents experiencing a significant loss. The regulatory challenges are the same as those faced by other industries. Regulatory uncertainty makes business processes more burdensome and adds administrative costs to these organizations. Different labor laws complicate employee management for multinational organizations that hire local nationals as well.

Another unique risk for this sector is its reliance on government funding for industry growth. Many governments were elected with promises to grow the economy and create new jobs. Investing in infrastructure and construction projects does just that as it employs significant labor, while providing a visible symbol of progress with new buildings or highways. Translating these promises into action is often not speedy and promised construction often gets stalled as a result of long RFP processes, funding gaps, and other bureaucracy that threaten industry profitability. While changes in government commitments are risk everywhere, it is even more acute in emerging markets.

Legislative concerns which are more prominent for the construction sector include concerns over access to raw materials and legislation that encourages local business investments.

| | all sectors | this sector |
|---|---|---|
| new capital and currency controls | 21% | 23% |
| limited access to raw materials/naturalization of natural resources | 18% | 23% |
| increased bureaucracy for business process | 37% | 33% |
| legislation that encourages local business investments | 23% | 37% |
| difficulty in conducting business due to local business practices | 22% | 19% |
| unclear legislation impacting business operations | 24% | 17% |
| local compliance in regards to insurance and finance | 15% | 12% |
| none | 22% | 17% |

Political risk monitoring and risk management, including insurance, is critical given the longevity and significant up-front costs of construction projects.

## Lagging protection policies and new tech infusions driving cyber attacks

Cyber criminals may target construction companies for a variety of reasons including industrial espionage, access to client information or simply for thievery. Construction companies are perceived to be less prepared for these risks than other industries, such as financial services or retail which bore the brunt of early attacks. The construction industry may be a greater target due to this perceived weakness. Not to mention, cybercriminals know the construction industry is a high cash flow business.

The construction industry is experiencing a technological resurgence. There is a focus on digitally enhancing operations through 3D printing, Building Information Modeling (BIM), new accounts receivables systems, and even the use of drones. These technologies provide increased entry points for cyber criminals. The rate of cyber security breaches is greater for this sector than overall respondents.

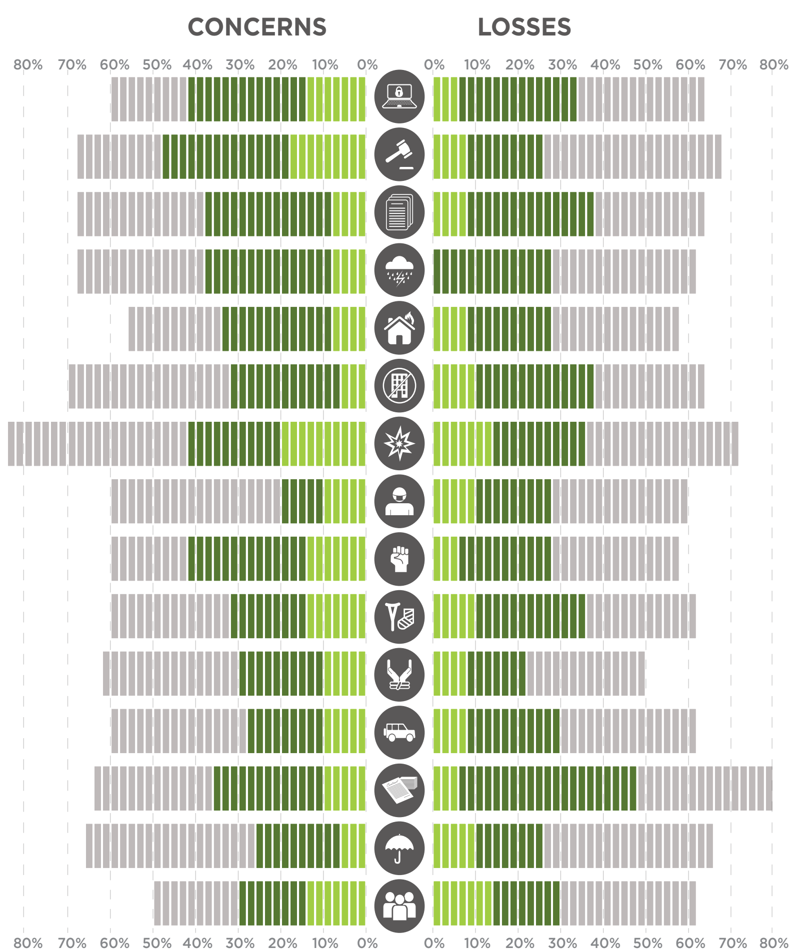
| cyber security breach | |
|---|---|
| overall | 26% |
| this industry | 33% |

