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POLITICAL VIOLENCE

THE NORMALISATION OF POLITICAL VIOLENCE

CRITICAL CERTAINTIES

AN INTRODUCTION TO OUR LATEST THOUGHT LEADERSHIP: **CRITICAL CERTAINTIES IN AN UNCERTAIN WORLD**

One of the key objectives of our Informed Insurance thought leadership has been to focus on critical uncertainties – those potentially disruptive challenges that loom on the far horizon of everyday business but have the potential to fundamentally reshape the world of insurance.

When we published our scenario planning tools just four years ago, our map of critical uncertainties aimed to encourage the industry to focus on these growing future challenges. Today, many of these distant uncertainties are in fact part of our day-to-day life. Artificial intelligence, the rise of political violence, the pressures of social inflation and the need to prioritise the mental health of staff, especially those dealing with traumatic claims, are now critical certainties. The impact extends to all boardroom agendas as a myriad of resulting new regulations increases the level of responsibility placed on business leaders.

The rapid pace of change and the dramatic impact of these critical certainties will themselves create new uncertainties. Our aim through Informed Insurance is to give you the insight to face such challenges and opportunities with confidence.

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THE NORMALISATION OF POLITICAL VIOLENCE

Standalone political violence (PV) cover is a focus for insurers, insureds and reinsurers alike. Strikes, riots and civil commotion (SRCC) risks, while only one element, have received particular attention in the current geopolitical climate.

Daily news headlines about civil unrest and geopolitical risk around the globe have resulted in PV cover being in high demand.

The standalone PV market largely has sprung from terrorism and war risk underwriting. However, while war has returned to Europe and terror remains a threat, a significant driver for PV market growth has been SRCC events.

"It's the combination of an understanding that the world is a more volatile place, and the appreciation and impact of common exclusions within all risks property policies," says Paul Baker, partner and political risk, trade credit, terrorism and political violence specialist at DAC Beachcroft. "Multinationals are looking at exposures across the globe and PV exclusions are being identified."

From the London Market to Latin America and the Middle East, broking and underwriting sources report double-figure rises in enquiries, whether directly or through broker facilities.

Ukraine

Paradoxically, perhaps the greatest catalyst for this has come from a traditional war risk type event: the reinsurance market's response to the 2022 Russian invasion of Ukraine.

"Russia's Ukraine invasion had seismic effects for re/insurance markets, including PV, as well as war, marine, and credit and political risks," says Charlotte Bender, claims manager, credit, political and crisis management, Canopius.

"There was an expectation for PV losses to be far higher than they were, but you do have that cumulative effect of the perception of risk, and it's still an event that's ongoing," she adds.

Reinsurers quickly imposed a Russia, Ukraine, Belarus (RUB) exclusion. However, while war risk definitions and occurrence periods in use elsewhere have remained unchanged, reinsurers also used Ukraine as a driver for SRCC.

"Reinsurance costs and conditions were mainly driving the pricing," says Srdjan Todorovic, head of terrorism and hostile environment solutions, Allianz Commercial.

"Reinsurers' actions excluded some countries, most obviously the RUB, but they also changed occurrence definitions in the excess-of-loss programmes."

Previously, SRCC might be limited to a country, whereas some definitions are now on a city basis, he suggests, with protests in five cities likely to mean five retentions, whereas previously there was a single retention.

Hamish Greenwood, head of crisis management at McGill and Partners, agrees on the war's pivotal role in the market's evolution. "It was Ukraine that moved the needle, getting the reinsurance market to react, so that we saw significant increases in reinsurance costs and massively increased retentions for all direct markets," he says.

Reinsurers had not previously priced their treaties for this situation. PV reinsurance had been bought together with property, marine or other specialty treaty business, but since Ukraine, standalone towers are increasingly the norm, sources agree.

"That's been a fundamental shift," Todorovic says. "The Ukraine war has been the trigger, but the biggest single change has been not to the occurrence definition of terrorism or war risk, it's been to SRCC, and that's because we also experienced events in Chile, South Africa, France, as well as the Black Lives Matter (BLM) protests and other events."

