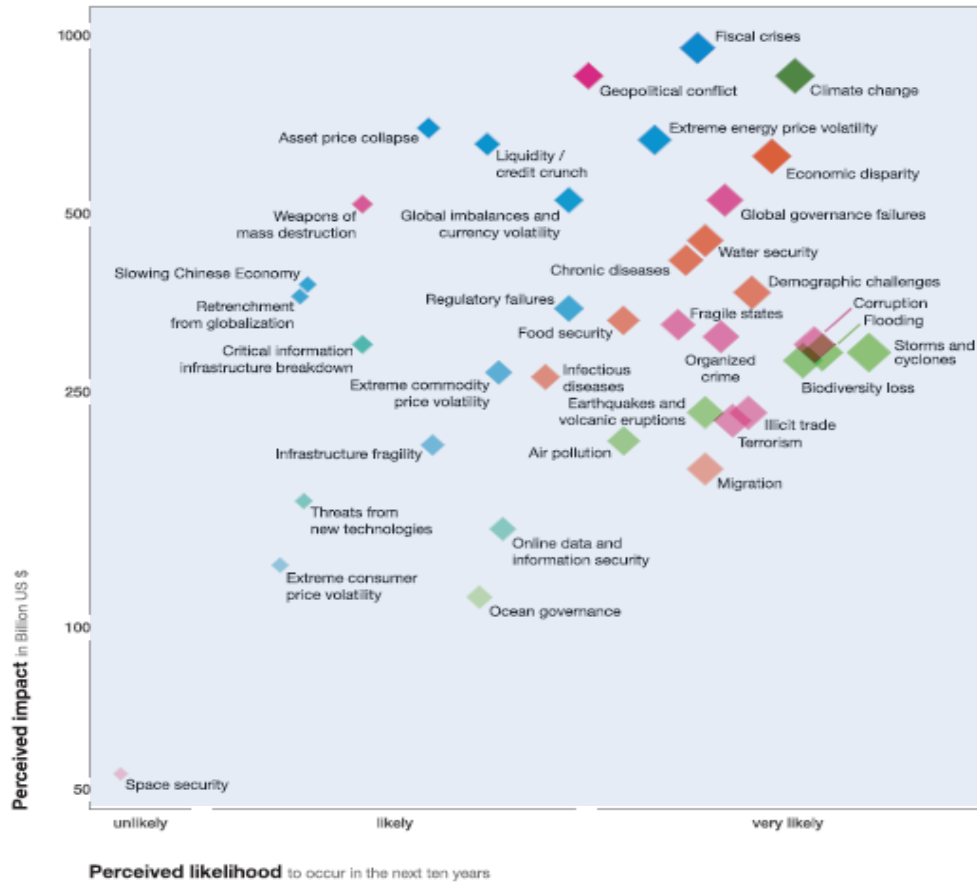


Country Risk Management

Walter Bell

March 16, 2011

Global Risks Landscape 2011



5 Risk categories

- Economic (11)
- Geopolitical (9)
- Environmental (7)
- Societal (7)
- Technological (3)

