

# 2017 Risk Maps

Aon's guide to Political Risk,  
Terrorism & Political Violence





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# Two risks; one advisor

This year we are combining our Political Risk and Terrorism and Political Violence maps into a single report. While Political Risk and Terrorism and Political Violence constitute two distinct risk areas, and are analysed separately here, both risks must be addressed by businesses at a global, regional and country level - particularly in light of challenging conditions.

2017 marks the 20th year of the Maps , and we're delighted to be working with partners Roubini Global Economics and The Risk Advisory Group on the Political Risk and Terrorism and Political Violence Maps respectively.

The Political Risk Map primarily focuses on economic and fiscal risks, specifically in emerging economies, while the Terrorism and Political Violence Map consider issues such as civil commotion and war and has a global focus.

While comparisons are possible across the two maps and certain countries will be affected by both sets of perils, these are two specific risks with accompanying sub-sets of perils that help to establish ratings for each country.

Together these maps are helping our clients to better understand the challenges facing them when operating in diverse, international geographies. We would welcome the opportunity to discuss these challenges in more detail with you and explain how Aon's Crisis Management teams can help identify, manage and mitigate risks to help insulate your people, assets and operations wherever they are located in the world.

Regards,

**Vlad Bobko**

Head of Crisis Management, Aon Risk Solutions

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## A comparison of the perils across the two maps

### Political Risk Perils

-  Exchange transfer
-  Sovereign non-payment
-  Political interference
-  Supply chain disruption
-  Legal and regulatory
-  Political violence

### Terrorism and Political Violence Risk Perils

-  Terrorism and sabotage
-  Strikes, riots, civil commotion and malicious damage
-  Insurrection, revolution, rebellion, mutiny, coupe d'état, civil war and war

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# Political Risk

# Leaders' commentary

2017 marks the 20th anniversary of the Aon Political Risk Map; Aon has again partnered with Roubini Global Economics this year to produce our findings.

In an ever-changing world, the focus for political risk seems to be shifting from emerging and frontier markets to the effect that shifts in developed markets may have on the rest of the world.

The main themes that have been the focus of our analysis this year are:

- Trade protectionism and populist policies
- Sanctions and business risks
- Political risk and the Energy market

Commodity prices, and the effect that they have on government revenues in commodity producing countries, have featured as key considerations in our analysis now for some time. It is a theme which again forms an important part of our report.

The impact of sanctions also continues to play significant role this year. As global interests are open to realignment, a more fragmented approach to sanctions may prevail.

A newer trend, highlighted in the findings last year and which we see as a continuing movement, is the rise in populist policies. These tend to include trade and investment restrictions, greater government spending and lower taxes, resulting in wider fiscal deficits and restrictions on immigration.

While it is unclear how the populist swing in the US and other developed markets will play out, the changing landscape is likely to hit emerging markets hardest and this is why it has never been more important for global businesses to understand their exposures to political risk.

The Political Risk team has developed a unique approach to risk management, placing emphasis on analytics, modelling and consulting alongside designing the most appropriate risk transfer solutions for our clients.

Through the online Political Risk map, we endeavour to highlight risks in order to enable clients to analyse their portfolios most effectively. We hope you find our specialist insight both useful and informative and we look forward to continuing to support your political risk management in the future.

**Sarah Taylor**

Head of Structured Credit and Political Risks



The Aon Political Risk Map 2017 captures changing risks for businesses and countries across emerging and frontier markets. After several years of political risk increasing across the globe, last year saw an equal number of countries showing a reduction in political risk as there were showing an increase (seven each). This trend highlights the persistence of political risk across the globe.

This year, uncertainty and changes to policy settings in developed economies, including the US, may exacerbate political risk in many of the emerging markets tracked by the Political Risk Map. In particular, the risks of trade, investment and immigration protectionism in the developed world may increase economic and governance risks for major trading partners in the emerging world. Through the course of 2017 we will continue to monitor the situation closely to see if this translates into any increase in exchange transfer risk, supply chain disruption and government interference in the economy.

Two regions – the Middle East and North Africa and Sub-Saharan Africa – still have some of the riskiest countries in the world, reflecting in part the ongoing conflicts and terrorism risk present in parts of these regions including pockets of East, West and North Africa as well as the Levant. Nonetheless, even in these regions, we see significant divergence with some countries such as Ghana and Rwanda experiencing a reduction in risk.

The end of the commodity supercycle is still weighing on country balance sheets and elevating political risk in some commodity-producing countries as government spending cuts and price hikes aggravate political tension. We anticipate that in 2017, some of these tensions will ease and attention will shift back to countries that are oil importers. Moreover, as the oil market gradually rebalances this year and next, political shocks and related outages in producing countries may revive political risk premia.

Such trends increase the importance for businesses to map the specific elements of political risk present in their countries of operations. Roubini Global Economics is proud to be a long-standing partner with Aon in helping businesses assess and manage risks through innovative data and country benchmarking. Our political risk scores, updated quarterly, allow for regular monitoring of risks and opportunities.

**Rachel Ziemia**  
Managing Director, Emerging Markets  
4CAST-RGE

# High-level themes

The expected increase in populist policies in the US and, potentially, other developed markets (DMs) in 2017 has meaningful implications for political risk across emerging (EM) and frontier markets.

- The policies being proposed by the US Administration are expected to impact a range of policy areas that are important for political risk in the EM world, including immigration, tax, exchange rates and international trade and investment. These will challenge the resilience of selected emerging and frontier markets. Although the scope and scale of President Trump's policies are as yet unclear, proposed policies include trade and investment restrictions, greater government spending and lower taxes, resulting in wider fiscal deficits (and greater debt levels) and restrictions on immigration, which may impact remittances.
- Populist policies tend to include trade and investment restrictions, greater government spending and lower taxes, resulting in wider fiscal deficits and restrictions on immigration. Overall, these along with the potential for reactions from other major economies, would likely lead to an increase in political risk in many of the countries that the Risk Map covers.
- US policy could heighten political risk in the EM world through several channels: a reduction in the gains from trade due to increased protectionism; an increase in financing costs for external debt due to an increase in the US Treasury term premium; currency depreciation and/or capital flight from EMs as a result of a stronger US dollar; a decrease in remittance flows from foreign nationals working in the US and/or increasing costs in sending them; and greater restrictions on cross-border investment.
- Focusing specifically on the trade channel, Risk Map countries most exposed to an increase in US (or global) trade protectionism include Chile, Colombia, Hong Kong, Malaysia, Singapore and Taiwan.
- Countries that appear to have greater resilience to any increase in trade protectionism include Brazil, India, Indonesia and Nigeria. These countries each have large domestic economies and are not heavily reliant on exports to the US.

## Global trade protectionism

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### Most exposed

Chile  
Colombia  
Hong Kong  
Malaysia  
Singapore  
Taiwan

### Most resilient

Brazil  
India  
Indonesia  
Nigeria



## Political Risk score changes for 2017

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Political Risk score deteriorations	Political Risk score improvements
Comoros	Argentina
Azerbaijan	Guinea
Djibouti	Madagascar
Kuwait	Paraguay
Zimbabwe	Rwanda
Mozambique	Ghana
Ethiopia	

## **Sub-Theme: Sanctions, Economic Coercion and their impact for Business**

2017 is likely to be an important year for sanctions on Iran and Russia, where we see country risk ratings remaining stable or continuing to improve modestly.

Although the Iran deal is expected to remain intact, the U.S. may continue to tighten and add new non-nuclear sanctions on Iran (such as the recent increase in sanctions following the ballistic missile tests). U.S. authorities may also increase enforcement of the nuclear-related ones, contrary to the easing of the sanctions by Asian and European countries. This divergence could reinforce some of the domestic political and counterparty risks in Iran such as government or military intervention in the economy and sovereign non-payment risks. These trends may also complicate efforts towards ceasefire in Syria and addressing other regional issues.

Meanwhile, on Russia, the direction of travel is tilted towards less strict implementation of sanctions. Neither the U.S. nor the EU is likely to lift sanctions quickly, particularly given the ongoing hearings about U.S.-Russian links. Meanwhile, elections in Europe may challenge the cohesion of the EU's sanctions regime with . Should the U.S. change how it implements the sanctions on Russia, any divergence between U.S. and EU sanctions could create uncertainty for businesses looking to invest in energy and major banks in Russia.

Finally, the new U.S. administration will need to decide whether to continue the opening towards Cuba that President Obama initiated, which has supported tourism and related sectors. Although the U.S. is alone in maintaining sanctions on Cuba, these measures continue to limit access to finance globally. Without quick intervention, the position of entrenched interests in Cuba that are resistant to currency and economic reforms could be strengthened. Domestic reforms in these areas would be required to reduce Cuba's Political Risk Map score of very high.

**Key political transitions and reform trajectory:** This year brings a busy election cycle in Europe and Africa, as well as a presidential election in Iran, which could add uncertainty for investors. As in the US, a populist swing in Europe could reduce integration and cohesion and make the bloc less united in dealing with threats and challenges beyond its borders, including migration and international terror groups. We also see signs of divergence on sanctions.

In Sub-Saharan Africa, there are at least 12 executive or legislative elections taking place this year, along with a critical vote on the leadership of South Africa's ruling African National Congress (ANC) party. The leadership process is likely to keep reforms on hold in South Africa and increase the risk of market corrections in the second half of the year. However, nationalisations in the resource sector, as threatened by some unions, look very unlikely. The lack of reforms suggests economic stagnation and little improvement in sentiment for investment.

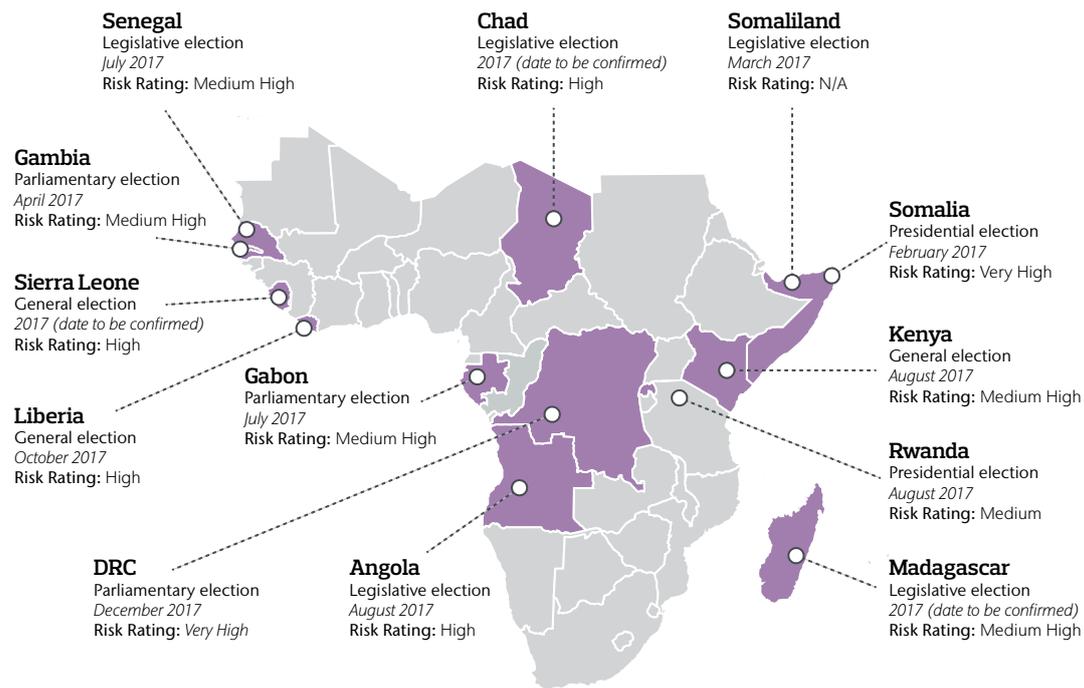
Meanwhile, in Iran, divides between the religious, military and other parts of the governing

establishment are likely to increase ahead of Spring elections. In particular, representatives of the Islamic Revolutionary Guard Corps are likely to seize the opportunity to strengthen their position, perhaps by increasing missile and other military tests, which could undermine the security and operating environment for businesses (European and Asian) looking to increase their role.

In China, the ruling Chinese Communist Party's National People's Congress and partial leadership transition will dominate Chinese policy making in coming quarters, with President Xi Jinping focused on solidifying power at the expense of economic reforms, which might result in losses on past debts. The leadership is likely to maintain the status quo this year, with few policy changes, aside from a shift to less supportive fiscal and monetary policy for fear of further inflating asset bubbles.

**Polling succession in Sub-Saharan Africa:**

A number of elections scheduled this year could stir up political tensions



## Sub-Theme: Political Risk associated with Energy market

There are several important and interlinked trends for political risk and energy markets. These include political risks for producing nations, importing nations and for energy producing companies.

- After first bottoming out and then rallying in 2016, oil prices look supported in 2017 due to a combination of supply cuts (OPEC) and reasonable demand growth. Increases in U.S. supply are likely to provide a ceiling for prices during 2017. In our baseline scenario for the global economy, oil prices will average \$55-60/barrel in 2017/18.
- These trends, in turn, will alleviate some of the economic risks present in oil and gas producing countries that have been present for the past few years. Despite production cuts, modest revenue increases will prevent further government austerity and reverse some of the credit crunches that have weighed on domestic demand in Nigeria, Qatar, Saudi Arabia and the UAE.
- The increase in oil prices will not eliminate the need for some fiscal belt-tightening, though. Some countries, such as Saudi Arabia, are expected to implement new taxes and subsidy reductions. However, the need for further austerity is limited. These trends could halt the deterioration of balance sheets.

### Impact on oil importers

- Conversely, this could also amplify financial vulnerabilities in oil importers such as India, Indonesia, Egypt and Pakistan, which will face greater price pressures and higher import bills.
- Many energy importers have dismantled fuel subsidy regimes, meaning that the general population will bear the higher costs for fuel in this cycle if prices continue to rise. Strong harvests and ongoing disinflation will reduce the risks for India and South Asia this year, but will reinforce the impact of rising food prices in East and Southeast Asia and North Africa. Countries with weaker institutions (medium-high or higher scores for legal and regulatory, supply chain disruption and/or political interference risks for example) would be less able to cope with such shocks.

### Effect on Energy companies

Looking further ahead, the slow rebalancing of the oil market and associated limited investment in the sector could reduce the resilience of global oil markets to supply shocks in the medium term. Not only will commercial inventories begin to draw down this year, the impact of a few years' of limited investment may make it more difficult to meet medium-term needs (post-2020), as production from maturing fields declines. Countries that may be the most vulnerable to production declines include Saudi Arabia, Iran, Russia, Venezuela and even the US. This could leave oil markets more susceptible to the sort of political shocks experienced in the mid-2000s, and the sharp price increases they engendered.