Chile

The PV market's normalisation is a global story, but events in Latin America have been major markers in its narrative, starting with unprecedented, months-long protests in Chile from 2019, then influencing other social equality-based protests across borders in the region, leading to SRCC exclusions on LatAm insurers' property all risks policies, which fuelled standalone PV placements, typically bought as facultative reinsurance.

According to Andres Amunátegui, a partner at DAC Beachcroft in Chile and Head of LatAm, "2019 changed history for PV risk in a number of LatAm countries, particularly in Chile. Before then, SRCC coverage used to be included in property policies at no cost, but now it is very expensive or excluded. As a result, standalone PV products become more attractive and include a number of risks to which our countries are exposed and represent an effective solution for insureds to protect their assets."

"A lot more companies active in LatAm territories are buying PV, and the main driver has been SRCC becoming a more frequent exclusion in LatAm property all risks markets," agrees Napoleon Montes, head of Hiscox Miami.

South Africa

Adding to the explosive cocktail, South Africa experienced a major civil unrest event in 2021, with unforeseen concentration of risk in urban centres, leading to a crunch in reinsurance capacity and meteoric PV rate rises for the country.

Black Lives Matter

Soon after these regional civil unrest events came the international BLM protest movement, which rapidly spread across US cities and across Western countries, following the 2020 murder of George Floyd by US law enforcement.

“Where it really hit home has been the BLM protests, because it felt so much closer, and because of the intensity, speed, and sheer unpredictability of it,” says Todorovic.

The effects were wide-reaching, he explains, beyond buyers or rate rises, with a dramatic shift in risk perception, and high-profile, high-value city property viewed as particularly at risk.

“There had been events in Chile and elsewhere in 2019-2020, but I think BLM in 2020 was when you can start to feel the market turning, not just in America, but elsewhere, with a crunch on SRCC,” Todorovic says.

“That’s the pivot for me. Up to this Chile-BLM moment, it was a soft market, but following that, there was a recovery in rate that was everywhere. Events that followed have compounded the rating environment, and the risk perception of this peril,” he adds.

An attrition risk

Montes views PV’s normalisation as cumulative, becoming an attrition risk. This changed the market’s perspective of it from being seen as a severity peril that could be managed through the buildup of several ‘quiet’ years of premium.

“Rather than any single turning point, it’s the attrition that’s changed,” he says. “Almost everybody used to underwrite a war, terrorism and PV portfolio purely as a severity risk. Since 2019, that has changed. I now need to embrace attrition every year, which changes your risk profile, because if you don’t make your bets correctly, you could get burned every year.”

Factual assessment

Sources agree that the reinsurance market for PV has not hardened further as a result of the Gaza war, in part due to more fresh capacity and new entrants than had been expected, and previous movement in 2022-23. However, new PV triggers and related protests are already occurring in 2024, particularly given events in Israel and Gaza.

“We’ve seen weekly protests in several countries, including in London and recently on US college campuses, in relation to the ongoing conflict” Bender says. “Everyone is very aware of what’s going on in the world, social media fuels that, and it has become a big part of assessing motivations in PV claims as a result. For policies that have named perils, social media investigations are important to ascertain underlying motivations, whether protests in different places are linked, and which policies respond.”

Baker agrees: “Intense factual assessment is required when choosing between specified PV perils, especially as some may appear in a single SRCC extension whereas others fall to more bespoke PV coverage or exclusions (such as insurrection and revolution).”

Elections

The claims environment will likely continue to evolve amid ongoing events in Ukraine, the Middle East and elsewhere, particularly given the record number of elections taking place globally in 2024. For all sources, one upcoming election dwarves any others around the globe in its PV potential.

"I would stop talking about elections in plural," Montes says. "It is the US election that is truly the most important one, and there is no doubt we are at a geopolitical turning point."

He expects its outcome in November to have enormous bearing on regional politics, given increased questions about American geopolitical hegemony and competing powers and influences – most notably the role of China – trends that are applicable globally.

This era of insecurity is creating caution among clients and underwriters alike. "People remain very cautious," Montes says. "In Latin America, for instance, I always say you're only one election away from the next crisis, and it's undeniable that the world is going through a volatile phase in 2024."

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