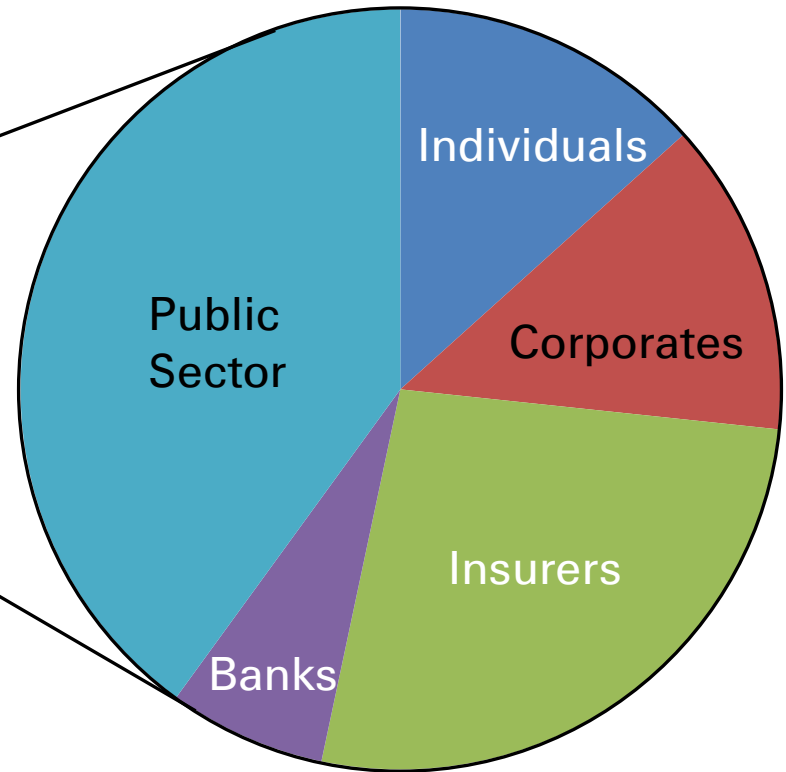
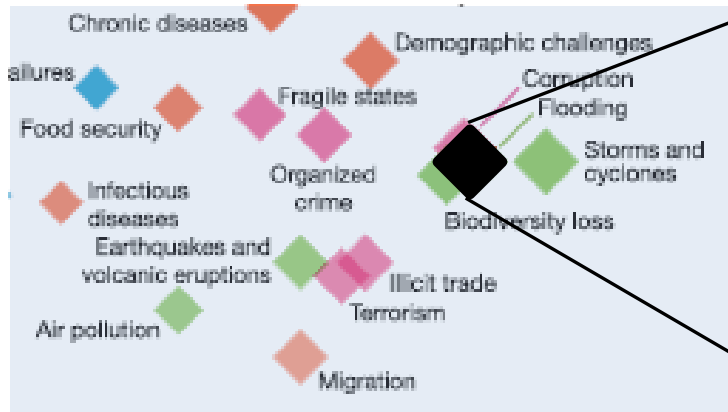
37 Risks

6 Top risks

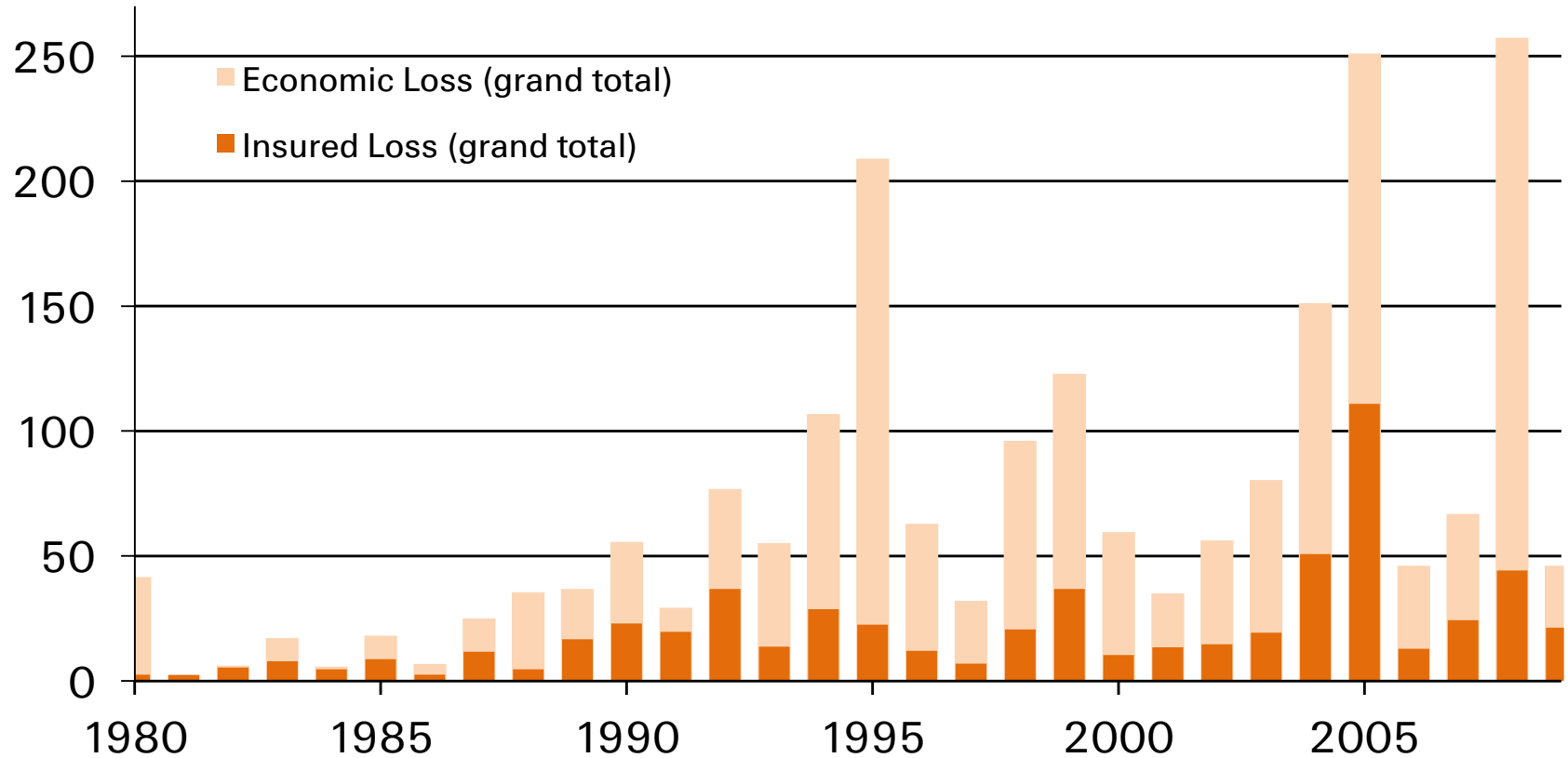
- Fiscal crises
- Climate change
- Economic disparity
- Global governance failures
- Geopolitical conflicts
- Extreme energy price volatility