◆ “The slow rebalancing of the oil market and associated limited investment in the sector could reduce the resilience of global oil markets to supply shocks in the medium term”

# Middle East and North Africa:

## Pockets of high Political Violence, easing credit strains

**Key countries of note:** Egypt, Iran, Iraq, Libya, Qatar, Saudi Arabia, Syria, Tunisia, Turkey and Yemen

**Risk rating score changes (improvements):** None

**Risk rating score changes (Deteriorations):** Kuwait



The Middle East and North Africa (MENA) region continues to contain some of the highest-risk countries in the world, with heightened political risk and elevated levels of political violence (for example, in Iraq, Syria and Yemen) spilling over to neighbours, and undermining trade and tourism. The rally in oil prices should reduce some economic risk metrics, particularly sovereign non-payment risk, but weak government spending will continue to weigh on growth and consumption and increase payment delays.

Islamic State and its affiliated groups remain a highly unpredictable source of local, regional and indeed global threat. Territorial losses in Iraq and Syria following operations against the group's strongholds in Mosul and Raqqa should lead to a dispersion of the jihadist network, likely triggering further attacks as its fighters return home or seek new targets; the politically fragile countries in North Africa (especially Tunisia, which was a major supplier of Islamic State fighters, and Libya) look particularly at risk. Meanwhile, resurgent sectarian tensions in Iraq could further weigh on energy supply chains in the country and its neighbourhood.

The outlook has also worsened for Turkey which, as an OECD country, is not rated in the Political Risk Map but will contribute to uncertainty in the wider region. As described in more detail in the Aon Terrorism Map, repeated terrorist attacks (by the PKK, ISIS and other groups), have generally heightened security risks (exacerbated by Turkey's engagement in Iraq and Syria). Expected political uncertainty in the run-up to April's national referendum on controversial constitutional changes will continue to weigh on the operating environment. The arbitrary nature of law enforcement is increasing regulatory risk and the cost of doing business. The terrorist attacks, moreover, have sharply reduced tourism flows and revenues, hitting overall growth.

In the region's wealthier countries, such as the Gulf Cooperation Council (GCC) states, economic pressure remains. Credit conditions are likely remain tight this year. Saudi Arabia is expected to face some challenges in implementing much-needed economic reforms, although it has not yet experienced significant changes in its political risk ratings. In general, risks stemming from the persistent conflicts in the region will maintain the commitment to military and security spending for the GCC, despite the still subdued level of government revenues. In turn this will increase the urgency of increasing new sources of financing. The increase in oil prices will offset some of the economic drag from lower oil export volumes, but not eliminate them, while the increasing debt levels suggests investors should carefully assess counterparty risk.



Iran's elections in May 2017 will be a source of uncertainty in the region. President Hassan Rouhani is still likely to win a second term, but his mandate for reform is likely to be more limited than in the current term. These trends will perpetuate uncertainty for businesses looking to sign deals in Iran, as sanctions exacerbate existing issues around counterparty risk, government and military intervention in the economy and the weakness of the rule of law.

Energy importers generally have high, albeit stable, country risk ratings, but will suffer from a general tightening of fiscal conditions. The IMF lifeline and the pound's devaluation have reduced Egypt's exchange transfer and sovereign non-payment risk, and the new bond issuance should increase the chance of the government enacting its ambitious reform program. Nonetheless, the continued shortage of foreign currency will make it difficult for businesses to operate, while the tenuous security climate suggests that tourism, a key source of foreign currency and overall growth, will remain weak.



"The kingdom of Saudi Arabia will be an investment power through its sovereign fund, through the other state-owned funds, and through the most important profession, i.e. the Saudi businessmen. A major part of the trade between Europe and Asia will cross through [Saudi Arabia]. We have great opportunities to create logistic services in aviation, ports, industrial complexes..."

**Muhammad bin Salman, Deputy Crown Prince of Saudi Arabia**



# Sub-Saharan Africa:

## Crucial IMF support, complex terrorist threat



**Key countries of note:** Angola, Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Rwanda, South Africa and Zimbabwe

**Risk rating score changes (improvements):** Guinea, Ghana, Madagascar and Rwanda

**Risk rating score changes (Deteriorations):** Comoros Islands, Djibouti, Ethiopia, Mozambique and Zimbabwe

Risk trends remain mixed across the Sub-Saharan Africa (SSA) region. As in MENA, stronger commodity prices should alleviate some pressure on regional producers, reversing the slowdown in activity seen in 2015-16, which pushed many regional economies into the arms of the IMF. Levels of country risk will generally remain high, reinforced by the complex threats posed by local Islamic extremist groups, such as Islamic State in West Africa, Boko Haram, AQIM and al-Shabaab. These trends will keep military spending needs high, weigh on tourism and heighten event risks. The “surprise” debt spirals for many SSA countries suggest that foreign investors may need to look more closely before lending to frontier markets in the region.

Among the commodity producers, Angola has seen a reduction in exchange transfer risk following its devaluation process. The looming departure of long-time leader Jose Eduardo dos Santos could, however, lead to political fragmentation, legal/regulatory changes and undermine the operating environment. In Nigeria, the currency may have to be devalued further as existing capital restrictions and thin liquidity continue to weigh on investor interest. The country will continue to prioritise military spending, and is likely to struggle to deploy infrastructure spending.

Ghana has seen an overall improvement, benefitting from the stabilisation of the cedi, and the improved outlook for reserves and cost of credit, anchored by the IMF programme. However, the level of debt suggests higher sovereign non-payment risk and struggles to access financing.

In Southern Africa, the leadership succession race in South Africa will be the biggest policy distraction in 2017. It is unlikely that any of the potential candidates will be able or willing to fully break from the current system of patronage and corruption weighing on growth and investment. A possible change in Zimbabwe’s political scene should not be overlooked. The country already displays one of the highest levels of risk and the fierce battle for power will probably exert further pressure on businesses, including the banking sector, amid the lack of FX inflows.

East African countries, which have recently received a lot of attention from financial investors and have been outperforming economically, have seen a modest increase in risk levels. This is particularly true for Ethiopia and Rwanda, where increased political interference due to the more authoritarian nature of their governments may weigh on their business environments. The outlook for doing business will likely continue improving in Kenya, which is already a regional hub, although the risk of election-related violence ahead of the election in August looms large. Mozambique, meanwhile, is set to undergo a series of debt restructurings as private borrowers write down their liabilities. The sluggish global outlooks for coal and natural gas suggest investment will be slow to pick up.



"Twenty two years into our freedom and democracy, the majority of black people are still economically disempowered. They are dissatisfied with the economic gains from liberation. The gap between the annual average household incomes of African-headed households and their white counterparts remains shockingly huge. White households earn at least five times more than black households"

**South African President Jacob Zuma's State of the Nation address**



# Central and Eastern Europe / Commonwealth of Independent States:



## Rising oil prices set to reduce economic pressure

**Key countries of note:** Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russia and Ukraine

**Risk rating score changes (improvements):** None

**Risk rating score changes (Deteriorations):** Azerbaijan

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There are few changes in the region's country risk ratings this year. The weak, albeit somewhat improving, economic outlook implies a continued high level of political risk across the Commonwealth of Independent States (CIS) and the Caucasus, particularly as the conflict in Ukraine appears to be flaring up again. However, as with other commodity producers, stronger oil prices should lessen the economic strain seen in 2015-16.

Russia's exit from recession and rising oil prices should shore up the income of CIS countries, while inflation slows, reducing financing costs and political risk in the region. IMF support has gone a long way to stabilizing exchange transfer and sovereign non-payment risks in Armenia, Georgia and Kyrgyzstan, with risk levels expected to improve as remittances recover. The proposed devolution of power in Kazakhstan suggests some uncertainty around the regulatory environment but, along with other reforms, it will likely improve the country's institutional strength and investment climate.

Ukraine's economy is again growing, but policy improvements have stalled (for example, agricultural land sales regulations are stuck in the legislature). This is sustaining the very high sovereign non-payment and exchange transfer risks. Ukraine's debt does not look sustainable, suggesting that another restructuring might be required in the medium term. Meanwhile, regulatory uncertainties also continue, potentially increasing operating costs for businesses.

Belarus's push to improve ties with the West will exacerbate tensions between it and Russia, particularly given the unresolved oil and gas payment dispute. However, the shift could drive a reform program that would lower the risk of doing business, helping to reverse its economic decline.



"We were too early in our decision, made with absolute sympathy towards President Trump's constructive rhetoric, that he would somehow be pro-Russian... but he turned out to be pro-American"

**Leonid Slutsky, head of the parliament's foreign affairs committee**



# Latin America:

## Reforms on course



*Key counties of note:* Argentina, Brazil, Colombia and Venezuela

*Risk rating score changes (improvements):* Argentina and Paraguay

*Risk rating score changes (Deteriorations):* None

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Latin America is still recovering from the end of the commodity boom. Last year saw a great deal of adjustment, with restrictive monetary and fiscal policies affecting growth in the region. Although this adjustment will continue in 2017, past reforms will start to yield concrete results and should lead to positive growth in the region for the first time since 2014. External imbalances have narrowed significantly, especially where they are most needed (such as in Brazil and Colombia), alleviating financing concerns. Although the adjustment is far from over on the fiscal side, most countries are expected to remain committed to consolidation. These trends are reducing sovereign non-payment and exchange transfer risks.

Argentina and Brazil, which combined account for around half of the region's output, will lead the economic recovery and improvement in regulatory quality. Both are exiting recessions and implementing structural reforms and microeconomic improvements that will likely make growth more sustainable. Although growth rates will remain low, institutions are improving, increasing predictability for investors.

Elsewhere in the region, most economies are experiencing a modest acceleration, helped by the stabilisation of commodity prices and easier monetary policy. However, sizable external shocks could derail the recovery, including trade and monetary policy changes in the U.S. and slowing Chinese growth.

In Brazil, lower rates and inflation and further reforms will help bring about a recovery this year. Legislative approval of the all-important pension reform is key: not only will it determine economic performance in the short term (as a driver of sentiment), but it will also be crucial for stabilising Brazil's debt and fiscal position over the medium term. Brazil is less exposed than its regional peers to external shocks. Its high real rates, low current account deficit, high level of reserves and relatively low dependence on trade with the US make it resilient to shifts in global trade and financial conditions. Domestic political risks, though, are sizable: corruption investigations could undermine the reform programme and even bring down the government.

Argentina is also leaving behind a difficult 2016 of painful adjustments. A cyclical recovery should take hold this year as lower inflation, improvements to the labour market and investor confidence support domestic demand. Bold structural reforms are expected to support higher potential growth in the longer run. Key for the reform agenda will be October's legislative elections which are likely

to provide a greater proportion of seats in congress to the governing party. However, Argentina's economic risks are non-negligible. The country relies heavily on external debt to finance its fiscal deficit, implying it is vulnerable to sharp changes in global financial conditions. On the domestic front, a setback for the government in the October elections will not only hurt prospects for further reforms, but also investor sentiment.

Colombia's economy has decelerated from high growth rates over the past few years. This has been necessary to bring its spending more into line with its productive capacity, following a negative terms-of-trade shock. This has helped to reduce the high current account deficit, with imports contracting and exports slowly recovering. A modest acceleration is likely in 2017, driven by public investment in infrastructure, some support of private investment in mining and industry, and a stabilization of consumption. The recent approval of a crucial structural fiscal reform has helped Colombia get its fiscal position and debt under control, and may well be enough to prevent credit downgrades from the main rating agencies. Meanwhile, the government is expected to reach a peace agreement with the ELN guerrilla group this year, following its deal with the FARC, which would reinforce the improvement in Colombia's political risk (via a lower risk of political violence).

In Venezuela, another painful year lies ahead characterised by a further steep GDP contraction, runaway inflation and continuation of the political status quo, but no debt default—although the country's sovereign debt does look unsustainable over the longer term. Social tensions will continue to rise as the shortage of basic goods continues and the Vatican-mediated dialogue between government and opposition is unlikely to produce any meaningful changes.

The major political risks in the Caribbean and Central America surround the unsustainable debt burdens in many of the region's economies including Barbados, Jamaica and Belize – all of whom may face new debt restructuring in the coming years. As for Central America, tighter US immigration policies may result in the return of illegal migrants and reduction in remittances, which may weaken external balances. The sub-region is predominantly an energy importing one, leaving it exposed to the increase in prices, particularly as Venezuela is struggling to meet its export agreements.

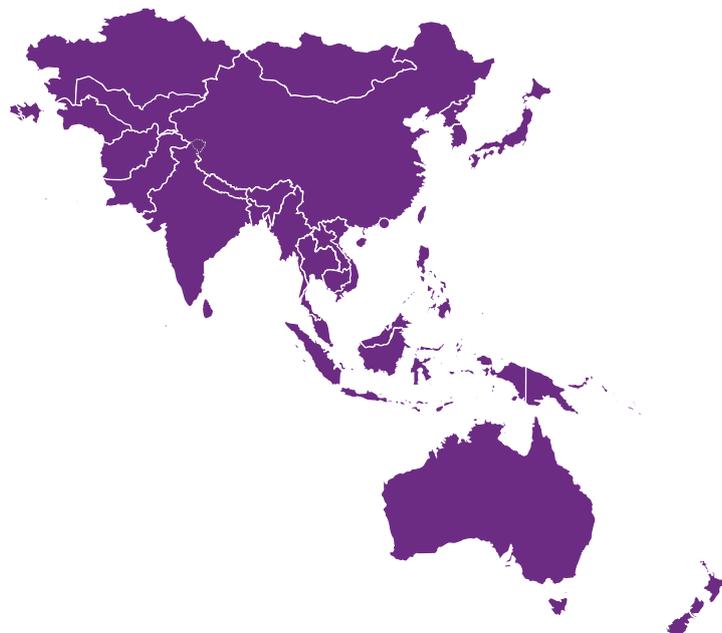


"On taking over the presidency, we had a mission, to inoculate Brazil with a vaccine to make it immune to fiscal populism...our legislators have an unequivocal commitment with the priorities imposed by the situations of Brazil"

**Michel Temer, President of Brazil**

# Asia Pacific:

## Watching for trade risks from the US and China



**Key countries of note:** China, India, Indonesia, Malaysia and the Philippines

**Risk rating score changes (improvements):** None

**Risk rating score changes (Deteriorations):** None

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Economic and political conditions in Asia remain relatively robust, benefiting from the improvement in DMs in 2016 and the reduction in financing costs. In general, Asian economies' scores have improved, particularly for sovereign non-payment and exchange transfer risks, and steps have been taken to improve regulatory quality and the rule of law.

However, many Asia/Pacific countries are heavily reliant on trade, making them vulnerable to global trade and investment disputes and any potential negative impact on (already sluggish) global trade. The weak level of global trade reflects a shift from goods to services, a slower demand growth environment and limited domestic demand.

In China, policy measures are set to become less supportive in 2017 as the government focuses on restraining credit growth and asset bubbles, and maintaining economic stability. With the consolidation of power, the authorities will be reluctant to impose losses on past debts and undermine its popular support. This suggests that macro policy will remain secondary to political and security policy, increasing the chance of military "accidents" in contested waters. The Chinese authorities are likely to keep in place capital restrictions, if not outright capital controls, which could make it more difficult to transfer funds outside of the country, including for repatriating profits. These suggest exchange transfer risk could remain elevated.

