

‘On Conducting A Special Military Operation’

Russia/Ukraine –
A London re/insurance perspective

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Map of Ukraine





Agenda

Past Why This Matters to Insurance Markets

Present Coverage and potential losses
Cargo
Marine Hull War
Political Risk
Political Violence
Aviation

Future The Crystal Ball is Murky!

Long Table Diplomacy

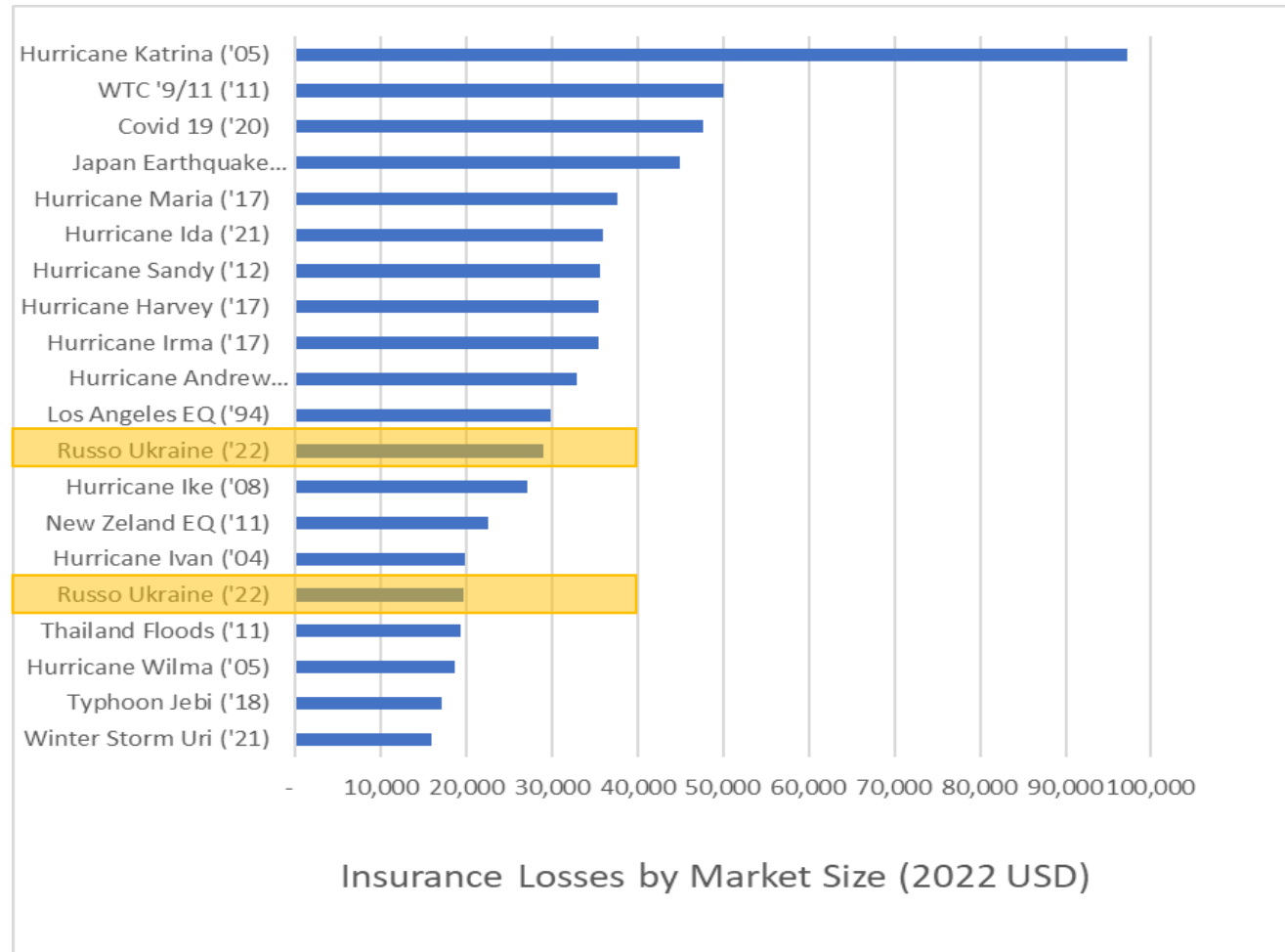




Why This Matters To Insurers

- “Specialty Market” insurance losses up to \$35 billion
- Top 21 reinsurers to absorb 50% of the losses
 - = 2nd largest man-made re/insured loss (WTC 2001, c \$50bn)
- Clash of losses across several lines of business
- Largest ever Aviation, Marine, Political Risk & Violence losses, at the same time.
- 1% of Lloyds revenue from Russia/Ukraine/Belarus.
- Lloyds (& others) only just returned to underwriting profit after several loss-making years.