Who bears these risks?

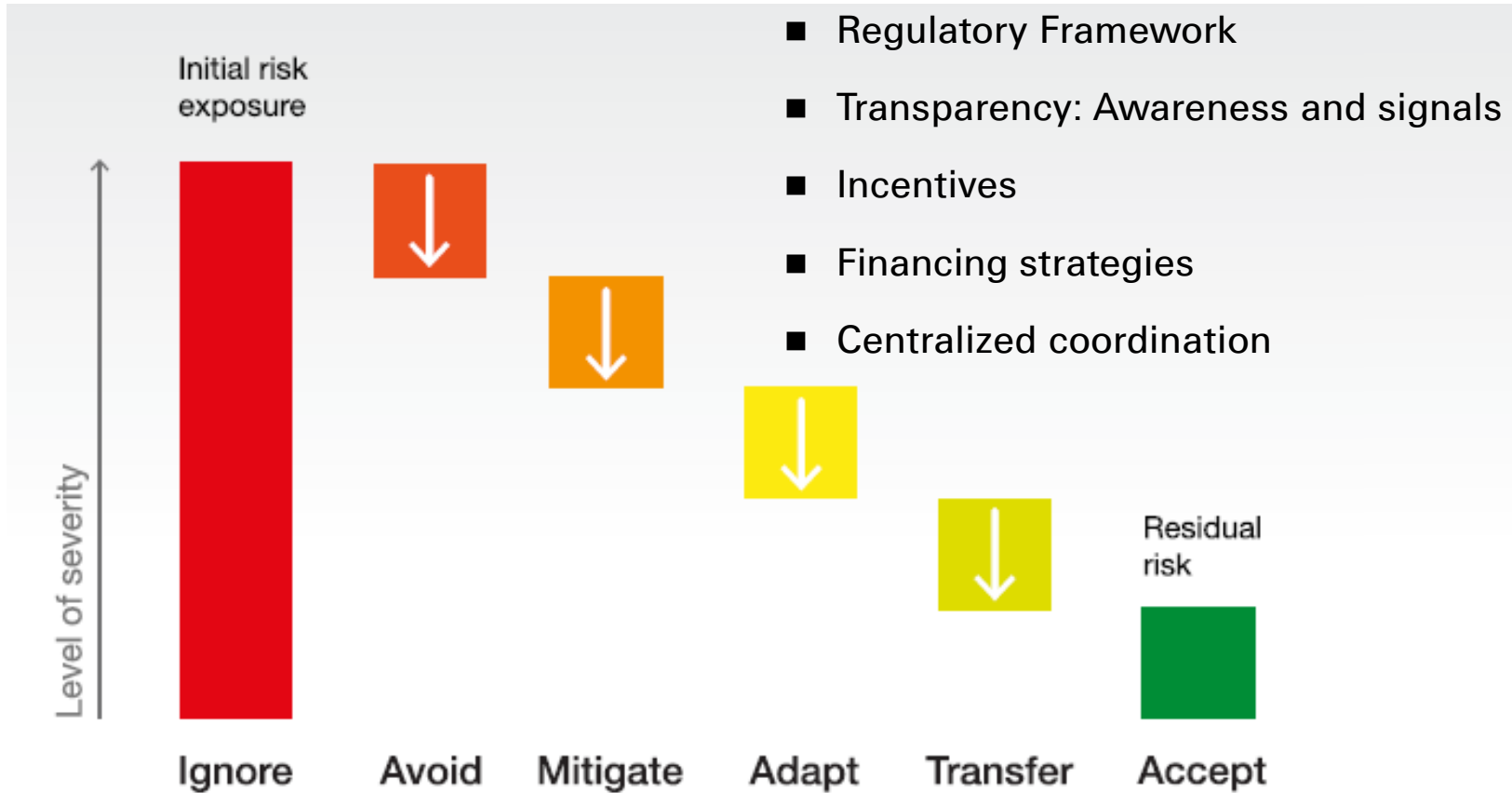
illustrative



Massive gap between economic and insured losses



Risk Response Strategies and Mechanisms



A Chief Risk Officer for the public sector?

Objective

Optimal allocation of resources for systematic risk identification, assessment, mitigation and adaptation.