industry focus

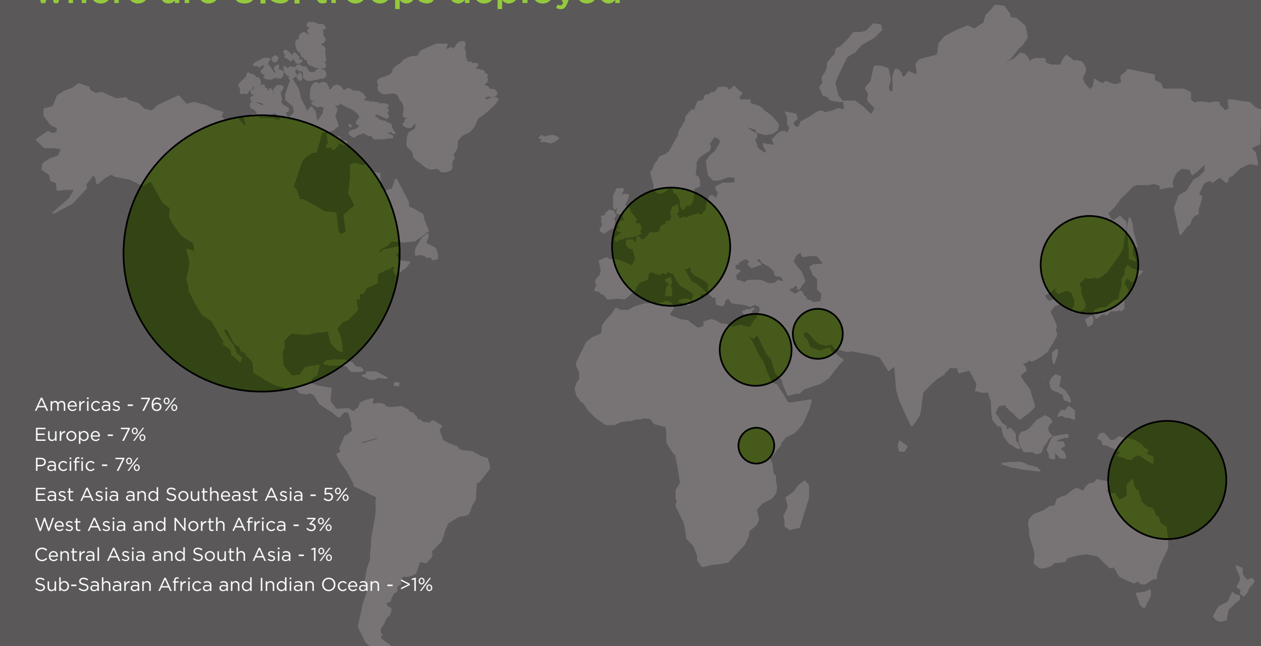
# government contractors and agencies

Department of Defense (DoD) related spending is the 2nd highest budget line for the U.S. Federal Government after social security. There are four components[33]:

- Base budget: 597.1 billion USD
- Overseas contingency operations for DoD to fight the Islamic State: 88.9 billion USD
- Other agency spending to protect U.S. interests (including State Department, Department of Veteran Affairs, Homeland Security, National Nuclear Security Administration, and FBI and Cybersecurity in the Department of Justice): 181.3 billion USD
- Overseas contingency operations for State Department and Homeland Security to fight the Islamic State: 18.7 billion USD




## where are U.S. troops deployed[34]




*Source: Defense Manpower Data Center, 2017*

## Terrorism #1 Loss and Concern for This Segment

For all respondents terrorism ranks as the 6th highest loss and concern, but for government agencies and government contractors, this risk ranked #1 with 34% of respondents answering that they had experienced a significant financial loss (4 or 5 score ranking for loss). Given the huge financial focus on defense with ongoing conflicts in Afghanistan, Yemen, Syria, Iraq, and Somalia, air strikes in Afghanistan, Iraq, Libya, Pakistan, Somalia, Syria, and Yemen and other activities across Sahel-Maghreb, it is no surprise that this group faces more terrorist incidents than other sectors.

