National Insurance
Alliance Limited

15th October, 2024

War Risks and Insurance Premiums: How War Affects the Insurance Industry (Part 1)

With further escalation of the Israel-Palestine Conflict at the start of the month coupled with ongoing conflicts globally like the Russo-Ukraine War, it is no wonder that conflict and/or war risk is at the forefront of underwriters' concerns. In this three-part series, NIACE will dive deeper into the business of underwriting war risks, how underwriters are affected by an increasingly volatile geopolitical landscape, and how businesses and/or consumers are affected. Additionally, NIACE will explore the industries where war insurance plays a crucial role in everyday operations and how they have been affected by war.

Underwriting Risks Amidst an Increasingly Volatile Geopolitical Landscape

According to research conducted by the Global Peace Index, deaths from conflicts are at historic levels with more than 238,000 people killed in 2022 due to conflict and/or war. 2023 saw a 72% increase in conflict-related deaths and the situation this year is projected to exceed the number of conflict-related deaths since the 1994 Rwandan genocide. To paint an even grimmer picture, there are currently 56 ongoing conflicts that have had a more international reach and are the highest since World War Two. Consequently, brokers and underwriters have experienced a surge in war risk coverage amidst the backdrop of major conflicts like the Israeli-Palestine conflict, the Myanmar military coup, the Russo-Ukraine war, and the Sudan civil war.

Challenges in Underwriting War Risks

The main challenge that insurers face when underwriting war risk is the differentiation between active and passive war exposure. The ever-changing logistical landscape of modern warfare has made it extremely difficult for insurers to distinguish the exact risk that they are underwriting. One example would be in the context of accident and health insurance. A group of locals that stay 100 kilometres away from the frontline of an ongoing war are judged to be exposed to passive war risk despite the consistent back and forth firing of missiles. In this scenario, the 100 kilometres distance buffer between the locals and the frontline is deemed a sufficient enough barrier to downgrade the war exposure to passive instead of active.

How Policies are Changing and the Impacts on Players in the Insurance Industry

Even though the demand for war-related insurance products has surged, some reinsurers have imposed restrictions on certain types of war-associated risk. Due to the complex challenges in underwriting war risk as discussed above, there has been a significant "hardening" around political violence coverage owing to the increased occurrences of such violence as a result of the numerous ongoing conflicts like the Israel-Palestine conflict etc. One prominent example would be the coverage for nuclear, chemical, biological and radioactive (NCBR) covers. Some reinsurers are already beginning to exclude NCBR coverage under the context of accidents and health due to the heightened perceived risks and probability that NCBR types of events could occur in ongoing conflicts.

From the perspective of insurance brokers and underwriters, increased war risk might not necessarily benefit them, with ripple effects expected across the entire insurance value chain. For one, the war risk appetite of reinsurers has taken a significant hit as reinsurers are

now simply refusing to insure underwriters due to the sharp increase in the probability armed conflict will occur. Essentially, an insurance company purchases insurance from reinsurers to insulate itself from the risks associated with major claim events. Given this correlation, it is not difficult to see why reinsurance companies have largely lost their appetites for war risk products and/or insurers with a sizable war risk product position. Consequently, this will affect the appetite for insurers to underwrite war risk products which can negatively impact not just themselves but also insurance brokers.

Both insurers and insurance brokers derive their profits from selling insurance products. If a significant portion of profits are down due to fewer war risk policies underwritten (and subsequently fewer policies sold), no player within the insurance industry would want to take on war risk head-on without some sort of hedge or safety net. Hence, persistently high risks from global conflict have a detrimental long-term effect on the insurance industry.

Having understood the basic market mechanisms of war insurance and the challenges associated with war risk underwriting, the next article will aim to shed light on the different types of war products offered by insurers as well as the type of buyers that usually purchase these insurance products. Recognising the importance of adaptability, the management of NIACE is currently monitoring developments within the industry, constantly keeping an eye out for and actively managing the company’s risk so that our clients can continue to have peace of mind.

Note: NIACE is an independent company and is not affiliated with any of the financial institutions (past and/or present) mentioned in our press releases unless otherwise specified. Views expressed in this article are purely for information purposes only and does not act as nor constitutes investment advice. Clients and readers are advised to conduct your own due diligence or consult your financial advisor(s) before making any investment decisions.