In Context – Historic Catastrophe Losses



Russia Ukraine Specialty Losses

Firm	Low	Medium	High
S&P	16,000	27,000	35,000
PCS	13,050	20,600	23,000
GC		16,000	
WTW		15,000	
Average	14,525	19,650	29,000



Cargo – Coverage/Potential Losses

- Cargo insurance employs “Institute Cargo Clauses” covering cargo whilst in transit.
- 3 forms: A B & C all exclude War as standard.
- A war writeback “CL385”, may be purchased granting coverage for War and related perils.
- However, the policies are cancellable, typically with seven days notice.
- Some underwriters offer war coverage on a per voyage basis, war rates of 0.5% (on oil)
- Specialized “War on Land Cargo Insurance”, with specific limits for single transits, stock throughput or storage risks is available.
- Several suspected losses including confiscation of oil.

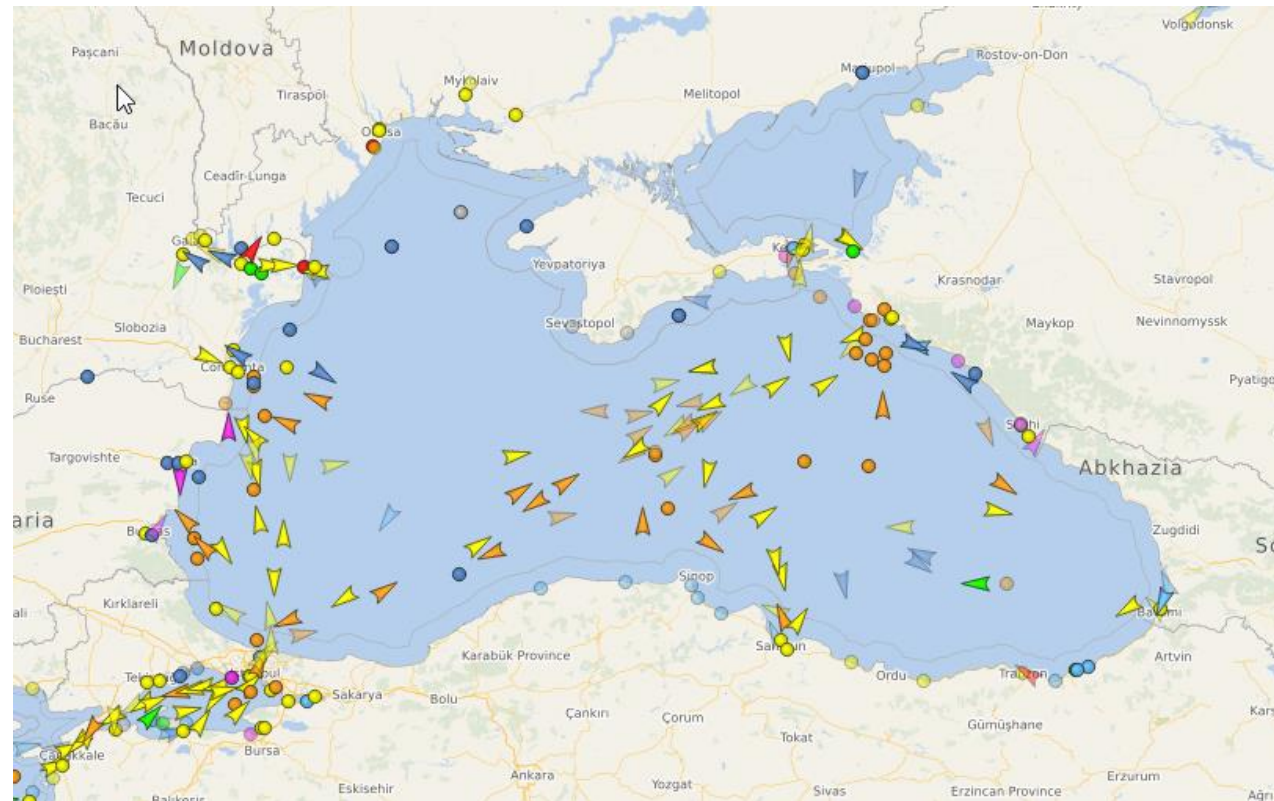
Marine Hull War – Coverage/Potential Losses

- Covers physical damage to and trapping of vessels.
- PCS estimate Marine losses of \$3 – \$6bn
- Est. 84 ships and 1,000 seafarers trapped when war broke out Feb 24
- Sea of Azov and parts of Black Sea remain closed.
- Several known casualties
 - Helt, Namura Queen, Millennial Spirit, Yasa Jupiter.
- Mines reported as far south as the Bosphorus.
- Underwriters now restrict coverage, “breach rates” of up to 10% of hull value per voyage.
- Lloyds JWC added Russia to its Listed Areas on April 4th.



Marine Traffic in the Black Sea

- Black Sea AIS Data – 27/4/22



Russia - Weapons



Political Risk – Coverage/Potential Losses

- Political Risk protects owners/investors against losses due to Political Events including Expropriation, Forced Abandonment and Political Violence incl War / Civil War.
- Annual premium, excluding ECAs, is c\$2.27bn. Policies can be > 10 years in tenor.
- Estimated exposure in Russia and Ukraine c\$3.5bn, in 2021. (Insurance Info Inst).
- Ukraine a significant exporter of Seed Oils (#1), Corn (#4) Iron Ore (#4) and Wheat (#5)
- Will Russia confiscate non-Russian assets in Russia?