| major political violence event | |
|---|---|
| overall | 16% |
| this industry | 22% |

As shown in the following chart, government contractors and agencies are much more concerned about additional terrorist attacks in the next 6 to 12 months when compared to overall respondents, as well as disruptions resulting from refugees and migration. They are considered vulnerable and reachable targets due to their proximity to government property and government bases.

| | all sectors | this sector |
|---|---|---|
| demonstrations regarding economic downturn | 26% | 27% |
| disruptions from elections or political environment | 35% | 17% |
| disruptions as a result of refugees/migration | 18% | 29% |
| currency challenges | 31% | 34% |
| civil unrest or labor strikes | 23% | 29% |
| insurrection or ongoing war | 13% | 17% |
| terrorism | 28% | 42% |
| looting | 6% | 15% |
| riots | 9% | 15% |
| none | 21% | 17% |

Business Interruption was also a top loss for this segment at the 3rd highest loss; it tied for the 6th spot with overall respondents. Thirty-six percent of this segment responded they had experienced a significant loss due to business interruption. This can likely be tied to work stoppages as a result of security concerns.

| business interruption that caused revenue disruption for over 3 months | |
|---|---|
| overall | 10% |
| this industry | 15% |

## More Cyber Losses but not as Costly?

In fiscal year 2016, federal government agencies reported 30,899 information security incidents[35]. Only a handful of those were major incidents, but this is also not a comprehensive list as it was self-reported. Government contractors and agencies reported a higher incident rate of cyber security breaches than overall respondents.

| cyber security breach | |
|---|---|
| overall | 26% |
| this industry | 32% |

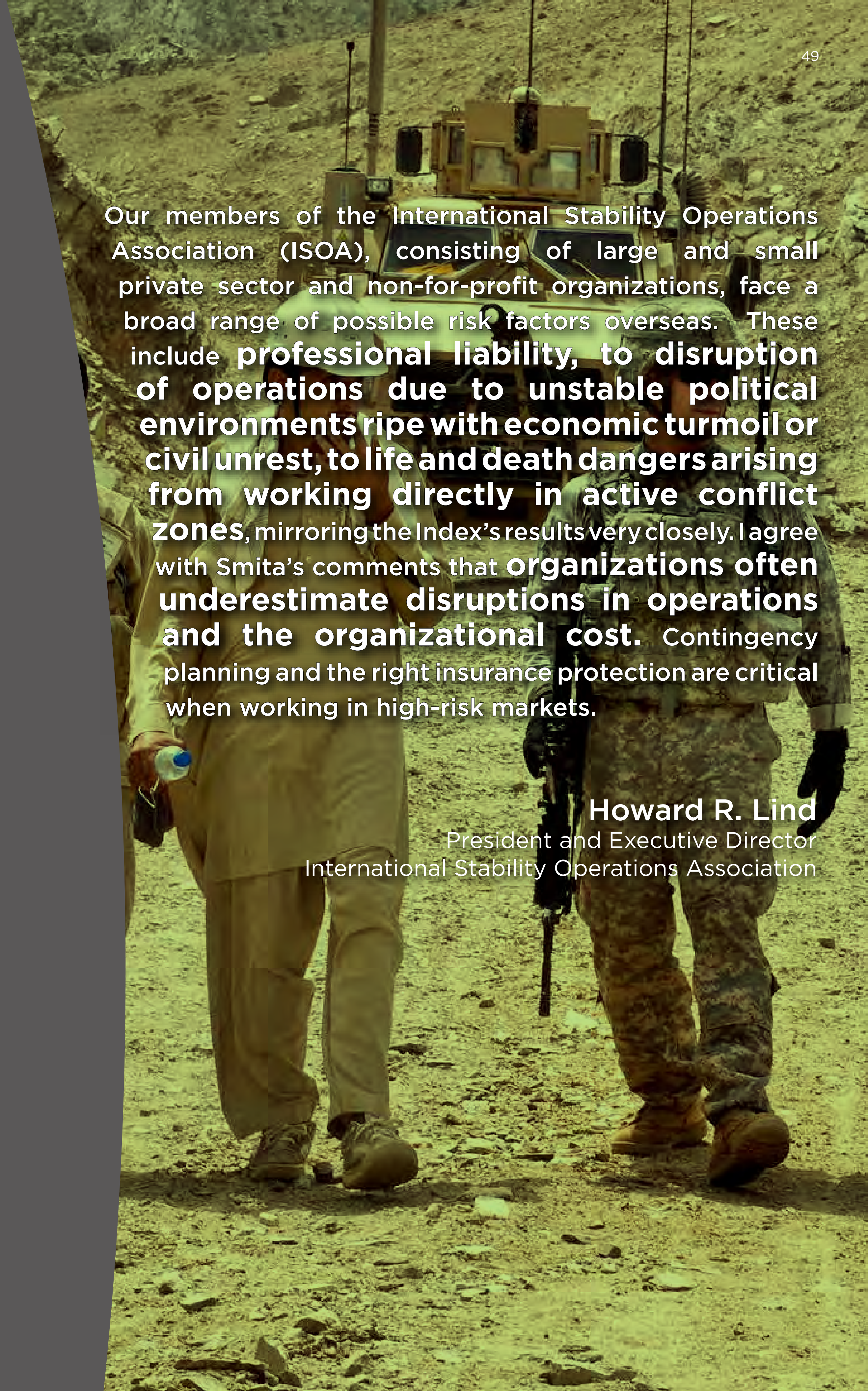
Despite this high incidence rate, cyber as a loss ranked 12th for this segment, compared to 1st for overall respondents. One reason for this difference is that many government attacks, typically by non-state actors, are not for monetary gain, but to acquire information that can be used to obstruct or delegitimize another government entity or to cause infrastructure damage as a type of terrorism. This list highlights examples of these types of attacks[36].