The Indian government's withdrawal of large-denomination cash notes late last year has increased the country's economic risks. However, although the uncertainty and problematic implementation of the policy has weighed on growth and caused problems for local businesses, political risk (the risk of government interference and political violence) has remained stable. The popularity of the government seems, in fact, to have increased.

Meanwhile, pockets of nationalism and government intervention are generating weakness in Southeast Asia, particularly the Philippines (where President Rodrigo Duterte's crime-fighting has increased the risk of political violence), Indonesia and Malaysia, where there remains policy uncertainty around foreign investment.

In the Philippines, economic reforms and low interest rates are partly offsetting the political uncertainty. In Indonesia, the government is making efforts to increase investment via micro reforms and trying to carve out space for investment in infrastructure. However, the authorities' focus on maintaining Indonesia's credit rating will cap the degree of spending. Meanwhile, efforts to reduce the nickel and bauxite ban are merely a step in the right direction. Foreign investors remain concerned about taxation, rule of law issues and policy unpredictability.



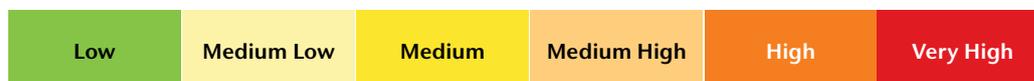
“[The world must] remain committed to promoting free trade and investment through opening up... pursuing protectionism is like locking oneself in a dark room. While wind and rain maybe kept outside, so are light and air”

**Xi Jinping, President of China**



# Methodology: Political Risk

Risk ratings are awarded on a six-point scale, as follows:



- The Aon Political Risk Map measures political risk in 163 countries and territories.
- Risk ratings are standardised across each country, on a six-point scale ranging from low to very high, with all risks updated once per quarter.
- Country ratings reflect a combination of analysis by Aon Risk Solutions and Roubini Global Economics –a global macroeconomic analysis and advisory firm
- European Union and Organisation for Economic Cooperation and Development member countries are not rated in the map.
- Roubini Global Economics (RGE) is part of 4CAST-RGE Ltd, formed from RGE’s 2016 merger with 4CAST, the world’s leading supplier of online financial analytics.
- Its research combines expert insight with systematic analysis to translate economic, market and policy signals into actionable intelligence for a wide range of financial, corporate and policy professionals.
- This holistic approach uncovers opportunities and risks before they come to the attention of markets, helping clients arrive at better decisions in a timelier manner.
- RGE’s quantitative approach allows RGE and its partners to track changes in countries systematically, providing for more meaningful cross-country comparisons, and most importantly allows each political risk to be decomposed to the various elements that drive that risk.

## Overall country rating

The overall rating captures an aggregate view of risk within the country. It is calculated as a simple average of six core risk measures (“risk icons”):

- Political Violence
- Exchange Transfer
- Sovereign Non-Payment
- Political Interference
- Supply Chain Disruption
- Legal & Regulatory

### **Political Violence**

The risk of strikes, riots, civil commotion, sabotage, terrorism, malicious damage, war, civil war, rebellion, revolution, insurrection, a hostile act by a belligerent power, mutiny or a coup d'état.

### **Exchange Transfer**

The risk of being unable to make hard currency payments as a result of the imposition of local currency controls.

### **Sovereign Non-Payment**

The risk of failure of a foreign government or government entity to honor its obligations in connection with loans or other financial commitments.

### **Political Interference**

The risk of host government intervention in the economy or other policy areas that negatively affect overseas business interests; e.g., nationalisation and expropriation.

### **Supply Chain Disruption**

The risk of disruption to the flow of goods and/or services into or out of a country as a result of political, social, economic or environmental instability.

### **Legal and Regulatory Risk**

The risk of financial or reputational loss as a result of difficulties in complying with a host country's laws, regulations or codes.



# Terrorism & Political Violence



# Leaders' commentary

Global events during 2016 have reinforced the impression that the shifting dynamics around terrorism and political violence are presenting an increasing challenge for our clients. Those with both domestic and international footprints have the potential to experience events that could impact their people, operations and assets.

The interaction between risk transfer and mitigation - and how to develop the most responsive solutions - is best informed when we are more articulate about the threat. If we can understand what might reasonably reach out and impact our people and organisation, then we are better able to apply best fit, consistent approaches to manage risk.

Building on our nine-year partnership with Risk Advisory Group, Aon is able to provide our clients with access to detailed insights that are helping to inform both their risk transfer strategies and efforts to limit their exposures to these challenging risks.

Today, Islamic State continues to drive terrorism concerns in a number of countries (and is expected to increase its international operations with the continued degradation of its Syrian/Iraqi power base), but companies also face exposure to right and left-wing terrorism – risks that are on the rise in a number of countries. Poor governance and increasingly confrontational politics in other regions has meanwhile driven an increase in political violence exposures.

The evolution in active groups, potential targets and types of attack, present a risk and impact spectrum that is increasingly complex – and it is not anticipated that 2017 will see this situation improving. Developments have underlined the importance of considering crisis management perils that go beyond traditional coverage for property damage, particularly for those sectors - such as oil and gas, transport and retail – that have been most affected.

Aon's Crisis Management team's work in this area aims to reduce the potential impact of terrorism and political violence, helping to insulate our clients' people, assets and operations wherever they may be situated.

We hope you find this year's map and analysis of interest and value.

**Scott Bolton**

Director Business Development and Network Relations, Terrorism  
Aon Risk Solutions



The Terrorism & Political Violence Map 2017 marks nine years of collaboration between Aon and The Risk Advisory Group. The map findings represent detailed empirical and intelligence-based assessments on terrorism threats and political violence risks.

Global politics in 2017 is likely to be more violent and crisis prone than 2016; the second consecutive year of deterioration. There is no simple explanation for this, nor are the negative findings universal. Different countries face different challenges and some markets are improving, including in Africa despite chronic conflicts and a growing risk of coups in some countries.

However, there are wider systemic trends to watch in 2017 that we think will shape political violence and terms risks. Perhaps the most pressing is the battlefield defeat of Islamic State. When it declared a Caliphate in 2014, thousands of people travelled to join the group in Iraq and Syria. At some point in 2017, hundreds if not thousands of IS fighters are liable to scatter internationally. This carries serious implications for dozens of countries already facing threats from the group and its supporters.

Another key trend is the surge in populist nationalism, particularly in Western countries. This threatens to unravel geopolitical norms that have defined the post-Second World War liberal order. The consensus that has helped keep the West a bastion of liberal democracy, rule of law and peaceful relations, is at risk.

A weakening of the EU, NATO and UN will do little to improve deterrence and stability. Nor will it help responsible powers resolve the often distant conflicts that destabilise regions, and cause the migrant crises and international terrorism that fuels reactionary populism and stimulates far right violence.

How a disunited West confronts and deals with challenges from authoritarian powers will also shape violent risks at the geopolitical level. As Russia, China and others continue to push their interests and challenge Western dominance, they are often at odds with multilateral institutions and agreements. Unilateralism and bilateralism are likely to be more common features in international relations, making for an international system that is more prone to security dilemmas and crises.

Domestic and international risks are interdependent and complex. Efforts by nationalist and populist governments to raise the drawbridges are unlikely to represent a solution. Businesses should not be complacent about their risk exposures, and should take proactive measure to assess, manage and transfer risks.

For the past decade, Risk Advisory and Aon have worked together to set industry standards for assessing, managing and transferring and violent risks. Despite the dangers, the world is still open for business to those with the right partners.

**Henry Wilkinson**  
Head of Intelligence & Analysis  
Risk Advisory



# High-level themes

- There was a net growth in political violence risks worldwide for the second year in a row. More country risk ratings were increased (19) in 2017 than decreased (10)
- The total global value of all risk ratings (Global Political Violence score) is the highest it has been since 2013 (at 405/630)
- The number of terrorist attacks increased worldwide by 14% in 2016
- Western countries saw the greatest percentage increase in the frequency of terrorist violence of all regions in 2016, with a 174% rise in incidents
- Attacks with vehicles used as improvised weapons became the single most lethal form of attack in 2017 in Western countries for the first time ever (52% of all fatalities and 54% of all casualties)
- The threat posed by Islamic State is spreading. Ten more countries were attacked by IS or IS sympathisers in 2016 than in 2015 (29 up from 19)
- Despite the large number of countries exposed to terrorism risk, 90% of all terrorist attacks we recorded in 2016 occurred in just 20 countries. Western countries are the least affected by terrorist attacks worldwide
- Turkey has been moved to severe risk for the first time, due to terrorism, unrest, armed conflict and coup risks
- The risk level for the US increased to medium due to terrorism and civil unrest
- The risk level for the UK increased due to terrorism; now in top 20 most terrorism-afflicted countries with the threat from Northern Ireland related terrorism at its highest in six years
- The risk level for the Vatican increased due to repeated Islamic State threats
- Only 50% of countries now fall into the negligible or low risk categories

# Analysis

## The global view– a more violent and uncertain world

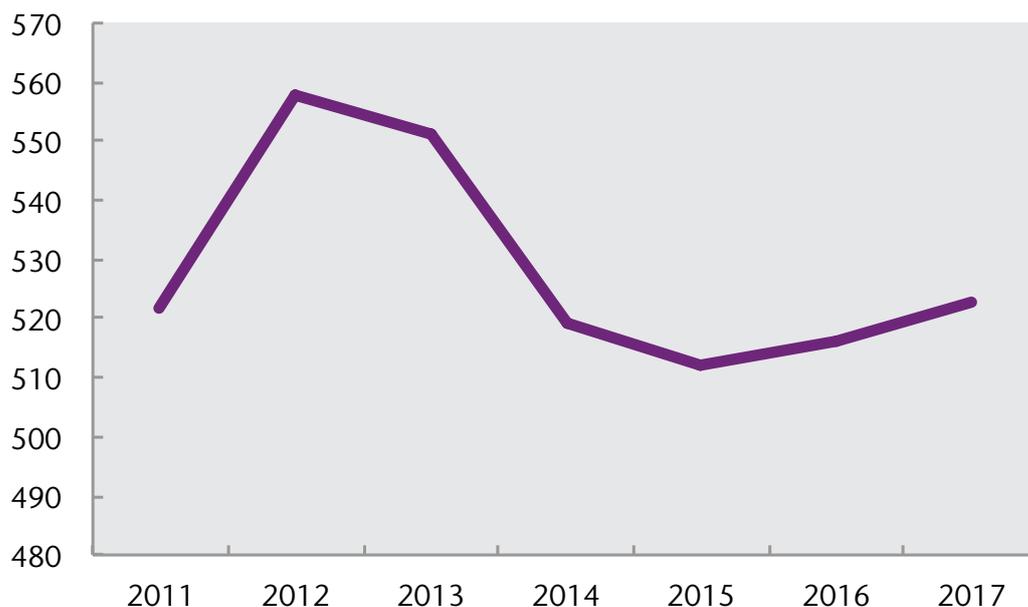
The world is becoming more dangerous. The Aon Terrorism & Political Violence Map 2017 finds a net growth in political violence risks worldwide. For the second successive year, more country risk ratings were increased (19) in 2017 than decreased (10). There are now 126 countries assessed as being exposed to civil unrest risk, 87 countries to terrorism and sabotage, and 70 to insurrection, war or coups in 2017.

The sustained rise in political violence risk worldwide in 2017 contrasts with our findings in 2014, when a record 54 countries received improved risk ratings against just four downgrades. Since 2015, we have assessed twice as many countries as worsening than improving. We also recorded a 14% increase in the number of terrorist attacks worldwide.

There is no single factor that explains this resurgent level of violent risks worldwide, although it does point to a growing degree of volatility and insecurity in the international system. Jihadist terrorism accounts for many of the changes to country scores this year. However, there were net increases across all three types of insurable political violence perils in 2017, with the risks of coups and even interstate war other notable themes this year.

To provide a new indicator for global trends, this year we have introduced a Global Political Violence (GPV) score, which represents the sum of all country risk scores in a given year out of a maximum of 1,050 points. The GPV score in 2017 is 524 points, the highest it has been since 2013. The highest GPV score in the past six years (when the map evolved to include political violence as well as terrorism and sabotage) was in 2012, when it surged by 36 points following the tumult of the Arab Spring to 558 points (see chart).

Global political violence score vs year



## Epicentres of instability

There are 17 countries in the severe risk category (down one from last year). Chad and Niger were moved out of the highest risk band for the first time, owing to measurably reduced levels of terrorism and violence. However, both remain acutely vulnerable to regional conflicts and domestic instability. This year, Turkey was downgraded and is now classified as being at severe risk from political violence for the first time.

The inclusion of Turkey in the severe risk category provides a significant measure of the scale and breadth of potential violence risks now affecting the 18th largest economy in the world. It has moved from medium risk in 2011 to severe in 2017. Turkey experienced at least 249 terrorist attacks in 2016, tied with Pakistan as the fourth highest in our dataset. Our data shows that there were at least nine mass-casualty attacks conducted by Islamic State and Kurdish separatists. Just 13% of all the terrorist attacks in the country killed at least 212 people and injured over 700 more, and these occurred in its two leading cities.

Turkey's increased risk rating is not just due to terrorism. It is militarily engaged in a neighboring country, has an active conflict zone within its borders, and experienced an attempted military coup. President Erdogan's post-coup purges of state and society have accelerated the country's slide towards a more authoritarian form of government, but also risk hollowing out state institutions and perpetuating the risk of further crises.

Countries in the severe risk bracket are significant sources of wider instability. There is a strong correlation between proximity to a conflict zone and increased terrorism and political violence risk. Locked in cycles of armed conflict, terrorist violence, civil disquiet and political instability, an arc of severe risk countries now extends from the Mediterranean through the heart of Africa to the southern Atlantic (Libya, Sudan, South Sudan, Central African Republic and Democratic Republic of Congo).



## Political Risk score changes for 2017

2017 Terrorism & Political Violence score deteriorations	2017 Terrorism & Political Violence score improvements
Albania	Bahrain
Austria	Bosnia & Herzegovina
Colombia	Chad
Côte d'Ivoire	Comoros
The Gambia	Gabon
Germany	Ghana
Kazakhstan	Nepal
Kenya	Niger
Malaysia	Slovakia
Panama	Turkmenistan
Philippines	
Singapore	
South Korea	
Switzerland	
Turkey	
United Kingdom	
United States	
Uruguay	
Vatican	

The Middle East also remains an epicentre of instability and political violence for the region and the rest of the world. There is now a contiguous block of severe risk countries from the Black Sea to the Gulf, encompassing Iraq, Syria, Lebanon and Turkey. Yemen and Palestine are also severe risk countries in the wider Middle East region.

Severe risk countries are either in states of conflict or are failing states. The number of severe risk countries has remained relatively constant (an average of between 17 and 18 countries each year) over the past six years, highlighting the complexity and intractability of contemporary civil conflicts. But it also highlights the failure of the international community to find ways to restore peace, security and stability to vulnerable countries.

The fallout from this failure to resolve conflicts is measurable in terms of terrorism and political violence risks elsewhere, including Western countries. Contemporary crises often metastasise threats, as conflict zones become incubators for international terrorism and fuel other sources of instability including mass migration and transnational crime. These in turn are fuelling a trend of right-wing populism and authoritarianism that contribute to increased international tensions, civil disquiet, extremism and make the prospect of international consensus in resolving chronic conflicts in unstable regions more remote.