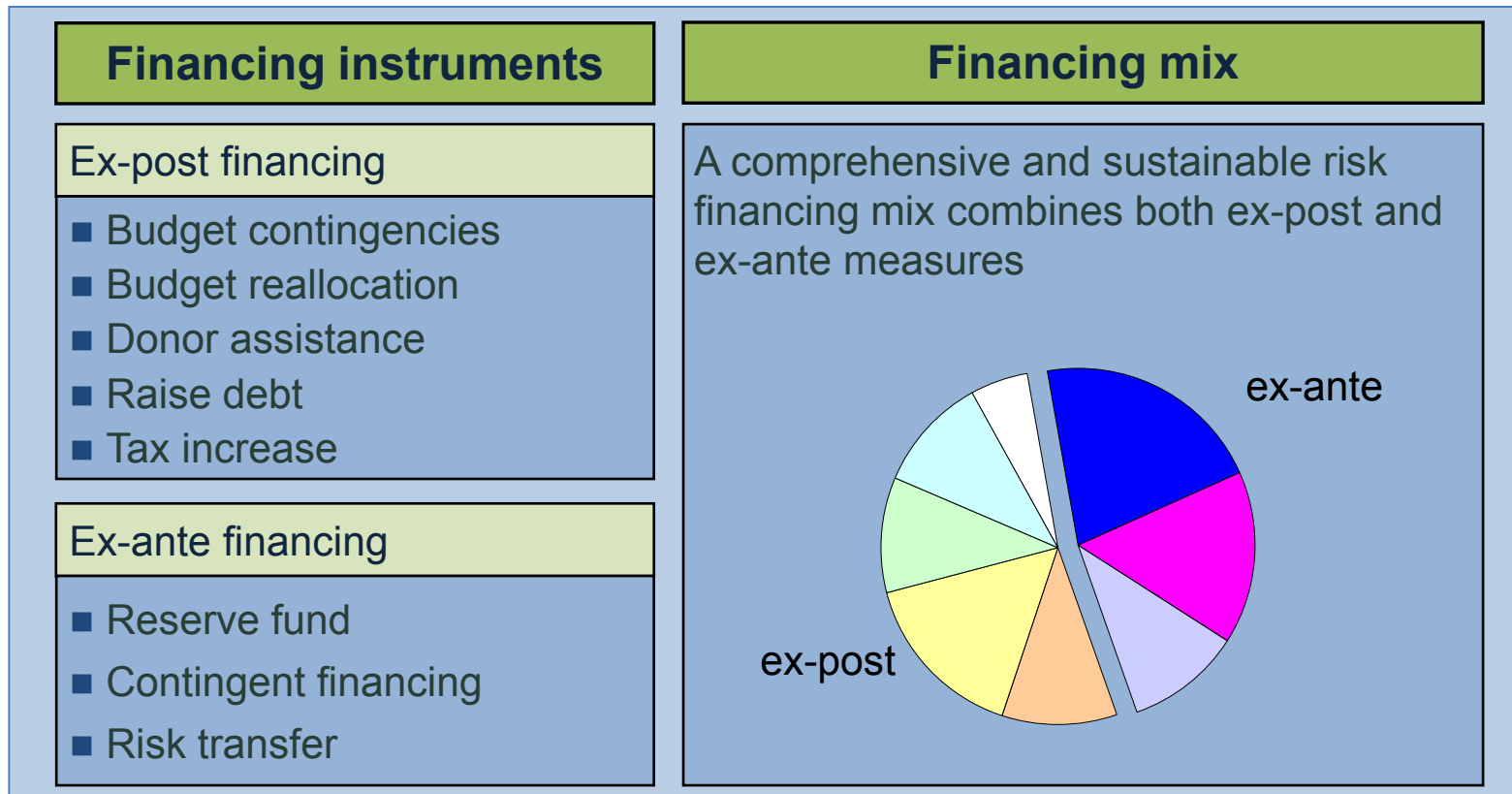
Tasks

- work jointly with (re)insurance industry to identify emerging risks
- establish frequency/severity risk landscape based on best scientific knowledge
- communicate risk landscape to policy makers and general public
- steer mitigation efforts towards biggest risks (either frequency or severity)
- implement risk transfer solutions where appropriate and cost effective

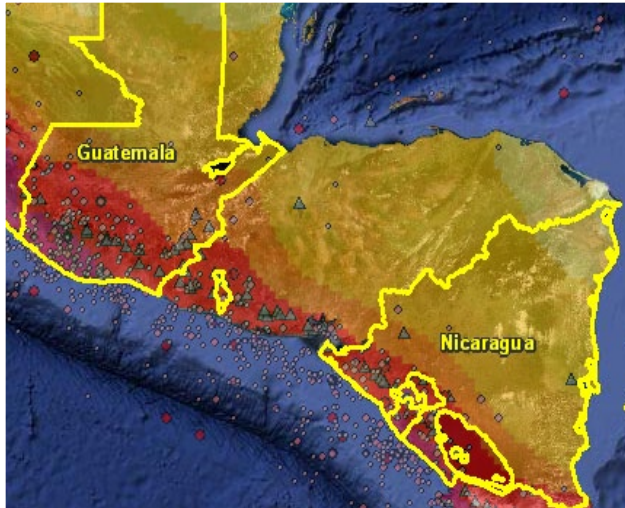
Benefits

- active private/public partnership including knowledge exchange
- much more risk knowledge at policy maker level and general public on key risks
- more rational mitigation strategies and usage of public funds
- less human, physical and economic damage
- higher economic growth since uncertainties about mega risks removed (i.e., terrorism)

Creating a powerful and sustainable Risk Financing Mix



Case Study: Central America - Major events since 1972



2005 Hurricane Stan	
Mexico, Guatemala, El Salvador, Honduras et al	
Total damage	USD 3.1 bn
Insured losses	USD 0.2 bn
Fatalities	1'648