- **March 2018.** A UN report details attempts by North Korean hackers to compromise email accounts of the members of a UN panel enforcing trade sanctions against North Korea
- **February 2018**. Officials at the Department of Homeland Security confirmed that Russian hackers successfully penetrated the voter registration rolls of several U.S. states prior to the 2016 election
- **January 2018.** China denied that the computer network it supplied to the African Union allowed it to access the AU's confidential information and transfer it to China, or that it had bugged offices in the AU headquarters that it had built
- **January 2018.** A hacking group with ties to the Lebanese General Directorate of General Security was revealed to have been involved in a six-year campaign to steal text messages, call logs, and files from journalists, military officers, corporations, and other targets in 21 countries worldwide
- **December 2017.** French company Schneider Electric was forced to shut down operations of a power plant in the Middle East after malware compromised its industrial control systems. Analysis by security researchers indicated that the attack was sponsored by a nation-state

## Lawsuits Higher Than Other Respondent Categories

Government contractors and agencies reported higher rates of lawsuits than overall respondents. This sector ranked third-party liability or general liability as its 3rd highest loss and professional management liability as its 7th highest loss, signifying this sector had different liability trends than overall respondents with a greater incident of third-party claims.

| lawsuit or litigation against your organization | |
|---|---|
| overall | 17% |
| this industry | 27% |



Our members of the International Stability Operations Association (ISOA), consisting of large and small private sector and non-for-profit organizations, face a broad range of possible risk factors overseas. These include **professional liability, to disruption of operations due to unstable political environments ripe with economic turmoil or civil unrest, to life and death dangers arising from working directly in active conflict zones**, mirroring the Index's results very closely. I agree with Smita's comments that **organizations often underestimate disruptions in operations and the organizational cost.** Contingency planning and the right insurance protection are critical when working in high-risk markets.

**Howard R. Lind**
President and Executive Director
International Stability Operations Association

# final thoughts

When I evaluate the results of the Index there are always a couple of surprises – areas that I think should be top risks that are not making the top 5. I wanted to highlight those for you.

**First**, I see business interruption as a top risk that companies are underestimating. There are so many scenarios that close down operations and prevent revenue, donations, fees, or income – natural disasters, denial of access from political violence, fires or other property damage, and more. Beyond revenue loss, there are extra expenses incurred to remain operational, such as renting alternative equipment or moving operations to a new location, as well as the costs to restart business processes, which may include training new staff or replacing inventory, among other things. When this happens, I have clients coming to me saying, “I know you will pay my claim for my building, but I won’t have any revenue coming in for six months and I have other expenses to pay. How will I stay in business?” That is why I recommend business interruption insurance, but many international organizations choose not to purchase it due to cost contraints. This risk is one area where I generally believe companies are underinsured.