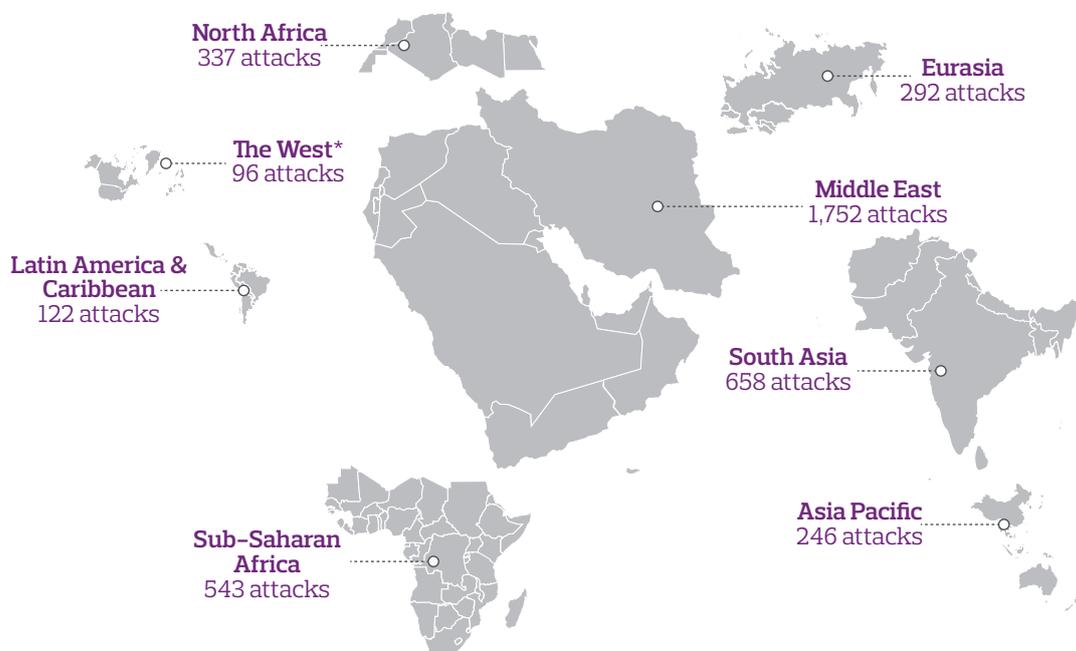
## Global terrorism

The continued existence of Islamic State (IS) in Syria and Iraq has directly contributed to a sustained and worsening terrorist threat overseas. Despite coming under intensified military pressure in these countries and sustaining significant battlefield losses, particularly in Iraq, the group continues to pose a serious regional and international terrorist threat.

The group has also proven highly effective at inciting violence in regions far from its strongholds through violent and inflammatory propaganda. And in 2016, it became more apparent that IS has been playing a direct role in remotely advising and directing attackers, even ostensible lone actors.

We recorded a 14% increase in the number of terrorist attacks worldwide in 2016, compared with 2015. The rise in terrorism risk has also been reflected in its spread. There are now 87 countries with a terrorism and sabotage peril, up from 78 last year. This equates to 43% of all countries having a terrorism peril. Western countries saw the greatest percentage increase in terrorist violence of all regions in 2016, with a 174% rise in incidents. Sub-Saharan Africa saw the second biggest increase of 64%, and the Middle East third with 53%.

## Total terrorist attacks by region



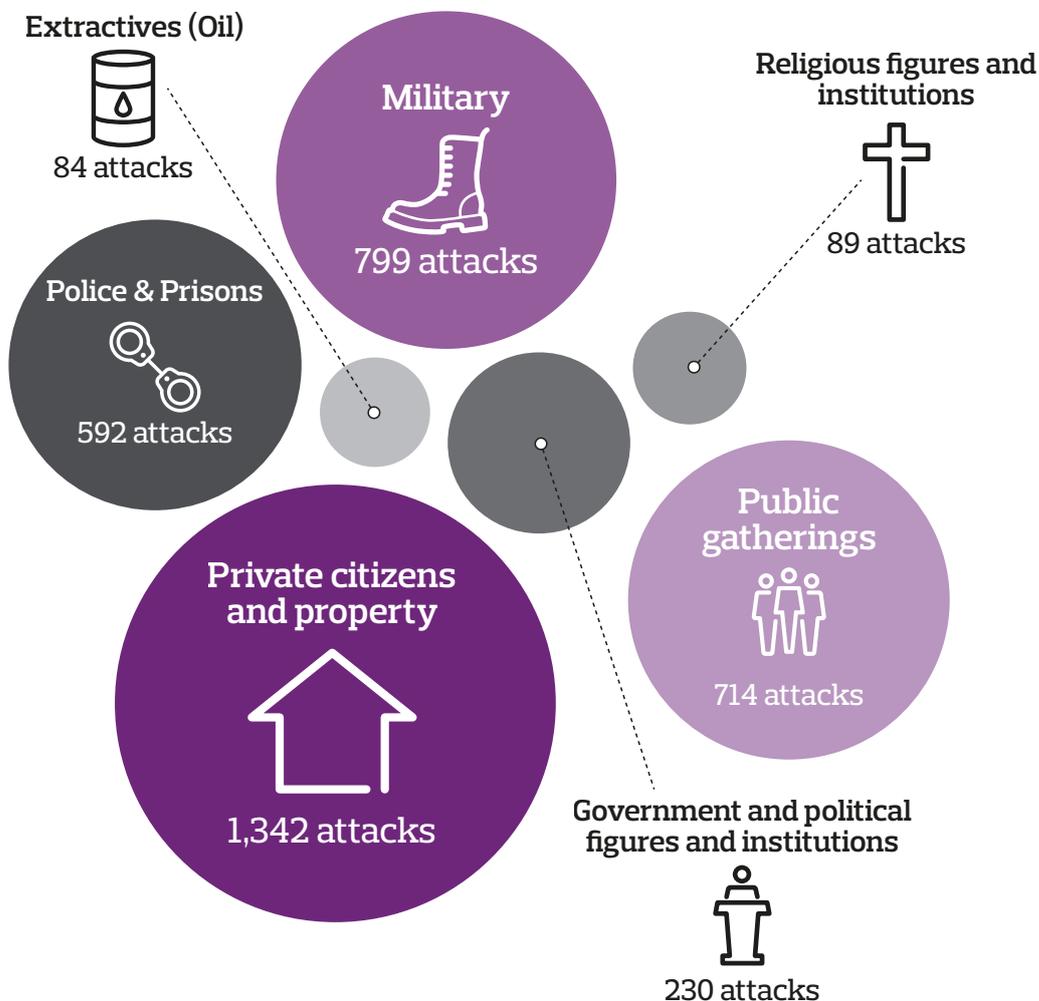
The increase and spread in attacks can largely be attributed to the influence of IS in 2016, ten more countries were subject to attacks claimed by, or attributed to, IS or IS sympathisers than in 2015 (29 up from 19). However, other ideological motives account for other attacks, including other strains of radical Islamism (e.g. Mali, Somalia), anarchism (e.g. Greece), Marxism (e.g. Colombia, India), nationalist/separatism (e.g. Northern Ireland) and far-right and single-issue extremism (e.g. Europe, the United States).

The growing threat from IS came despite the group losing territory and personnel due to military campaigns against it in Iraq and Syria in 2016. Such losses mean that by the end of 2016, IS probably passed its peak capability as an ostensible state with military and economic resources in Iraq and Syria. However, its intent and capability to mount or incite terrorist attacks internationally, as well as within areas it still controls, remain very high.

Despite the large number of countries exposed to terrorism risk, 90% of all terrorist attacks we recorded occurred in just 20 countries. Conflict zones unsurprisingly dominate the top 20, although it also features leading regional economies including the UK, India, Turkey, Egypt, Nigeria, Colombia, Kenya, Saudi Arabia and Russia. Iraq remains the most terrorism afflicted country in the world. Syria, Yemen and Afghanistan are lower on the list of our dataset due to the lack of reliable reporting on attacks and because most reported activity by terrorist groups constitute acts of warfare (see Terrorism data).

As noted above, Western countries experienced by far the greatest relative increase in terrorist violence of all regions, with a 174% rise in incidents and a 25% rise in casualties. At least 189 people died in these attacks, of which 99 (52% of all fatalities and 54% of all casualties) died in vehicular attacks, where extremists have used vehicles as improvised weapons. This relatively new low-capability tactic became the single most lethal form of attack in 2016 in Western countries for the first time ever.

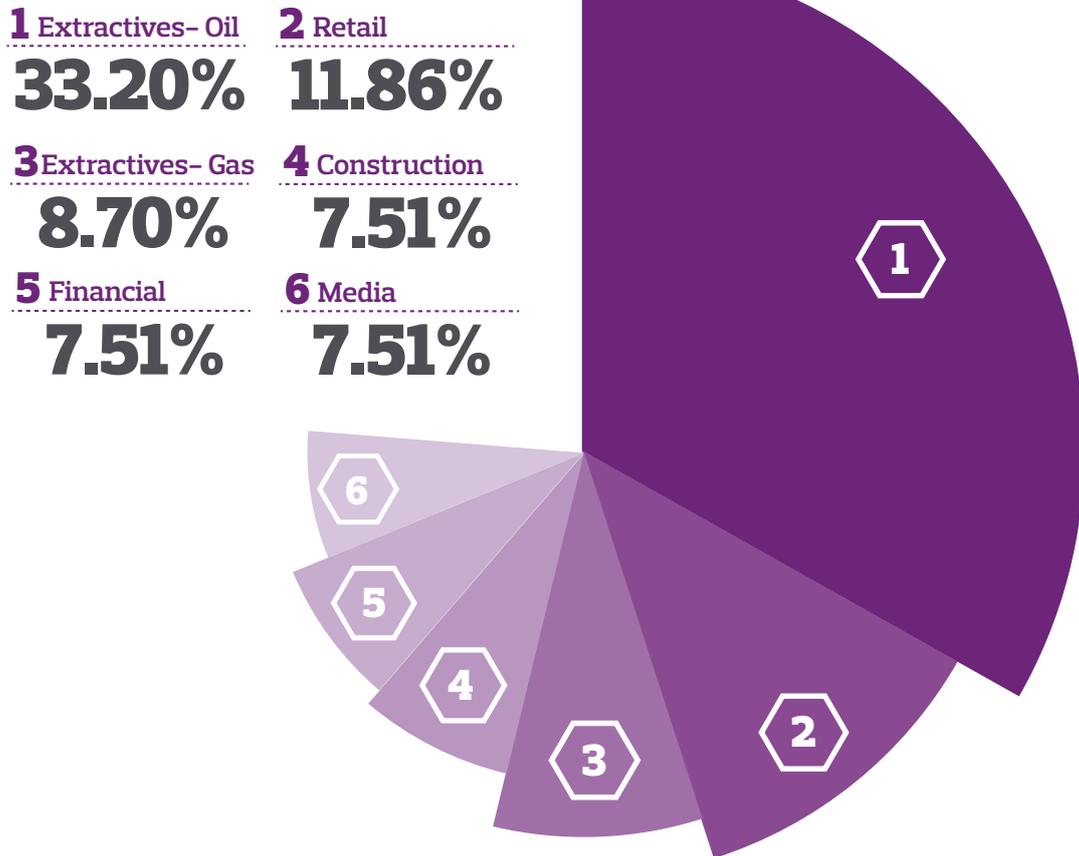
## Most frequent targets



The adoption of improvised vehicular attacks highlights the remarkable degree to which IS uses innovative techniques as a capability and force multiplier. Throughout 2016, it continued to produce significant quantities of propaganda and has effectively exploited online platforms such as Telegram and Twitter to disseminate such material, despite more robust efforts by social media and messaging platforms to clamp down on IS propaganda activity. The group has also innovated on the battlefield, using drones to mount attacks, which is a trend that we see as having significant potential to emerge in other regions outside the Middle East.

The evolving threat in the West also continues to be defined by the intent of terrorists, particularly IS, to inflict maximum casualties by whatever means are available, increasingly resorting to vehicles, firearms or edged weapons. The targets of such attacks have tended to be unsecured crowded locations that can yield mass casualties and high levels of disruption, such as busy streets, markets, airports, transport hubs and entertainment venues. The impact of the threat in terms of business losses continues to shift away from property damage to business interruption and loss of life.

## Terrorism impact by business sector



Terrorist and sabotage attacks on commercial interests are in most cases intended to cause economic harm to the state, result in financial gain for the terrorists (such as through extortion or theft of assets), or to terrorise communities by disrupting normal patterns of life. The oil and gas sector remains by far the most targeted sector (see sector profile). Incidents are preponderant in conflict zones where the hydrocarbons sector is an economic mainstay, particularly Colombia, Nigeria and Iraq.

## Geopolitics: the political violence and populism loop

Political violence risks are diverse, and stem increasingly from wider systemic and geopolitical issues. As noted, conflicts and high levels of political violence and terrorism in severe and high risk countries directly and measurably contribute to incidents of international terrorism, and other forms of political violence. They also have triggered humanitarian crises that in turn have spurred refugee flows and mass migration to perceived safe havens. Both trends have had an impact on the ratings this year.

The ongoing refugee crisis and terrorism threats have become a source of political tension and violence in Europe, and political currency in Europe and the United States for right-wing populists. The surge in right-wing populists campaigning on anti-immigration and terrorism tickets in Western countries appears to be an outcome of this wider trend of instability and insecurity, and may also be a causal factor of further political violence risk. Data indicates a marked increase in hate crimes directed against minorities as a result of the lack of political consensus within the US at this time, as well as the Brexit Referendum in the UK. Such crimes often fall outside our terrorism dataset, although they point to a compelling correlation of right-wing violence increasing when far-right political narratives find a mainstream platform.

The election of Donald Trump has not substantially impacted the ratings this year for other countries. However, demonstrations against his presidency against a wider backdrop of violent protests erupting over racial and political tensions, the jihadist threat, and the increased potential for far-right terrorism has led us to increase the rating for the US to medium. We recorded almost three times as many casualties from terrorist incidents in the US in 2016 than 2015 and over double the number of fatalities. All of these were tied to radical Islamist ideology.

The rise in right-wing populism and the policies, as they are so far known, of the US administration gives us little cause to predict this year that countries in conflict are liable to receive external help to secure peace. Under President Trump the US is very likely to continue to retrench. Yet it will remain the centre of geopolitical gravity: American power influences the behaviour of all states in the international system. But uncertainties around how the new president will wield this power - at least in military and diplomatic terms - compounds the potential for crises and challenges to US interests and dominance from adversaries.



Resurgent nationalism and marked increases in defence spending by the US, Russia and China, as well as geopolitical tensions in Eastern Europe, the Middle East, South, East and Southeast Asia have all contributed to sustained or increased risks of armed conflict. It is notable that many of the most pressing geopolitical issues have a nuclear dimension, including increased spend on nuclear weapons related capabilities. These include North Korea (missile and nuclear capability development and testing), Iran (risks to agreements over its nuclear programme), Russia (strategic missile defence and potential nuclear deployments to Kaliningrad), and India and Pakistan (ongoing tensions and military incidents between nuclear capable neighbours).

