

War Risks and Insurance Premiums: How War Affects the Insurance Industry (Part 2)

of our running series on War Risks and Insurance Premiums, NIACE shared the nature of underwriting war risks and the challenges involved in this line of business. Additionally, the company also shed light on how changing policies around war risks are affecting players across the industry. In Part 2, we will be taking a closer look at the different types of war insurance products and the buyer profiles of these products.

Different Types of War Insurance Products

The most common and prominent war-related insurance product is political risk investment insurance (PRI) which provides coverage for exposure to war. PRIs typically cover currency illiquidity, civil strife, expropriation, and political violence (including coups, insurrections, revolutions, and wars). Even though the concept and coverage for PRIs have not changed much over the past 20 years, recent developments brought about by the Russo-Ukraine War, Israel-Palestine Conflict, heightened tension between China and Chinese Taipei, and growing concerns of higher tensions between G7 countries have seen a surge in demand for these products resulting in rising prices of PRIs. Additionally, given the well-documented losses in the Russo-Ukraine war, many underwriters are currently unwilling to take on new and/or additional risks which has contributed to higher prices of PRIs as well.

On top of PRIs, there are other similar, more specific products in the realm of war linked insurance products. An insurance line that has also experienced an increasing demand for is terror and political violence insurance which provides coverage for entities that wish to be protected from business interruption and loss of physical assets. A prominent example of a war cover scheme is from Aon which has unveiled a US\$350m scheme in collaboration with a US development agency. This is the most recent private-public partnership collaboration to protect Ukrainian businesses against war risks and aims to strengthen Ukraine's wartime economy while facilitating the reconstruction process.

Another crucial insurance line in war insurance products is special risk insurance which covers accident, health and kidnap for ransom risks during times of conflict. Special risk insurance policies are especially useful for entities that desire to protect their employees who operate in politically unstable geographies or areas near active conflict zones. The coverage extends to emergency evacuation (medical and security reasons), kidnap for ransom, and personal accidents and/or injury. The additional benefit for purchasing special risk insurance products is that there will be some form of on-the-ground support in the event emergency evacuation is required and kidnap for ransom incidents occur.

Profiles of War Insurance Policy Holders

Generally, PRIs can be purchased by any entity which desires to protect itself against political risks collectively. However, according to major underwriters globally, multinational corporations, international banks, and export credit agencies are the main buyers of PRIs. This makes sense as the operating nature of these entities tend to be more exposed to risks across different geographies. At the same time, companies who operate in high-risk

environments or are considering investing in frontier markets that are concerned about security can purchase PRIs and special risk insurance to ensure that their operations and on the ground staff are adequately protected from unforeseen circumstances. Companies with the highest demand for PRIs tend to hail from extraction, mining, and the oil and gas industries. This is largely attributable to the rising pressures from shareholders to deliver greater shareholder returns at the cost of taking on more risk while legally being required to protect their employees, physical assets and operations in geopolitically unstable areas.

Specifically, insurance brokers and underwriters have seen an increase in demand for PRIs from companies operating in Africa in the precious metals and elements industry. This is directly linked to the boom in demand for precious metals and elements in the technology and electronic vehicles (EV) industry i.e. cobalt is an element that is crucial in the manufacturing of EV batteries.

Additionally, it has been reported that companies involved in infrastructure and oil and gas in Iraq have experienced a surge in demand for PRIs as well with a strong focus on rebuilding the country's infrastructure. Construction and engineering projects in the Central Asia region such as countries like Kazakhstan and Pakistan have also seen an uptick in the demand for PRIs partially owing to China's Belt and Road Initiative projects.

Lastly, charity organisations, non-governmental, and media organisations are also organisations that require coverage from PRIs for obvious reasons. Evidently, employees of these organisations rush right into the heart of the conflict zone to provide on the ground support and media reporting during times of conflict. However, this has proven to be a rather problematic group of clients for insurance brokers and underwriters to provide coverage for as these organisations literally rush right into the heart of conflict zones when others are fleeing. Essentially, due to the operating nature of these organisations who are exposed to such a high degree of risk like "running into a burning house", it is extremely costly and logistically challenging to insure these groups of clients.

Having understood the different types of war insurance products and the client base that require these products, the next article will aim to shed light on the marine and shipping industry that relies heavily on war insurance products and how the industry has been negatively impacted by geopolitical instability. 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 a peace of mind.

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