**Second**, while I believe clients are more attentive to professional and management liability, I still hear confusion from international organizations regarding the concept of liability. Insurance companies do not make it easy. There are many types of liability policies, amongst them professional and management liability and third-party liability. Organizations need many liability policies to cover potential loss scenarios at high-limits, reflecting rising settlement costs as explained on page 10. Risks around abuse or harassment claims can come under multiple liability policies depending on who is making the claim.

Related to liability, international organizations often overlook protection for their outsourced services. Organizations are often not aware that they are responsible for liability for their outsourced services. These outsourced services may be a major part of an organization’s operational model and may directly impact customers, students, or employees. Type of services include facilities management and operations, bus or transportation, security, and more. Organizations believe that the outsourced company will be the only one responsible for their services related liability, however they can just walk away. Contractually, organizations should require their outsourced services to have insurances, but additionally, they must also include additional coverage in their own policies to protect themselves adequately.

**My final thought** is not so much about a risk, but on generally how organizations assess their risks and their insurance policies. I have seen over the past five years that international organizations are improving in the development of risk management plans for catastrophic risks, but tend to ignore the more mundane risks, like what happens if someone gets pneumonia or their house gets broken into. Creating policies and procedures for more mundane risks is also important because these are heigher frequesncy risks.

Also, organizations who are insuring locally need to consistently reevaluate whether that is adequate. If you look on page 52, I provide some tips on buying insurance, but generally I find that people overestimate the cost savings from local insurance and underestimate the efficiencies and coverages/protection gained from a comprehensive global solution, such as umbrella policies that offer global liability coverage. I often hear after a large claim that a local policy was insufficient, but then it is too late.

If you have any questions about the *Clements Worldwide Risk Index* or you believe that there is a risk that is not well-understood or addressed I would love to hear from you. Give me a call at +1.202.872.0060 or email me at sbhargava@clements.com

Best regards,

**Smita Bhargava**
Senior Vice President



# takeaways

Translating lessons learned into better insurance protection with tips from Clements Worldwide.

## 1 don't oversell yourself or undersell the risk

In the application process, be as honest and forthright as possible. You don't need to impress your insurer. Give an accurate accounting of your assets and processes – not where you hope to be in a year or 5 years.

Provide actual revenue, assets and inventory costs, etc. This is the basis of insurance costs and payouts of claims.

Share future plans for the next 12 months but only if they are likely to come to fruition. This may affect insurance costs so keep projections realistic.

## 2 understand limits and exclusions

Many organizations don't understand what their policies cover in full details and have not done a thorough review of where they have exposures. They accept limits and exclusions that may leave them financially vulnerable. Don't assume. **Ask questions!**

Most common underestimated exposures:

- PTSD & other mental health concerns
- Kidnap & Ransom
- Liability

Most common underestimated exposures:

- Terrorism
- Political Violence

## 3 misperceptions about local insurance

Many organizations place insurance locally or centrally, based on what has been done in the past. Periodically, organizations need to review if buying locally still makes sense. If your organization does purchase locally, ensure you review gaps in the local coverage and supplement with adequate global umbrella programs.

Common misperception is that local insurance is cheaper. Particularly for high-risk insurance, specialized global markets are likely to be cheaper.

Insurance is only good if it pays the claim. Research the customer service and claim support history of a local insurance provider before you purchase.

## 4 involve your insurance broker early in budgeting or bid process

There are some insurance policies that are mandatory for bidding on various contracts. Many insurances, however, are not and organizations must do a cost-benefit analysis to determine if they need the insurance or if they can essentially self-insure, meaning pay out-of-pocket for any losses. Your broker can help make these decisions.

For mandatory insurance aligned with contract bids, having an accurate cost estimate is critical. If you underestimate the cost, the actual cost will eat into the bid profitability.

Review Insurance program based on the following (in order of priority)

- Risk exposure
- Financial viability of the organization to sustain and fund losses (if they are not insured)
- Contractual requirements
- Budgets

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