Since 2016, states – as opposed to non-state or sub-state actors – are playing an increasing role in pushing up political violence risks. A key trend in 2016, was a rise in more nationalist styles of politics and a growing rejection of liberalism, and its elites and institutions. This shift was most visible in Western countries, with the election of Donald Trump in the United States and the UK's Brexit referendum.

These developments raise questions about the electoral prospects of other right wing populists in Europe, such as Alternative for Germany, the PVV in the Netherlands and the National Front in France. These shifting political tides raise further questions about the future of consensus between democratic Western powers to tackle distant conflicts in other regions that impact global risks, and confront threats such as Russia and challenges to the world order from ascendant autocratic powers such as China.



# Egypt



**TPV Risk Rating:** High (same as 2016)

**Key Belligerents:** Militant Islamist extremist groups, including Islamic State Sinai province; anti-establishment and ‘revolutionary’ groups such as Hasm or Popular Resistance Movement

**Terrorism Casualties in 2016:** 478 wounded, 304 killed (782 total)

**Comparable Security Environments:** Chad, Niger, and Saudi Arabia



## Recent terrorism incidents and threats

**05.08.16** 6 October City, Giza - Gunmen attempted to assassinate a former Grand Mufti of Egypt in 6 October City. The attack caused no fatalities. Harakat Sawad Masr (Hasm) claimed responsibility for the attack.

**11.12.2016** Cairo - A bomb explosion during a service at Saint Peter’s Orthodox church in the Abbassiya neighbourhood of Cairo. The attack killed at least 28 people and wounded 50 others. IS claimed responsibility for the attack.

**06.02.2017** Al-Arish, North Sinai - An armed attacker wounded a soldier at a checkpoint in the Al-Abour neighbourhood in southern Al-Arish. IS Sinai is active in the area and previously mounted similar attacks.



## The threat environment

The overall terrorism and political violence risk level for Egypt is high, with all three insurable perils prevalent risks in 2017. Egypt has become more politically stable since President Abdel Fattah Al-Sisi was elected in 2014. But there are signs that political discontent with the government will grow in the next year, increasing the risk of sporadic, and potentially more sustained, protest activity.

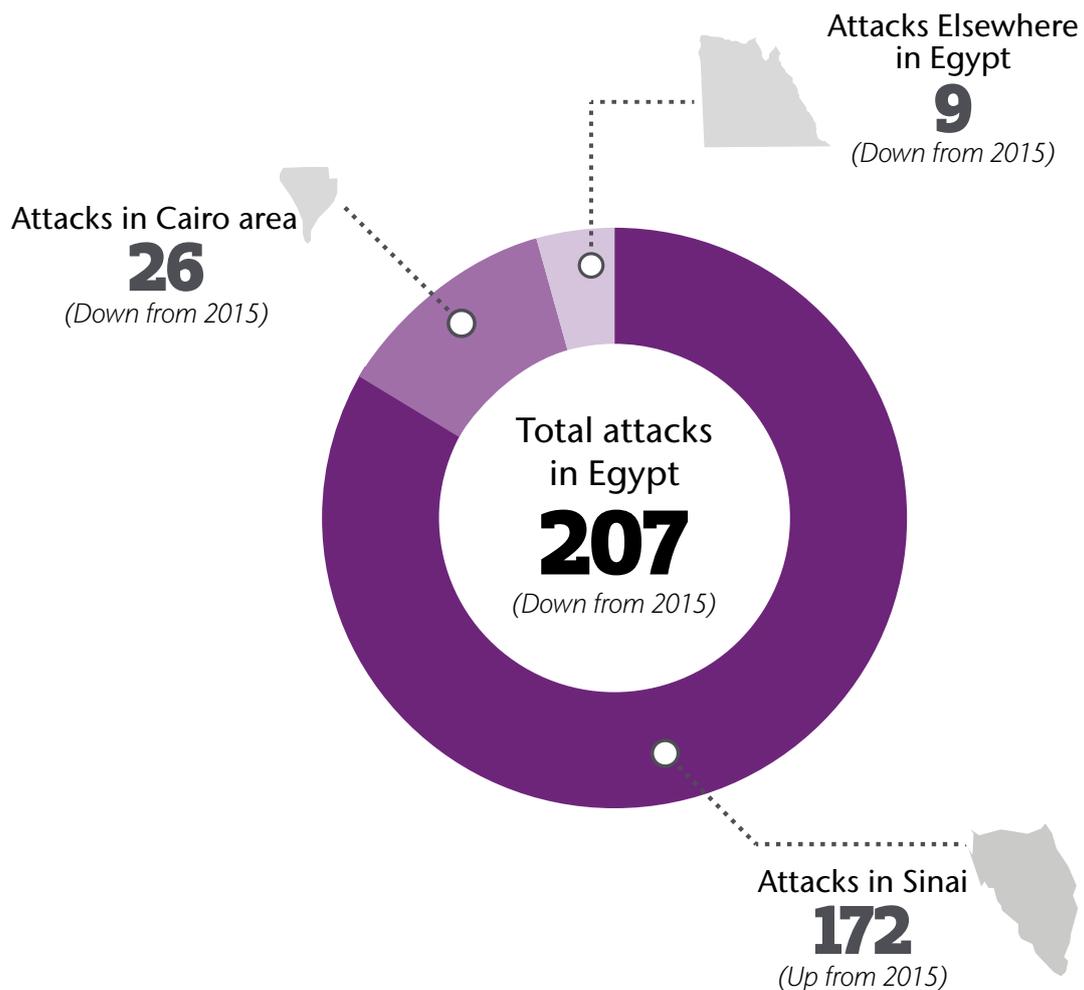
Risk Advisory has recorded more than 200 terrorist incidents in Egypt in the last 12 months. The majority of terrorist incidents remained confined to North Sinai, which is the main area of operations for Islamic State (IS) Sinai province – the most capable terrorist group in the country. The group still appears to view the Sinai as a priority. But the IS-claimed Cairo Church bombing in late December 2016 shows that, at the very least, the group and its affiliates are intent on developing their operational capabilities in the mainland.

Elsewhere, the terrorist threat environment looks set to be complex in 2017, with a diverse range of actors. Small ‘revolutionary’ groups remain active in mainland Egypt, though they seem to have a limited ability to mount a sustained campaign of attacks, at least in the first half of 2017. In the past year, anti-establishment groups such as Harakat Sawaid Masr (Hasm) have emerged and proven their ability to carry out attacks against targets that fit into their anti-Sisi narrative. Hasm has claimed at least eight attacks since June 2016, including bombings and shootings. All of these targeted government and security interests, as well as pro-Sisi figures.

While the overall risk rating for Egypt has not changed, we assess that the risk of civil unrest has increased over the past year. The Egyptian government has started to implement unpopular austerity measures after reaching a loan agreement with the IMF. Some of these reforms, and of the country's currency, have already significantly raised living costs for ordinary Egyptians.

This means that the risk of hardship protests, as well as disruptive labour strikes in the country is likely to remain elevated well into 2017. But frequent protests and strikes will probably remain small and are unlikely to pose a serious threat to government stability through popular revolt. This is in part because of a tightening of restrictions on civil society and dissent in 2016, which meant there is little organised or effective political opposition in Egypt. And with the Egyptian military apparently consolidating its influence over the economy, a military coup seems to be a less probable scenario in 2017 than it was two years ago.

#### Total attacks in Egypt in 2016





"O dogs of the militias belonging to al-Sisi...we will find you. We monitor your steps and observe your movements, and even if you hide, and you change your houses and your names, here we are, and we fulfil the promise"

**Hasm claims killing of police officer in 6 October City, Giza (8 September 2016)**



#### **Insurer reactions\***

With the challenges Egypt has experienced over the last 24 – 36 months, particularly in the north, Sinai and the Western Desert, underwriters recommend that clients consider full Political Violence coverage to reflect the broader potential loss scenarios that the local security situation presents.

Premiums for coverage in the country have enjoyed reductions over the last few years. This is driven more by the increasing capacity in the market than the exposure of the assets. It is anticipated that any future reductions will become more modest moving forward. There will be pricing pressures for hospitality, retail, transport and airports, in addition to the petrochemical industries in the north and around Suez.



#### **Future outlook**

Terrorism and political violence risk in Egypt is unlikely to improve in the coming year, which means it will probably stay at high level. Islamic State will almost certainly remain the main source of the terrorism threat countrywide in 2017, as it has been able to maintain a high tempo of attacks in North Sinai despite frequent security operations by the Egyptian government. Although most attacks in 2016 occurred there, further attacks are likely in other parts of the country in 2017, both against security forces and foreigners.

We also anticipate that the risk of civil unrest will remain heightened through 2017 at least, having increased over the past year. The Egyptian government looks set to implement unpopular austerity measures as part of the terms of its recent IMF loan agreement. These reforms, including some that have significantly devalued the Egyptian pound, have already raised living costs for many Egyptians.

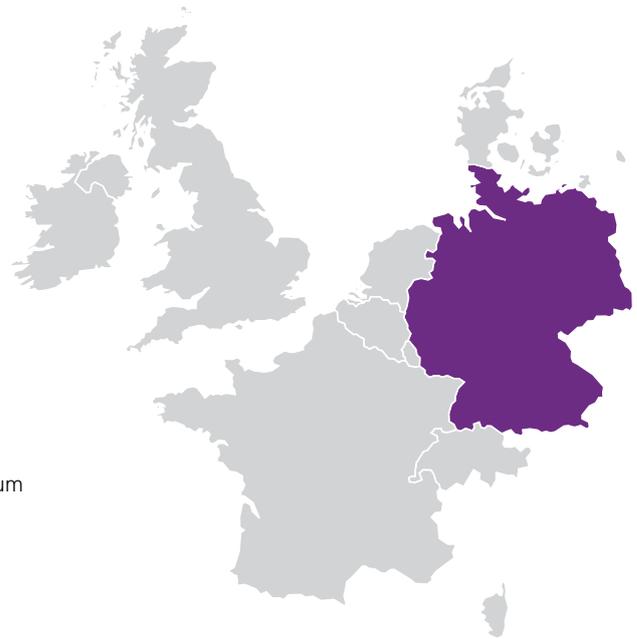
Hardship protests, as well as labour strikes, are likely to remain spontaneous rather than posing an organised and serious challenge to President Sisi. But we still assess that there is an underlying risk of a military coup in the coming years, particularly if President Sisi fails to redress the country's economy. This now appears to be less likely than it was in 2013-2014, as the Egyptian military seems to be profiting from wielding a growing influence in Egypt's economy.

*\*Note: all insurer reactions are correct at the time of publishing*

▶ Risk Advisory has recorded more than **200** terrorist incidents in Egypt in the last 12 months.



# Germany



**TPV Risk Rating:** Moderate (increased from low in 2016)

**Key Belligerents:** Militant Islamist groups such as Islamic State (IS) and Al-Qaeda, Islamist sympathisers, and far-right or nationalist extremists.

**Terrorism Casualties in 2016:** 77 wounded, 14 killed (91 total)

**Comparable Security Environments:** United Kingdom, France and Belgium



## Recent terrorism incidents and threats

**15.03.16** Berlin - Anarchists set light to four vehicles belonging to Bosch, a German multinational company

**18.07.2016** Wurzburg, Bavaria - Five people were wounded when a 17-year-old Afghan national used a knife and hatchet to attack a group of people on a train

**24.07.2016** Ansbach, Bavaria - A suicide bomber wounded 15 people when he detonated his device outside a bar. IS claimed responsibility

**19.12.2016** Berlin - An Islamic State sympathiser drove a lorry into a crowded Christmas market at Breitscheidplatz in Berlin, killing 12 people



## The threat environment

The overall country risk level for political violence in Germany has increased from low to medium, with both terrorism and civil commotion perils. The increased country risk rating is largely due to the threat of terrorism, which has risen sharply over the past year. The deadliest attack occurred in Berlin in December when a man drove a truck into a Christmas market, killing 12 people and wounded 56 others. Islamic State (IS) claimed responsibility. There were at least 16 other terrorist attacks in the country in 2016, compared with just two in 2015.

Anarchists and far-right extremists have also mounted attacks in the past year – these occurred more frequently than Islamist terrorist incidents. But anarchists do not appear intent on inflicting civilian casualties, while far-right groups have so far shown limited operational capability in their attacks. Arson has been a common tactic for both. Targets for the far-right have included refugee shelters and other sites linked to ethnic or religious minorities. Anarchists and leftist extremists have targeted several private companies they perceive as working with the state as well as other perceived symbols of capitalism, such as expensive vehicles.

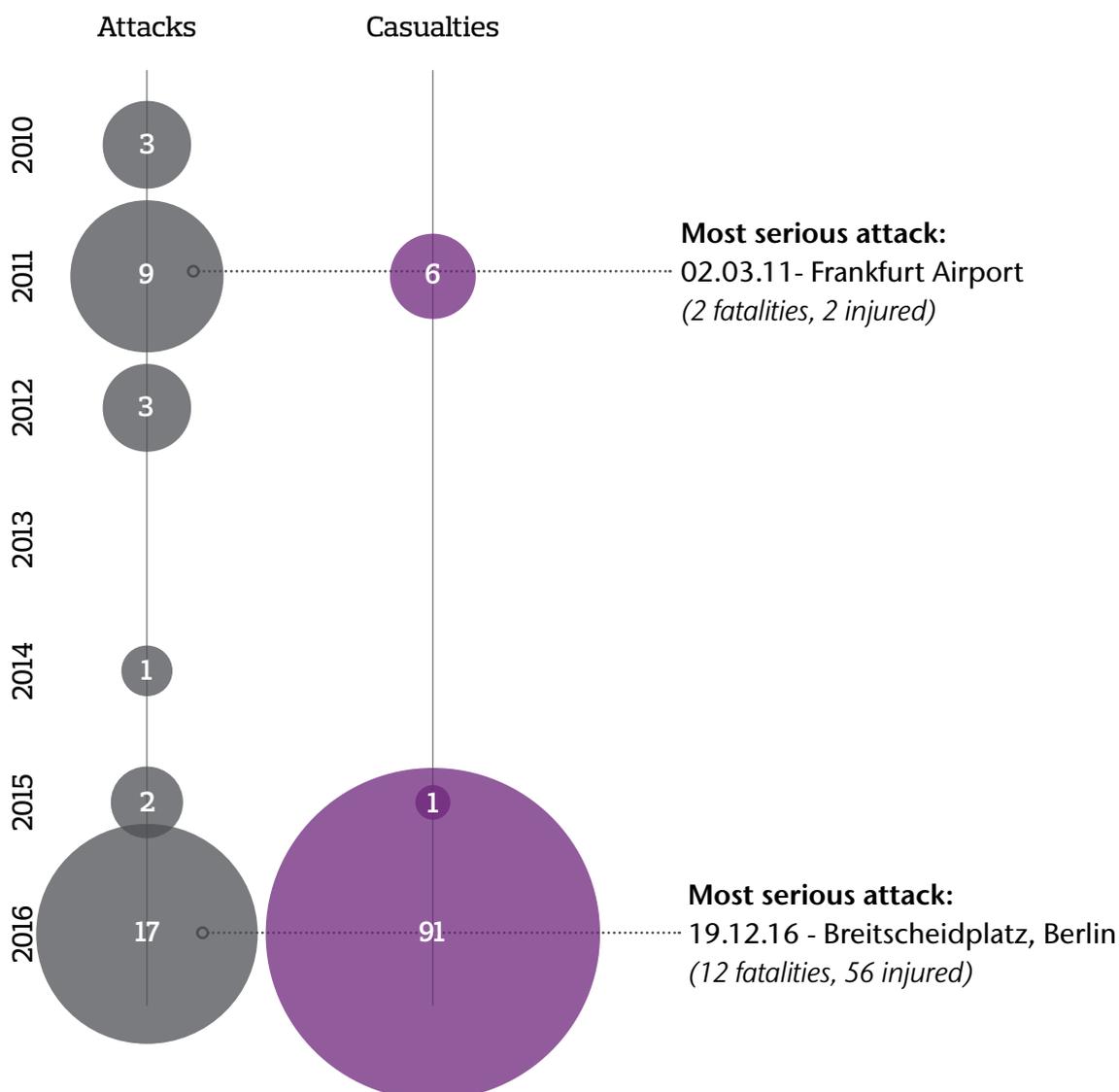
It is the growing threat from Islamist extremists that is primarily behind the increased country risk level, however. Islamic State claimed responsibility for six attacks in 2016, with a stabbing in Hannover in February its first ever such claim in Germany. Other notable incidents have included a knife and hatchet attack on a train in Bayern and a suicide bombing outside a bar in Ansbach, both in July.

