

Glossary of Terms Used in the Political Risk Insurance Industry

NOTE: Definitions of political risk terms vary among political risk providers. For more information on each provider's definition of terms, consult the provider's website.

Arbitration

A process to settle a legal dispute in which the third party (the arbitrator) acts much like a judge, but in an out-of-court and less formal setting and does not actively participate in the discussions.

Breach of contract

Loss resulting from government termination of contracts without compensation for existing investments in a product or service.

Civil strife damage

Property or income losses from domestic political violence, including hostile actions by national forces, civil war, revolution, insurrection, or politically motivated terrorism or sabotage.

Coinsurance

Insurance held jointly by two or more insurance providers.

Creeping expropriation

A series of events by a government (or a subsovereign entity) that results in a deprivation of the investor's rights.

Expropriation

An action whereby a government seizes property of assets of the foreign investor without full compensation to the investor. This is also referred to as 'ownership risk' or nationalization.

Inconvertibility

An action taken by a government to prevent conversion of local currency to some form of foreign exchange. This is also referred to as 'transfer risk'.

Mediation

A process to settle a legal dispute through active participation of a third party (the mediator), who works to find points of agreement and make those in conflict agree on a fair result.

Political risk

Political risks are associated with government actions which deny or restrict the right of an investor/owner (i) to use or benefit from his/her assets; or (ii) which reduce the value of the firm.

Political risks include war, revolutions, government seizure of property and actions to restrict the movement of profits or other revenues from within a country.

Political risk management

Actions taken by investors to manage political risk, such as incorporating political risk into the company's financial equation, obtaining information from diverse sources and applying portfolio theory to international investments.

Political violence damage

Property or income losses arising from violence undertaken for political purposes, such as declared or undeclared war, hostile actions by national or international forces, civil war, revolution, insurrection and civil strife (See Civil strife damage).

Reinsurance

The process of a political risk insurance provider issuing a guarantee with other providers in order to reduce exposure by spreading the risk among the institutions involved.

Tenor

The term of a political risk insurance contract.