

Worryingly, when asked to rate their organisation's capability in managing political risk, less than half (39%) think it could be described as good. The majority describe their activities as either average (50%) or below average (5%). Only 11% of the respondents believe they are very good at managing political risks.

Paradoxically, most organisations feel confident (59%) or very confident (15%) that their organisation has taken appropriate measures against the risks already cited.

Organisations were almost evenly split over whether political risk considerations had ever caused them to cancel a planned investment: 55% said they had, 45% said they had not.

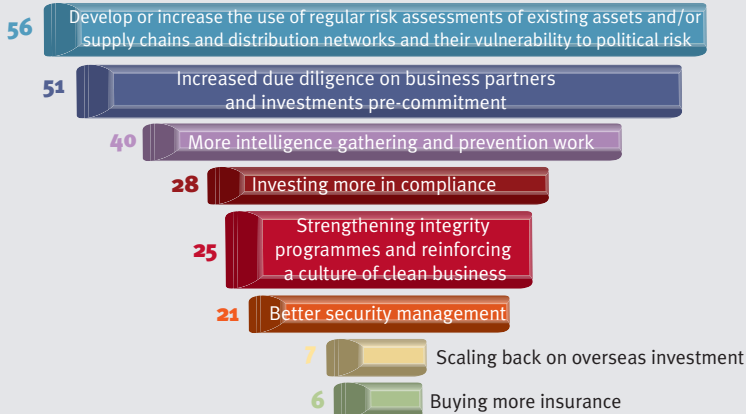
On the steps to be taken to manage political risks, most indicated that regular risk assessment of key assets and supply chains or distribution networks is the best form of protection. Also described as useful in combating political risks were due diligence of business partners, investing more in intelligence gathering and compliance activities, strengthening integrity programmes, enhancing security management, and buying more insurance (although this was given as a last step).

Overall, the findings confirm that political risk is evolving and many threats are seen to be extremely pressing for organisations. While some are confident in their ability to cope with the risks, a larger majority of companies feel that they probably need to invest more time and energy in mitigating the threats. Better risk assessments, more intelligence gathering and increased due diligence seem to be the areas in which companies are putting their faith in order to deal with the challenges ahead.

Key

*number of times respondents gave this answer

What steps will you take this year to manage political risks?*



What sector is likely to be the most affected by political risks? (%)



EXPERT VIEW

As 2010 begins, we face the following challenges in business and investment planning:

- the timing of the removal of quantitative easing and wider government stimulus packages;
- below-trend growth in the developed world for the foreseeable future;
- strong emerging market recovery but with potential inflationary and overheating risks in some economies, for example China and Vietnam;
- currency volatility;
- uncertainty over availability of bank finance;
- commodity price volatility, driven by uncertainty over the pace of recovery and linked to government stimulus programmes, potential stock overhangs in some commodities, such as copper due to stock piling in China, and the reversal of speculative capital flows should interest rates rise sooner and faster than currently anticipated by market consensus;
- outlying shocks arising from risks, such as those around Pakistan/India and Iran;
- increasing risks around protectionist policies; and
- potential for increased social unrest and political violence.

Despite the breadth and depth of the crisis that first began to unfold in August 2007, capacity in the political

risk and credit insurance market remains relatively unchanged in 2010.

Risk appetite has adjusted, however, particularly in relation to non-investment grade credit risks in developed markets and emerging market credit risks, especially in Central and Eastern Europe, Russia and the former Soviet satellites in Central Asia.

The crisis has accelerated the shift from the developed world to emerging markets. The share of global GDP and world trade accounted for by emerging markets is expected to continue to rise rapidly. While not all EMs are in the same position, the fact is that for the major economies, their balance sheets are in much better shape, by and large, than those of the developed world.

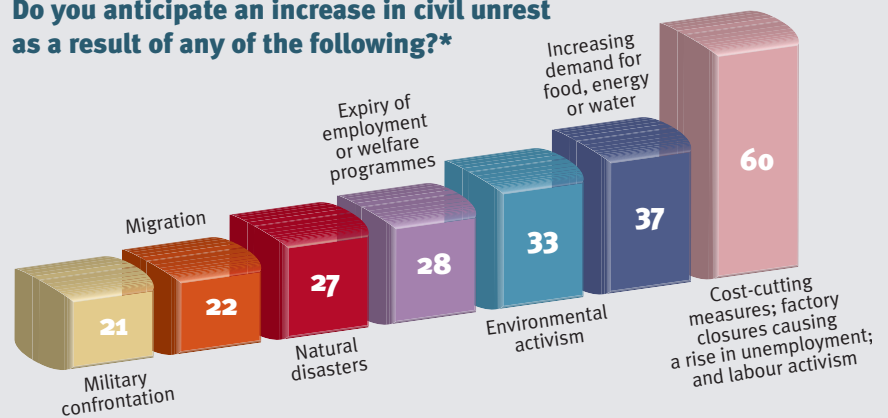
As a result, there is an expectation that significant further productivity gains and growth can be achieved over the coming years.

As the risks of inflationary pressures and social unrest increase through 2010 and into 2011, so the risk of unconventional policy developments increase, for example governments interfering with supply chains for food and agricultural products.

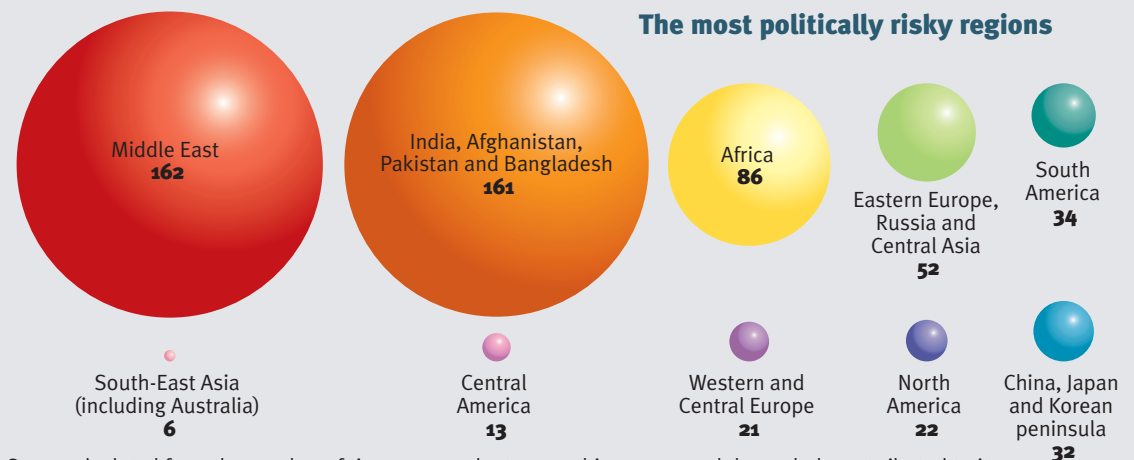
The key for all organisations will be having a clear structure and strategy for managing these risks and for finding appropriate partners for distributing and sharing them.

Stephen Capon, head of country and credit risk management, ACE Global Markets

Do you anticipate an increase in civil unrest as a result of any of the following?*



The most politically risky regions



Score calculated from the number of times respondents gave this answer and the rank they attributed to it