Information that the authorities have subsequently released about these attacks indicate that the perpetrators were not acting alone, but did have some direct contact with IS.

France stands out among European countries as being a focus for threats and vitriol from Islamist extremists. Germany does not feature in Islamist messaging as often, but both Islamic State and to a lesser extent Al-Qaeda have been encouraging their followers to mount attacks in Germany and Western Europe more generally over the past year. They have also been providing guides and suggestions for tactics, such as using bladed weapons and vehicles in attacks.

Disruptive protests and bouts of civil unrest have also been occurring on a sporadic basis in Germany. But effective policing has tended to limit the impact. Turnout at far-right protests has fallen from the levels we saw in 2015, and violent confrontations between them and leftist groups has become less common. We have not seen any clear indications of an increased protest or civil unrest risk around an upcoming federal election later this year.

#### Attacks committed in Germany since 2010





"The most serious test [for Germany] is without a doubt Islamist terrorism, which has had us Germans in the sights for many years"

Chancellor Angela Merkel, 31 December 2016



#### Insurer reactions\*

The threat in Germany reflects the broader European experience of terrorism over the last 24 months; there is a very real potential for an attack to generate losses, with the losses to date primarily affecting business interruption due to police responses impacting freedom of movement in defined areas, and due to impacts on supply chain and contingent interruption. In addition, there is interruption due to the disinclination of customer bases to visit areas affected, after the event. While the Islamic State have been at the forefront of attacks, there is also greater activity within right-wing and left-wing terror groups. The losses experienced to date may be outside the scope of traditional property damage and business interruption policies.

Typically, terrorism insurance pricing in Germany has been driven by the availability of capacity in the market. This is now changing to accommodate the increasing potential for significant attacks and subsequent losses to the insured. Factors to consider are the anxiety about returning fighters from the Middle East increasing attack capability (beyond the limited capabilities of the self-radicalised individuals), potentially delivering attacks with increased losses, and if it translated into actual plots and events, this will drive a flattening of premium reductions seen in recent years.



#### Future outlook

The terrorism and political violence threat in Germany is likely to remain moderate in 2017, with the threat of terrorism staying particularly high. The country has begun to feature more often in propaganda from groups such as Islamic State and to a lesser extent Al-Qaeda. Recent attacks in Germany and elsewhere in Europe indicate that such messaging and incitement has encouraged Islamist extremists to mount attacks either independently or with some direction from IS.

The ongoing offensive on Mosul in Iraq will probably have implications for the threat in Germany, and Europe more generally. As IS loses territory, we expect that some of its fighters will seek to return to Europe. But it is far from clear how large or organised this movement will be, and so it is not possible to assess with confidence what kind of threat they will actually pose.

At the very least, it is highly likely that IS will continue - as it has through 2016 - to incite, and in some cases direct, its supporters and fighters to carry out attacks in European states including Germany. The most probable form of attacks is crude, improvised tactics, such as the use of bladed weapons or vehicles in attacks.

*\*Note: all insurer reactions are correct at the time of publishing*



2016 saw at least  
**17**  
attacks, compared  
with...

**2**  
in 2015

# Philippines



**TPV Risk Rating:** High

**Key Belligerents:** New People's Army (NPA), various factions of Abu Sayyaf, Daulat Ul Islamiya (the 'Maute group'), Bangsamore Islamic Freedom Fighters (BIFF), Ansar Al-Khilafah

**Terrorism Casualties in 2016:** 247 wounded, 94 killed (341 Casualties)

**Comparable Security Environments:** Bangladesh, India, Indonesia



## Recent terrorism incidents and threats

**28.11.2016** : Police officers disarmed a bomb close to the US Embassy after it was discovered by a street sweeper. The authorities linked the failed attack to Ansar Al-Khilafah, a southern-based group that has pledged allegiance to IS.

**28.12.2016** A double bombing at a boxing match in Hilongos, Leyte province, injured at least 35 people. Officials linked the bombing to the Maute group, which has pledged allegiance to Islamic State. Police had previously linked the group to a bombing in Davao in September, which killed 15 people and was the deadliest attack in the country since 2003.



## The threat environment

The terrorism and political violence risk rating for the Philippines is high. All three insurable perils remain in place on the Terrorism & Political Violence Risk Map this year. There are significant ground level variations in the risk levels within the country.

Since President Rodrigo Duterte took office last year he has continued to display an outspoken and sometimes volatile personality. This has created widespread concern about a more authoritarian approach to government, and occasionally led to both foreign and domestic policy uncertainty. It is also what has made him popular. For now, this backing is likely to limit the emergence of large protests, or of any political – or extra-parliamentary – efforts to unseat him.

Shortly after his election, Duterte identified making peace with the country's Communist insurgents as one of his security priorities. However, there has been no substantive progress on this, with a unilateral ceasefire by the Communists faltering in early 2017. Instead, extremist Islamist groups based in the south were the most active and high profile terrorist threat in 2016.

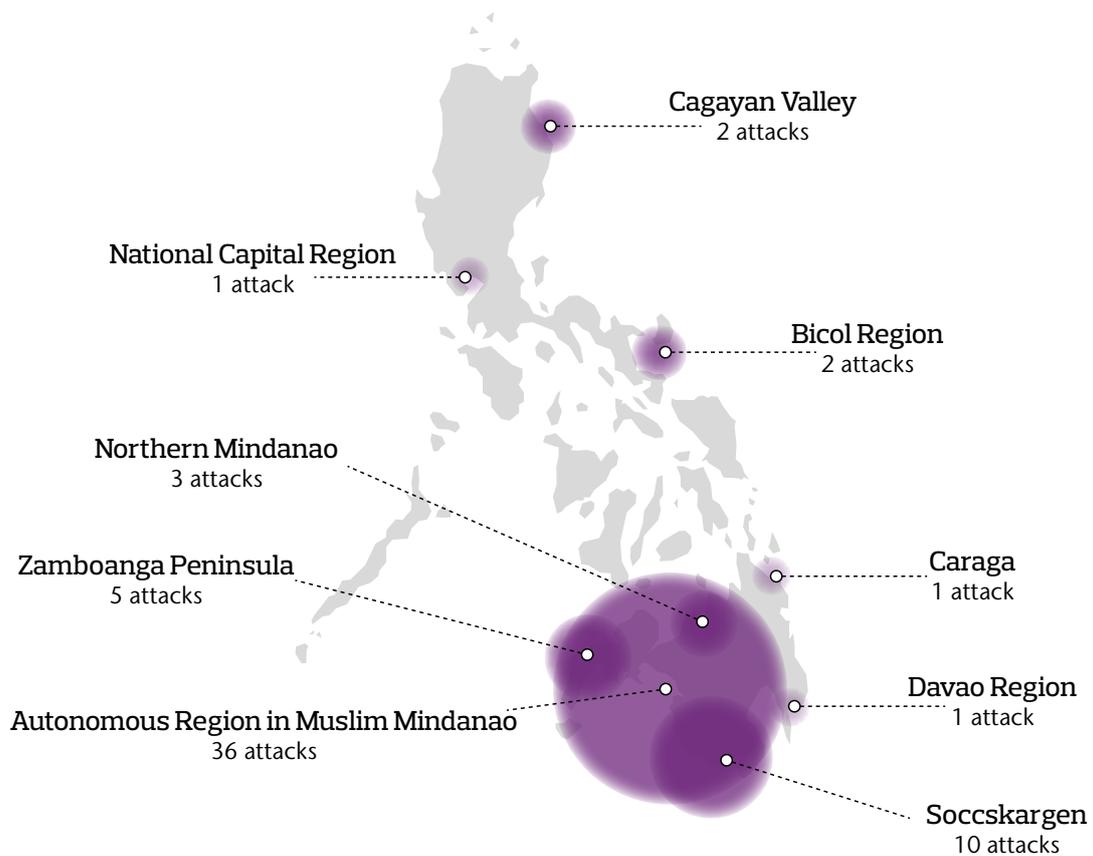
Several factions of Abu Sayyaf and distinct groups based in the south have pledged allegiance to Islamic State in recent years, but 2016 saw the clearest indications of direct connections between IS and Philippines-based. In addition, IS propaganda named an Abu Sayyaf factional leader as head of 'the Caliphate in the Philippines', and promoted the country as a focal point for regional militants not able to travel to Syria and Iraq.

Attacks in Davao and Leyte, and an attempted bombing in Manila (see Recent terrorist incidents), by IS-linked groups in the final months of last year suggest that they are increasingly intent on attacks outside of core operating areas in western Mindanao and the Sulu Archipelago, including in the capital. In addition, militant groups based in these areas were probably behind more than a dozen incidents of maritime kidnapping – including from commercial vessels – that occurred in waters between the southwestern Philippines and the coast of Sabah, Malaysia.

Long-established challenges remain. Moro separatists groups – the Moro National Liberation Front and the Moro Islamic Liberation Front – say they remain committed to peace through negotiation. But relations are fragile: security officials have said that IS supporters are actively recruiting in both groups’ strongholds, prompting the president to warn of military interventions in their territories.

Beyond domestic issues, the country’s primary security concern is the territorial disputes in the South China Sea. The Duterte administration has not established a policy in this area and despite efforts to increase economic engagement with China or distance the Philippines from the US, these disputes are extremely unlikely to be resolved any time soon. This sustains the risk of incidents of miscalculation and unintended escalation, including involving Philippine forces or citizens.

#### Attacks by region in the Philippines in 2016





"If I have to declare martial law, I will declare it – not about invasion, insurrection, not about danger. I will declare martial law to preserve my nation – period. I will declare martial law if I wanted to. No one will be able to stop me"

**President Rodrigo Duterte, January 2017**



#### **Insurer reactions\***

While the country has seen significant improvements in the economy and unemployment recently, legacy issues in the south of the country and the challenging political environment continue to present terrorism and civil unrest exposures.

In more remote and southern locations, exposed to the domestic terror and separatist groups operating there, the risk continues to be significant despite increasing risks to urban city-centre locations from these groups. There is a spectrum of insured purchasing decisions, depending on their actual exposure and their risk appetite; peril coverages of terrorism and sabotage, SRCCMD and full Political Violence are being purchased across the country.

Underwriter appetite for Philippines risk continues, with capacity increasing accordingly over the last few years. Pricing is expected to remain competitive over the next year and dependant on the industry, the location and the risk of the insured.



#### **Future outlook**

The terrorism and political violence risk level is likely to remain high in the Philippines during 2017, after it was raised from moderate in 2016. Islamic State identified the country as a regional hub for militants in 2016, and we anticipate a continuation of several terrorism trends from last year. Notably, abductions targeting shipping crew, the kidnap for ransom of foreign nationals, and attempts by IS-linked groups to mount attacks outside the far south of the country.

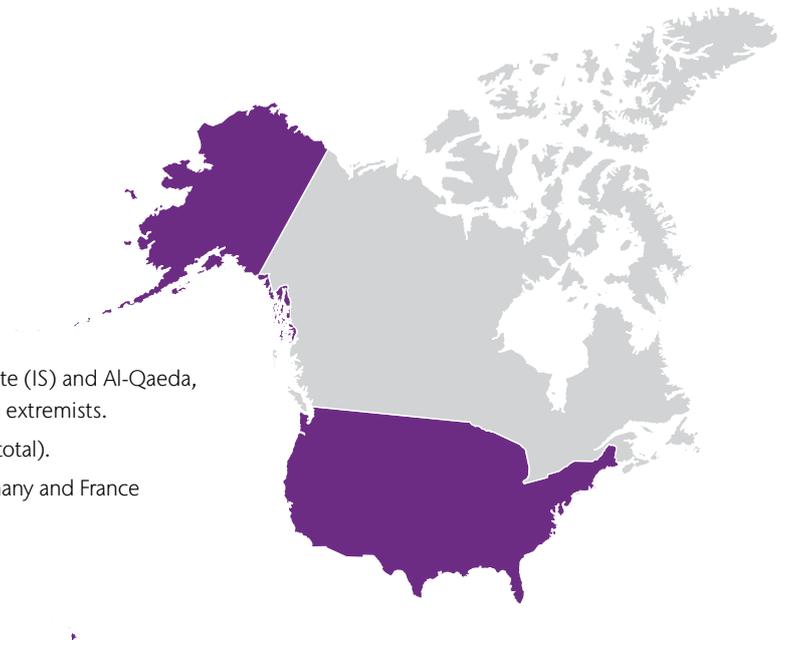
Significant geographical variations in the terrorism threat level are also likely to persist. While there are few positive signs of a peace deal with Communist insurgents who operate in areas countrywide in 2017, there are better prospects for progress towards a negotiated solution with southern Moro separatists. Beyond domestic security, it is extremely unlikely the country will resolve international territorial disputes in the South China Sea this year.

The domestic political situation will probably be broadly stable under the Duterte administration as the president continues to consolidate his hold on power in early 2017. Despite this, and his broad base of personal popularity, his authoritarian tendencies and his violent, controversial campaign against drugs point to the potential for sudden and destabilising political crises to emerge.

*\*Note: all insurer reactions are correct at the time of publishing*



# United States



**TPV Risk Rating:** Moderate (increased from 2015)

**Key Belligerents:** Militant Islamist groups such as Islamic State (IS) and Al-Qaeda, Islamist sympathisers, and far-right, nationalist or libertarian extremists.

