

Global Risk Dialogue

Allianz Global Corporate & Specialty

Analysis and insight from the world of corporate risk and insurance



Russia's invasion of Ukraine

Potential impact for insurance and claims

“We do not expect a major wave of claims”

Russia’s war in Ukraine continues unabated, and the potential impact on the insurance industry is increasingly coming into question. Hundreds of leased jets are grounded in Russia, and in Ukraine, the fighting has damaged or destroyed not only residential areas, but also corporate buildings and factories. Allianz Global Corporate & Specialty (AGCS) Chief Claims Officer Thomas Sepp outlines how the situation in Ukraine and the sanctions against Russia are affecting AGCS’ business.



Thomas Sepp,
Chief Claims Officer, AGCS

The rating agency S&P predicts that losses from the war in Ukraine could amount to as much as \$35bn for the insurance industry. How is AGCS affected?

Thomas Sepp: Currently around a dozen claims have been notified to us, but this is only a snapshot as the war is still ongoing. However, we do not expect a major wave of claims like those caused by the Covid pandemic for example. As tragic as the events in Ukraine are, with so many human lives and property assets being senselessly destroyed, our exposure as a corporate insurance carrier is limited.

In general, and in line with the insurance industry, we have war exclusion clauses in almost all policies that exclude property and business interruption losses resulting from acts of war. Where we have explicitly underwritten war risk covers, such as in aviation or marine, we reduced our exposure, as is standard market practice in such situations. Furthermore, we have a small political violence book with insured risks in Ukraine, with the policyholders being international companies domiciled in Western Europe. We provide coverage for war damages to their retail buildings or production facilities in Ukraine. Business interruption can also be insured under these specific coverages. It’s these PVT (political, violence and terrorism) policies where most claims come from to date.

Can such war-related claims be processed as usual?

Thomas Sepp: They certainly present some challenges. As always, we examine each claim on an individual basis to confirm coverage. However, on-site loss adjustment is essentially impossible in a war-torn country, and we cannot send loss adjusters to Ukraine as the safety of our staff and partners must come first. Therefore, we rely on publicly-available satellite imagery, photos and videos, and, of course, information provided by the customer and its local staff to assess the situation on a preliminary basis. However, we can assume that the settlement of claims from a war that will last at least for months, if not longer, will raise some new questions for the insurance industry.

Is it confirmed that war exclusion clauses will apply? After all, in Russia, this war can only be referred to as a ‘special military operation’.

Thomas Sepp: The Lloyd’s Wording Repository lists around 900 versions of war (exclusions) clauses. From an insurance point of view, there are various definitions of war across property, marine, cyber and entertainment insurance lines, covering Germany, the US, the United Kingdom or France. Considering the nature of many political and military conflicts, the boundaries are often blurred: is this war or not yet? However, it is our understanding, confirmed by third-party legal expertise, that the current conflict would indeed be considered as ‘war’ and therefore, absent any specific policy definitions, falls within policy language referencing ‘war’ in each relevant jurisdiction, regardless of any statements to the contrary made by President Putin or the lack of a formal declaration of war by Russia. Therefore, we can consider war exclusion clauses to be effective.

Hundreds of leased aircraft are grounded in Russia and at risk of confiscation. Media and rating agencies speculate about billions in losses for the insurance industry. Will AGCS see an impact too?

Thomas Sepp: No, we don't have any relevant exposure. These potential losses refer to special war covers for aircraft leasing companies such as 'lessor contingent all risk' or 'contingent war'. We withdrew from this niche segment some years ago. Potential losses will mainly affect Lloyd's insurers and the global reinsurance market. However, it is a very complex situation – both in terms of policies, possible triggers, ownership structures and legal grounds – and unprecedented for the aviation insurance markets. This will keep many lawyers busy for years to come, and we are also monitoring the ongoing developments and discussions closely.

To what extent are the sanctions against Russia impairing routine claims handling?

Thomas Sepp: AGCS is handling more than 140,000 claims per year – among them are a few hundred Russia-related claims which are still being processed. Many of these originate from international insurance programs for global companies with local assets and business ventures in Russia. We are fully committed to honor our contractual obligations. However, where sanctions against individuals, financial institutions or businesses have come into effect, we are prohibited to make any payments. Indeed, this is the case for a small number of claims at the moment. Together with our legal and compliance experts, the claims team is on 'high alert', and we are taking all necessary measures to implement and comply with the specific sanctions, as well as other relevant legal changes.

Many industrial businesses in Germany or Europe, especially in the automotive industry, are suffering losses from disrupted supply chains. Are these insured?

Thomas Sepp: As a rule, there is no coverage. Business interruptions are only insured if they are caused by property damage that is itself insured, for example, if a fire, storm, or escape of water causes damage and subsequent business interruption. Damage caused by direct acts of war or in occupied territories, or because employees are absent due to conscription for military service, is therefore excluded from traditional property and business interruption insurance policies. The extent of the destruction – and we are seeing this dramatically in Ukraine right now – would simply overwhelm the resources of the private insurance industry, which is why war exclusion clauses are a common standard.

Authorities in many countries are warning of increasing cyber risks because of a parallel war in cyber space. Has AGCS already noticed rising claims activity in cyber insurance?

Thomas Sepp: We are seeing a sustained high level of claims activity in cyber insurance and have been involved in around 1,000 cyber claims a year for the past two years. This compares with fewer than 100 in 2016. Fortunately, we have not yet seen a recent sharp increase in cyber claims among our policyholders to date. However, it would be too early to sound the all-clear as we don't know what will happen in the next stages of this war. Our advice is to remain cautious and vigilant; companies should keep their security controls at the highest level. We ourselves are also underwriting cyber risks even more diligently than a few months ago, especially for critical areas such as infrastructure or telecommunications. However, we continue to work on keeping cyber insurable for all industries and see ourselves in this market for the long term.



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May 2022

Cover image: Wikimedia Commons, State Emergency Service of Ukraine, dsns.gov.ua