1989 Hurricane Hugo	
Total damage	USD 15.6 bn
Insured losses	USD 7.9 bn
Fatalities	71

2001 Earthquake (7.7) San Salvador	
Total damage	USD 1.8 bn
Insured losses	USD 0.2 bn
Fatalities	844

1972 Earthquake (6.3) Managua	
Total damage	USD 5.1 bn
Insured losses	USD 0.7 bn
Fatalities	5'000

1976 Earthquake (7.5) Guatemala	
Total damage	USD 4.1 bn
Insured losses	USD 0.3 bn
Fatalities	22'084

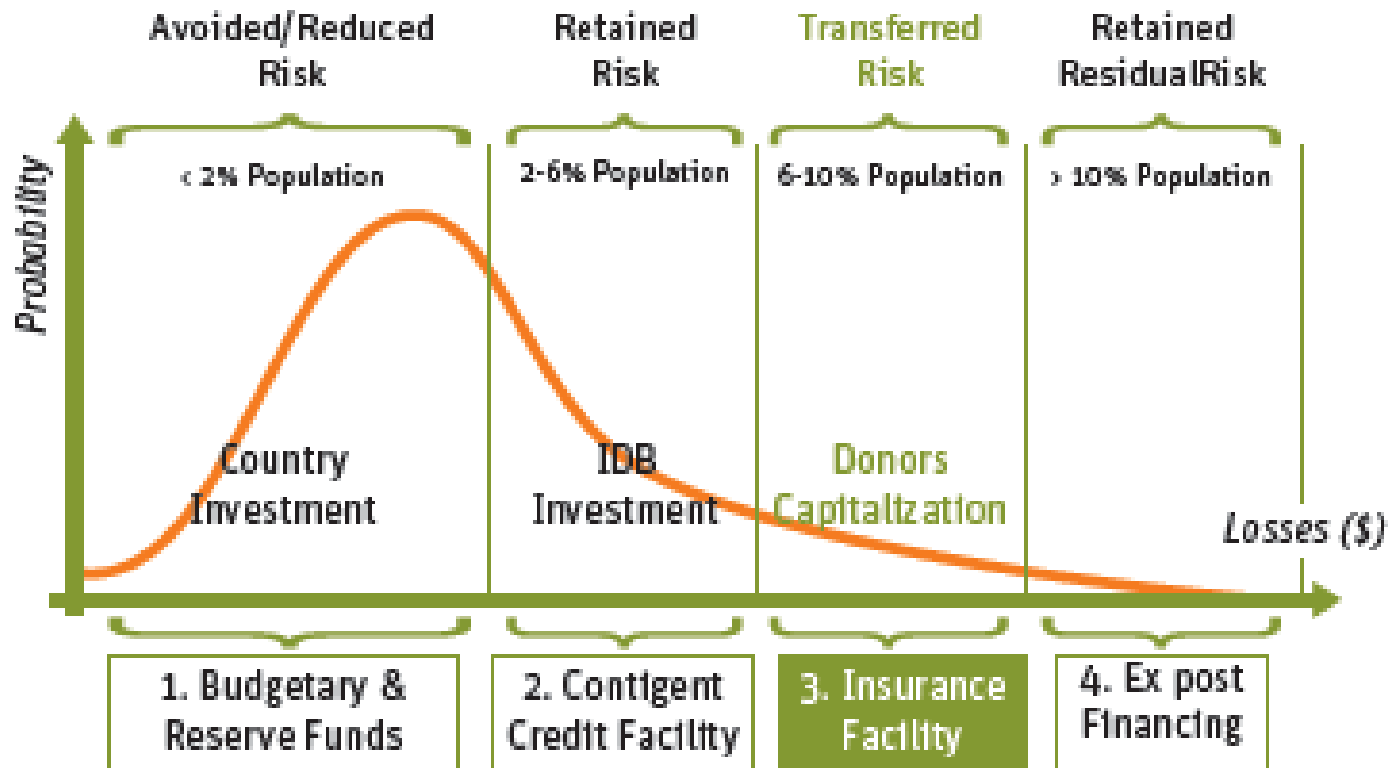
1998 Hurricane Mitch	
Total damage	USD 6.6 bn
Insured losses	USD 0.7 bn
Fatalities	9'000

Sources:
 Swiss Re geoPortal and
 Swiss Re Economic Research and
 Consulting (figures inflated to 2009)

Case Study: The IDB's Integrated Disaster Risk Management Framework

- The Inter-American Development Bank (IDB) has developed an integrated disaster risk management approach comprising four pillars:
 1. National Risk Evaluation
 2. Prevention and mitigation measures
 3. National and local institutional strengthening
 4. Risk retention and risk transfer financing mechanisms
- Key benefits for participating countries:
 - Mitigate the financial impact of natural disaster events
 - Strengthen growth stability in their economies
 - Obtain efficient financial coverage of extraordinary public expenditures
- Eventually expand to other risks (i.e. agriculture), improving Country Risk Management

Case study: Central America Regional Insurance Facility



Conclusion

- Country risk management is a critical element to developing a more resilient and financial stable society
- The Country Risk Officer concept, a cabinet level position with real authority to manage risk, is one that is gaining academic, political and industry support
- Comprehensive risk management programs, like the Inter-American Development Bank's IDRM Approach, offer us a roadmap to integrate risk assessment, risk management and risk transfer