**Terrorism Casualties in 2016:** 104 wounded, 49 killed (153 total).

**Comparable Security Environments:** United Kingdom, Germany and France



## Recent terrorism incidents and threats

**14.10.2016** Security forces arrested three men suspected of plotting an attack on a residential complex in Garden City, Kansas. Media reports indicate that the three suspects planned to fill four vehicles with explosives, parking one vehicle on each corner of the complex. They reportedly targeted the complex because it houses a large number of Somali immigrants and also serves as a local mosque.

**28.11.16** A man drove a car into a group of people before attacking them with a knife at Ohio State University, USA, on 28 November. He injured 11 people before a police officer shot and killed him. Islamic State (IS) claimed that he was a 'soldier' of the group, and the authorities said IS and Al-Qaeda propaganda had inspired him. Two days before the attack, IS reissued calls for Muslims living in Western countries to carry out stabbings and attacks using vehicles as improvised weapons against non-Muslims in the West.



## The threat environment

The overall terrorism and political violence risk rating in the US has been raised this year from low to medium. This is due to several areas of increasing risk related to Islamist and far-right terrorism, as well as civil unrest arising from political and racial tensions.

There is a growing threat posed by lone-actors sympathetic to large global jihadist groups like Islamic State (IS) and Al-Qaeda. TerrorismTracker data shows that there have been at least eight terrorist attacks in the US in 2016, all of which appeared to have an Islamist motive. FBI Director James Comey said in December that roughly 80% of the agency's 1,000-plus active domestic terrorism investigations are linked to IS.

In 2016, IS propaganda shifted its primary focus away from recruitment and towards inciting attacks against the 'enemies of Islam', including the US. In the second half of the year, the group published articles in its multi-language *Rumiyah* magazine with specific instructions on conducting lone-actor attacks, containing advice on tactics and targets. The group also increasingly released descriptive videos inciting and instructing attacks of this nature.

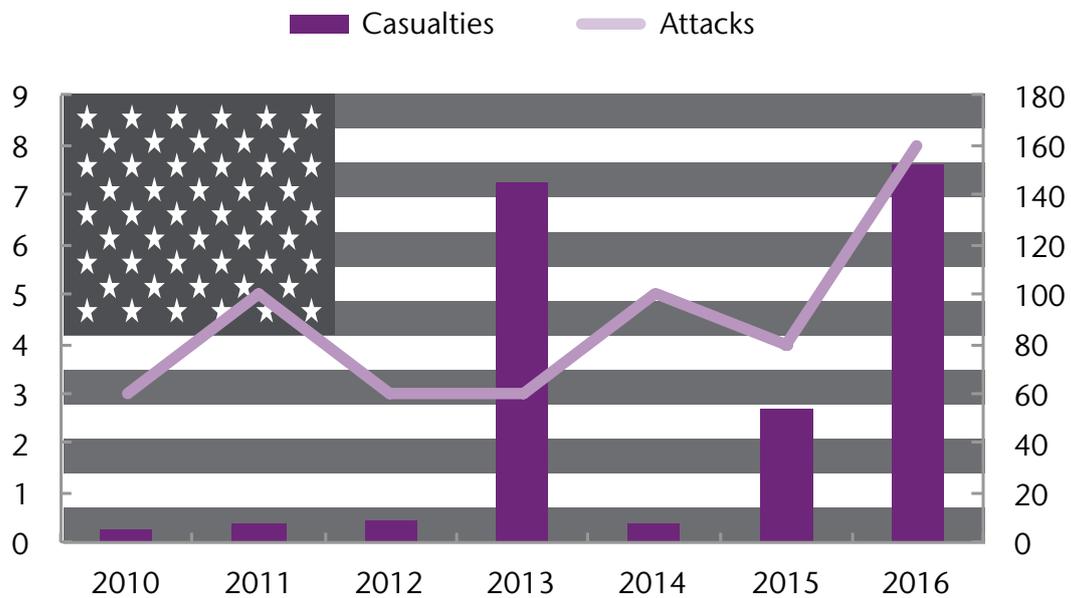
Such messaging appears to be influencing the threat environment in the US, in terms of encouraging sympathisers to mount attacks and the use of particular tactics that would fall within the typically limited capabilities of lone actors. After IS claimed an attack using both a vehicle and a knife as weapons at Ohio State University in November 2016, the US Homeland Security Committee cited the incident as further proof that the US remains in the 'crosshairs of Islamist terrorists'.

Terrorist attacks in the US, regardless of motive, have generally occurred in or near busy populated areas and city centres since the TerrorismTracker dataset began in 2007. Last year, the deadliest shooting attack in US history occurred inside a busy nightclub in Orlando, Florida. Elsewhere in the country, attacks targeting civilians and busy public gatherings also occurred in locations including Manhattan (New York), and St. Cloud (Minnesota). Last year, all but one attack, a shooting attack against a police officer in Philadelphia, targeted civilians and public places.

In addition to the terrorism threat posed by jihadist sympathisers, there have been several violent incidents linked to left-wing, far-right, anti-Islam, and race-related movements. On 7 July, a former US Army reservist, sympathetic to black nationalist movements and angry about recent police shootings against unarmed black men, killed five police officers in Dallas, Texas. Separately, in October, the FBI arrested three men for a plot to attack Muslims living in an apartment complex in Garden City, Kansas, the day before the US presidential election. The men were reportedly arrested in possession of firearms, ammunition and explosives.

Civil unrest also remains an issue in the US. In 2016, there were frequent demonstrations and civil disturbances pertaining to issues including racial discrimination and inequality, much like in 2015. These issues were coupled in late 2016 with civil unrest linked to the election. There were protests, across the US in the days immediately following the election. There have since been numerous rallies in major US cities against the new administration’s early policy proposal on immigration.

Terrorist attacks in the US by year





"Since 9/11, the US has recorded at least 227 homegrown jihadist cases including a recent surge of 115 cases over the past 24 months alone. Further...this trend is expected to continue into 2017 and beyond"

**House Homeland Security Committee Chairman Michael McCaul in December 2016**



#### **Insurer reactions\***

The threat in the US from terror-related attacks is exacerbated by the availability of firearms, increasing the potential for those groups focussed on mass casualty events to deliver an attack. Islamic State remain the most forward-leaning group with aspirations to undertake and support attacks in the US, though there are right-wing and single interest groups increasingly prepared to undertake acts of violence in the country. The losses that the US and Europe have experienced from these type of attacks are more attritional in nature and not necessarily events for which the current government backstop, TRIA, was designed to respond to. US companies with international footprints continue to represent some of the most challenging global risk exposures from a terrorism and political violence perspective.

Pricing continues to be competitive across the US for domestic assets, though in high aggregate areas there is less opportunity for significant reductions. There has been increasing interest in the US for more tailored solutions that respond to the broader terrorism related impacts, delivering more exposure-specific coverage; for example, loss of attraction, threat and cyber related coverage.



#### **Future outlook**

The terrorism and political violence threat in the US is likely to remain at moderate in 2017, after being increased from a low rating. The US remains the primary target of violent Islamist propaganda aimed at the West, and the country's leadership role in combating militant groups in the Middle East and North Africa means that this is unlikely to change in the near future. US officials have warned that the country is at risk from attacks by international terrorist groups, and lone actors living in the country inspired by militant groups such as Islamic State.

International jihadist terrorism is not the only threat, however. We expect that political violence more broadly will remain an issue in the country in 2017. In the months following the inauguration of the new US president, there were multiple violent incidents at protests and demonstrations across the country. We assess that groups opposed to the current administration's policies are likely to continue to protest.

Violence and civil disturbances related to discrimination and inequality will also likely continue sporadically across the country in response to specific incidents. In 2016 and 2015, events related to police brutality and racism sparked riots and protests, sometimes lasting several days and nights and causing significant damage to property.

The threat from far right groups and individuals is also likely to persist as nationalist and nativist narratives in the political mainstream stimulate and embolden right-wing extremist ideas and movements. Violent incidents involving far right and white supremacists, such as the racially motivated church shooting in Charleston, South Carolina in 2015, seem likely.

*\*Note: all insurer reactions are correct at the time of publishing*



▶ “Roughly 80% of the [FBI’s] 1,000-plus active domestic terrorism investigations are linked to IS”

# Sector: Energy



## Recent terrorism incidents and threats

**05.01.2017** Suspected ELN militants carried out several attacks against the major Cano Limon-Covenas oil pipeline in Norte de Santander department. The Colombian state oil company, Ecopetrol, said that the attacks left holes in the 780km-long pipeline, causing disruptions to normal operations. Ecopetrol said that the pipeline has been attacked 43 times in 2016 in Norte de Santander, Arauca, Boyacá and Cesar.

**23.01.2017** Arab separatists claimed responsibility for two oil pipeline bombings in Khuzestan, Iran. The Arab Struggle Movement for the Liberation of Ahwaz (ASLA) said that it conducted the attacks in response to an announcement by the Iranian oil ministry that it had selected 29 international companies to bid for oil and gas projects in the country.



## The threat environment

Oil and gas infrastructure can represent a high-value strategic and economic target for terrorist and insurgent groups. Attacks on the sector have proven an effective way for terrorist groups to weaken economies, undermine the authority of governments and exploit local grievances. Targeting trends over the past ten years show that oil and gas infrastructure has been one of the most targeted businesses sectors globally, with nearly 700 attacks since 2010. By far the greatest number of attacks have affected upstream oil and gas pipelines located in remote areas, disrupting production and in some cases directly halting oil or gas exports

TerrorismTracker data shows that there were 106 attacks on oil and gas infrastructure in 2016, the most of any year since 2011, and a 36% increase compared with 2015. Attacks against the oil and gas sector occurred in at least 14 different countries worldwide in 2016. Despite the global span of the incidents, 74% of the attacks on the industry occurred in Colombia and Nigeria – two countries heavily reliant on hydrocarbons, where remoteness, extractives infrastructure and conflict all intersect.

TerrorismTracker data shows that there were at least 56 attacks on oil and gas infrastructure in the Niger Delta in the first half of the year, compared with just two in the two years prior. Since mid-2016, militant activity in the region has declined rapidly and oil output has mostly recovered. The sudden surge in attacks had caused oil production in Nigeria to drop by nearly 36%. In 2009, attacks by the now-inactive Movement for the Emancipation of the Niger Delta and other militant groups contributed to a drop of about 50% in government oil revenues.

Militants in Colombia have been active in targeting oil and gas infrastructure for decades. According to the Colombian *El Tiempo* newspaper, the FARC insurgency has resulted in the loss of as many as 4.1 million barrels of oil in Colombia since the mid-1980s. Although a recent ceasefire between Colombia and FARC has halted the group's campaign, another militant group, ELN, remains active in targeting energy infrastructure in the country. TerrorismTracker data shows that ELN were responsible for at least 27 attacks on energy infrastructure in Colombia in 2016. The prospects of a near-term respite in attacks on the sector in Colombia is remote.

Attacks on oil and gas infrastructure in 2016 also occurred in parts of the Middle East, North Africa and Asia, mostly in countries where insurgent groups are active, such as Libya, Iraq, and Pakistan. In Egypt, there have been over 20 attacks on gas pipelines to Israel and Jordan since 2011. These have sporadically halted exports. Like in Nigeria and Colombia, the confluence of remoteness, economically critical infrastructure and conflict are all present. Most of the attacks recorded against energy infrastructure occurred outside of populated areas, on the outskirts of towns or cities, or in remote forest or desert areas.

Vulnerability and the relatively high pay-off for attacks that are low-risk to carry out explain why pipelines are often the preferred target. The often remote locations and extensive surface area of upstream pipelines makes them by nature more difficult to protect, particularly when the terrain is more favourable to guerrilla tactics, such as jungles and mountains. TerrorismTracker data also shows that the vast majority of attacks on the sector are on pipelines, as opposed to on production facilities, which are typically better protected.

Besides supporting wider goals of damaging the economy and government, terrorist groups have also mounted attacks on energy infrastructure for economic reasons of their own. This can be to extort money, steal or bunker oil, or even with the objective of controlling facilities. Takeovers of oil and gas facilities in Iraq and Syria by Islamic State militants are examples of how energy infrastructure can be strategically important for insurgent organisations' revenue and growth. Countries in conflict with extensive oil and gas infrastructure, such as Afghanistan, Nigeria, Libya, Pakistan and Yemen, are also particularly exposed to such threats.

Attacks on energy infrastructure are most typically acts of sabotage and so less deadly than those on other sectors, with service disruption and inflicting financial costs apparently the main goals. TerrorismTracker data shows that attacks on energy infrastructure resulted in an average of less than 0.5 fatalities per attack in 2016. But the low number of fatalities does not necessarily reflect the risk to energy company personnel.

The Colombian police reported that between 2001 and 2015, guerrillas in Colombia kidnapped 219 oil company employees for ransom and that oil companies have paid millions in extortion payments to armed groups. A terrorist attack on the Tigantourine gas facility in In Amenas, Algeria, in 2013 led to the death of 40 workers at that facility. While the most lethal incident targeting the sector took place in Ethiopia in 2007, when an attack by the Ogaden National Liberation Front killed more than 70 locals and Chinese nationals.



“We have cripple[d] the Nigeria[n] economy by 50%, and by the grace of God we will make it 100% if our demands are not met soon [sic]”

**Col. Mudoch Agbinibo, spokesperson, Niger Delta Avengers**



#### **Insurer reactions\***

The industry has experienced a significant number of terror attacks over the last 12 months, though these are primarily focussed in specific areas (Colombia, Nigeria, Iraq); areas that present complex risks for many industries.

While there has been aggressive competition around pricing in general for the industry over previous years, in those areas where there is significant demand (where the threat is higher and industry more developed), the available capacity may be limited. This drives pricing for coverage, particularly where political violence cover is required.

Pricing will be dependent on the location, the asset type/risk and limits purchased - there is value in providing underwriters with detail around the quality of the security for assets where they are located in more challenging security environments, in order to demonstrate the quality of the risk.



#### **Future outlook**

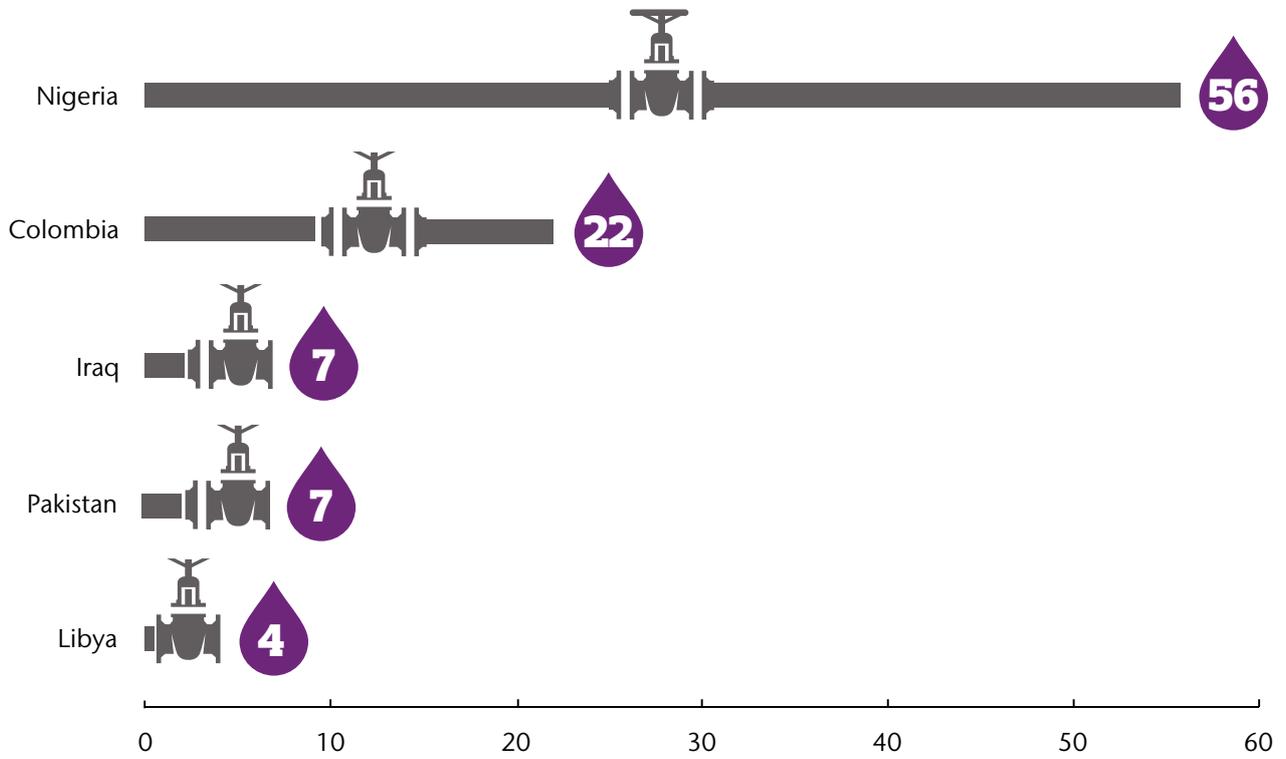
The number of attacks on energy infrastructure globally is projected to decline as the terrorism situation in the Niger Delta region of Nigeria improves. But despite the declining number of attacks against the sector in Nigeria, energy infrastructure, especially oil and gas pipelines, will likely remain an attractive target for terrorist groups seeking to damage state or private businesses revenues. Attacks on oil and gas have also proven advantageous for terrorist groups seeking to boost their own revenue, as groups like the ELN have shown in their sabotage and theft of oil from pipelines in northeastern and southwestern Colombia.

The remote locations of most energy infrastructure, and the inherent challenges governments and businesses face in protecting them from militant attacks, makes it an attractive target for terrorists. It is likely that energy infrastructure, especially oil and gas pipelines, will continue to be one of the most commonly targeted business asset by terrorist groups globally. Oil and gas producing countries with active militant groups will remain particularly at risk.

*\*Note: all insurer reactions are correct at the time of publishing*



2016 most attacked country's (Oil & Gas)



# Methodology: Terrorism & Political Violence

Risk ratings are awarded on a five-point scale, as follows:



Risk levels represent assessments of the net level of risk across all the political violence (PV) typologies. As a metric, they indicate the likelihood and impact of business exposure to PV events. The higher the rating, the greater the likelihood or impact of such events.

The risk levels indicate assessments of the frequency of occurrence and likelihood of exposure to PV events, as well as their impact to businesses. Assessments also take into account the impact of PV events upon the wider environment that in turn have a negative cumulative impact on risk.

Risk ratings will be higher if the threats in a given country are specifically or disproportionately targeting international commercial interests. For example, if a terrorist group is active and exclusively targeting commercial interests, the risk level may be greater than a country where terrorists are more active but show no intent to target commercial interests.

## Peril typologies

Perils are marked on the map. We only assign perils when the risk rating is 'low' or higher.

- Terrorism and Sabotage (T&S)
- Strikes, Riots, Civil Commotion, Malicious Damage (SRCCMD)
- Insurrection, Revolution, Rebellion, Mutiny, Coup d'Etat, Civil War and War (IRRMCCW)

For ease of reference and readability, we use 'civil unrest' when referring to the SRCCMD peril, and 'terrorism' for T&S. For the same reason, we will usually refer to the specific risk when using the IRRMCCW peril. For example, we will refer to 'war', 'coup' or an 'insurrection' peril rather than 'IRRMCCW'.

The number of perils does not necessarily affect the risk level. A country with severe levels of civil unrest may still score a severe risk rating if the impact of unrest is sufficiently severe. Equally, a severe terrorist threat (a high likelihood of attacks) may not equate to a severe risk level if we assess other factors mitigate the potential impact of attacks, and other perils may be low risk.

## Assessments

The map captures assessments of the probability and impact of events occurring along the spectrum of insurable terrorism political violence risk typologies. The country risk scores and identified perils are based upon analysis of proprietary empirical data from the preceding year, as well as open source intelligence analysis of the intentions and capabilities of relevant actors, and of more systemic prevailing trends affecting security and stability around the world.

Assessments (ratings) draw upon empirical data on events (such as the Risk Advisory/Aon Terrorism Tracker database) as well as Risk Advisory's intelligence and political risk analysis.

The analysis takes into account factors and assessments on political stability, conflict dynamics, activism, socio-economic factors, macroeconomic forecasts, government policy, the nature of political systems, defence spending and military activity, and other factors.

TPV ratings do not indicate or reflect crime or other non-political security risks, or non-violent political risks. Nor do they indicate general security risk. A severe risk rating, for example, does not necessarily indicate that day-to-day security risks are prohibitive to business.

## Nomenclature

When countries are scored, their risk level either goes up, down, or remains the same. An increased score therefore means that the risks are worsening and businesses are more exposed to PV risks.

An increased score therefore represents a downgrade as the business environment is more hostile, while a reduced risk score represents an upgrade as the business environment improves due to reduced risks.

## Terrorism data

All terrorism data is derived from TerrorismTracker – a joint initiative by Risk Advisory and Aon to capture every terrorist incident and plot recorded in open sources since January 2007. TerrorismTracker is intended to give the most accurate and precise picture of terrorist activity worldwide.

As an open source and exclusively terrorism-focused dataset, it is important to note that our data may seem to underreport incidents in some cases. This is usually for two reasons:

**Unreported incidents:** Not every terrorist attack is reported in open sources. This is particularly the case in conflict zones, where there may be an absence of credible or capable reporting sources (Syria and Yemen are particular examples), and in countries where there is high levels of censorship on security matters.

**Incidents are not terrorism:** our dataset focuses on terrorism, and excludes acts that do not fall into our definition of terrorism.

The TerrorismTracker dataset excludes acts of warfare (irregular or conventional); acts of genocide; criminal violence oriented exclusively for profit but that emulate terrorist tactics such as car bombings; violent anti-social behaviour; and civil unrest.

It also excludes acts of violence by unbalanced individuals such as active shooter incidents, unless there is evidence the motives of the attack are consistent with definition of terrorism (i.e. politically, religiously or ideologically motivated). The dataset excludes war crimes unless they are perpetrated in such a manner that is consistent with our definition of terrorism.

The dataset does not assume all acts by terrorist groups are terrorist incidents. It does not include activity by a recognised terrorist group unless such activity constitutes in itself an act of terrorism. For example, attacks by Islamic State forces on the Iraqi military on the battlefield are acts of warfare, and so are excluded from the dataset.

*TerrorismTracker figures are constantly being updated so the data contained in this report is correct at the time of printing but may be subject to change at a later date.*

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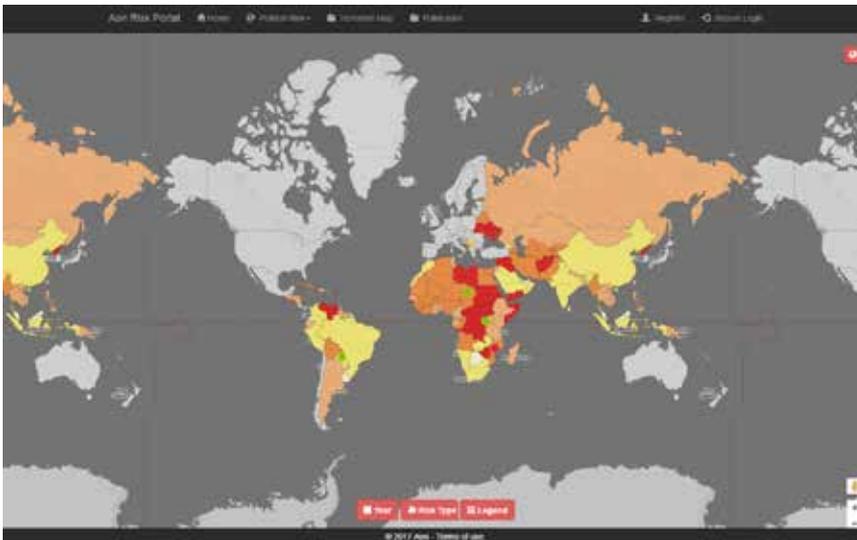
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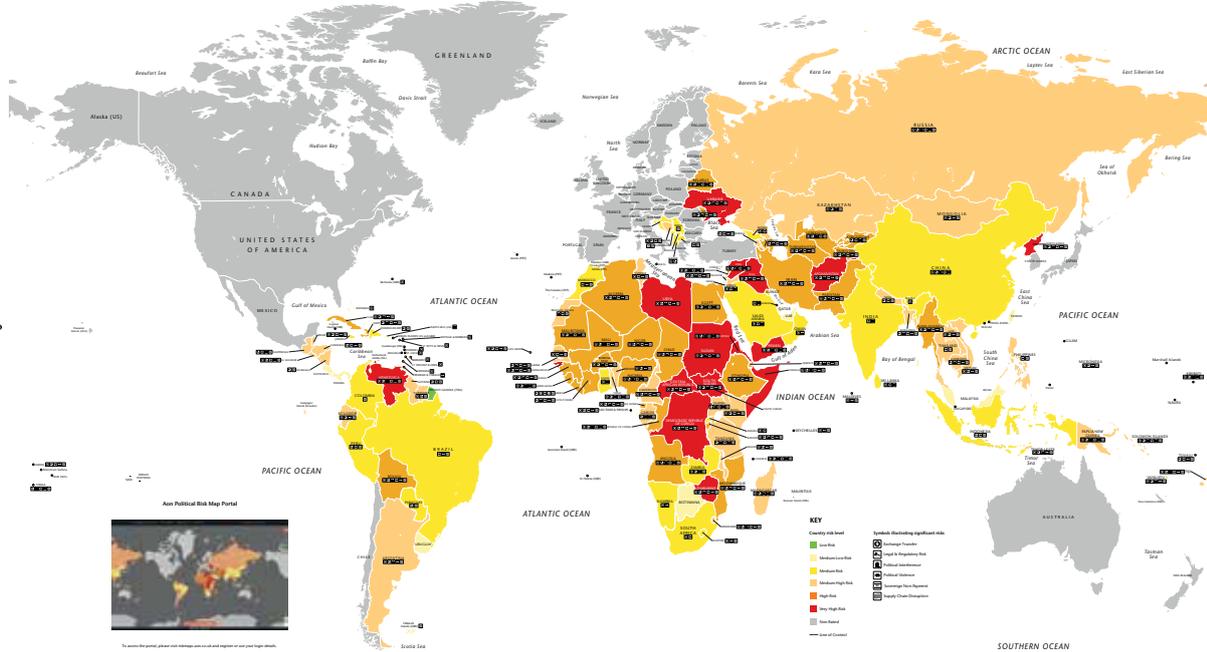
# Online Risk Maps portal



Aon's Risk Maps are supported by a dedicated online portal, which is freely accessible to those interested in the topic.

The portal can be found at: <https://www.riskmaps.aon.co.uk/site/map.aspx>

# 2017 Political Risk Map



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Aon's political risk experts use a combination of market experience, innovative analysis tools and tailored risk transfer programmes to help you minimise your exposure to political risks. Aon designs risk transfer and management programmes to respond to adverse political actions, providing balance sheet protection and business facilitation. Political and security risk assessments are also available, allowing you to make informed decisions regarding your operations and investments.

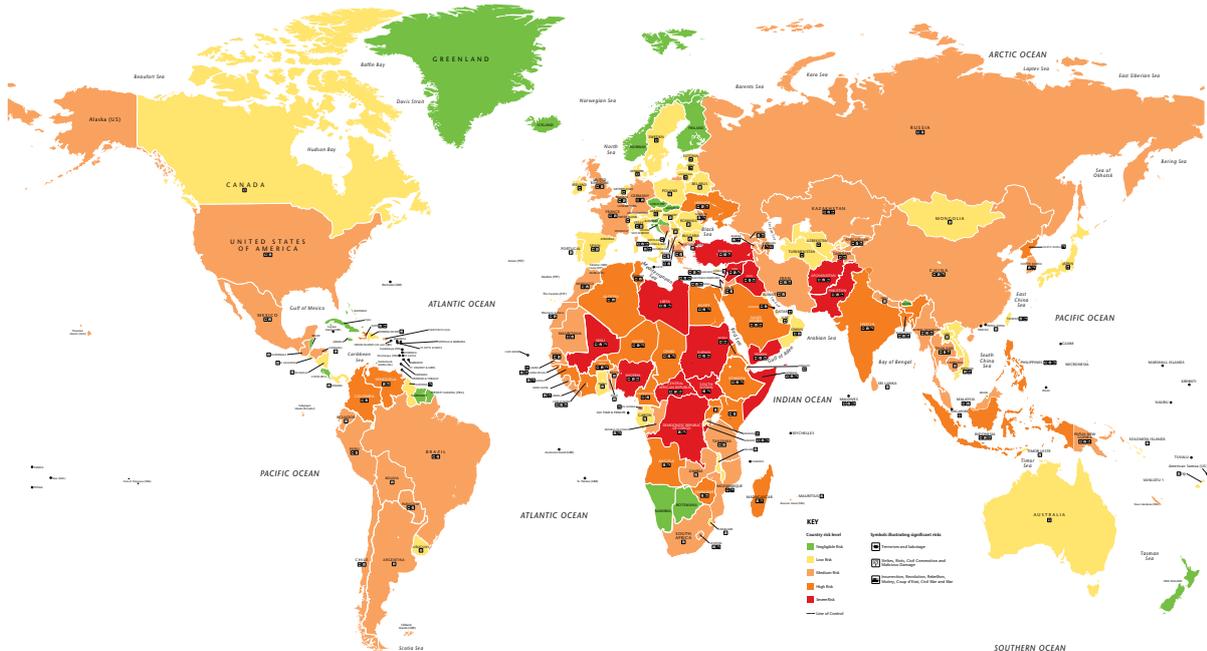
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# 2017 Terrorism & Political Violence Risk Map



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Aon's approach to terrorism and political violence risk management combines threat assessment, impact analysis and crisis management consulting, with individually structured insurance programmes. For further information, visit: [aon.com/terrorismmap](http://aon.com/terrorismmap)

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