Political Violence – Coverage/Potential Losses

- Political Violence cover provided alongside Terror within Specialty Insurance Lines
- Annual premium, excluding national pools, is c\$1.2 bn.
- Aggregates controlled on a blast zone and per country basis.

- Estimated exposure \$4bn.(PCS)

- At least 12 claims via Aon Alpha Facility

Kernel	Sunflower Oil	\$250m
Archer Daniels	Grain, Oil Seed	“low double-digit millions”
Syvash Wind Farm	Wind Turbines	€200m

- The challenges of binding facilities / late notifications.

Ukraine - Weapons



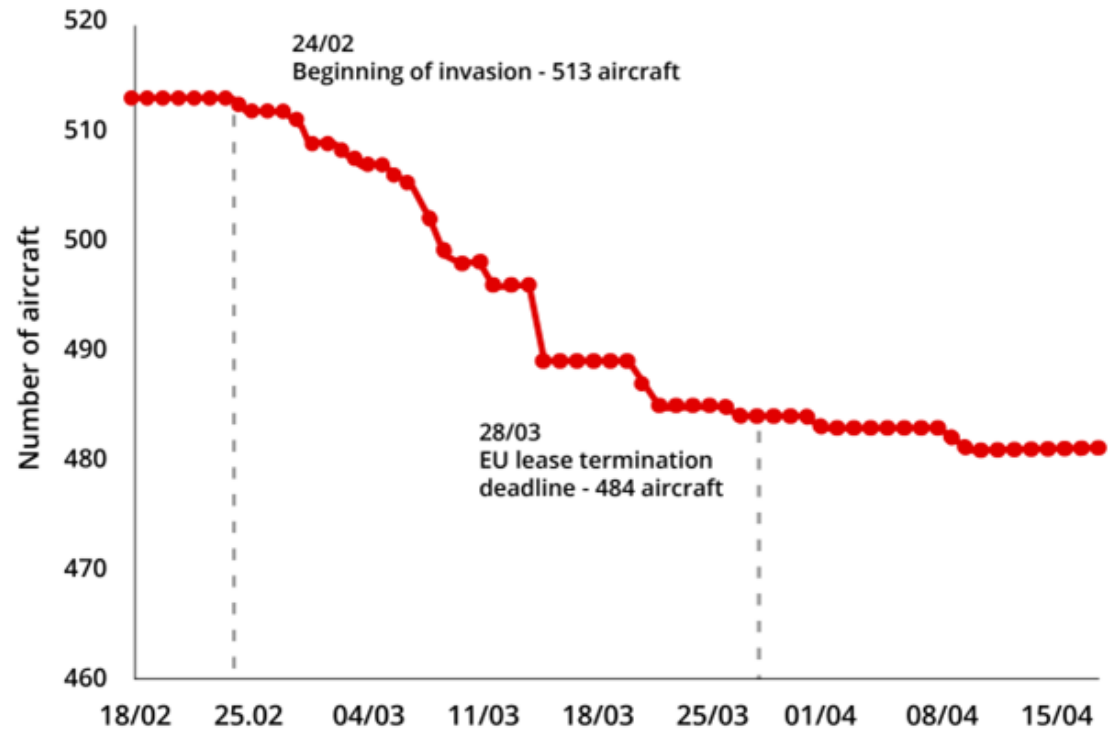
Aviation – Coverage/Potential Losses

- Potentially biggest loss to re/insurers,
- PCS \$7 – \$13 billion, S&P \$6 - \$15 bn.
- Estimated annual income \$1.5b All Risks, \$125m War.
- Airlines lease aircraft, rather than own outright
- Russian airlines lease ~500 western aircraft (Bermuda/Ireland)
- 14 Mar - Russia law seizes and begins re-registering aircraft
- Theft vs Confiscation? (Aviation All Risks vs Aviation War)
- AerCap (#1 leasing company) has filed a claim for \$3.5 billion (All Risks)



Aviation – Coverage/Potential Losses

Foreign exposure to Russian operated aircraft



Source: IBA

Ukraine conflict timeline for aviation

- **February 24**
Russia invades Ukraine. EU adopts first round of sanctions against Russia
- **February 25**
UK bans all Russian aircraft from its airspace
- **February 27**
EU bans Russian civilian aircraft from EU airspace
- **March 3**
UK government blocks Russian aviation and space companies from accessing UK insurance sector
- **March 5**
Aeroflot announces it will cease all international flights
- **March 9**
UK government releases full list of sanctions. Insurers have until 28 March to cancel all Russian policies
- **March 13**
Bermuda civil aviation authority suspends the certification of all Russian-operated aircraft
- **March 14**
Moscow bans Russian insurers from ceding any class of risk to reinsurers to UK, US and EU carriers. Putin signs law allowing foreign aircraft to be re-registered
- **March 24**
EU clarifies sanctions to say that the EU (re)insurance ban won't apply to non-Russian aircraft flying in and out of Russia
- **March 29**
All Irish lessors successfully terminate Russian leases before EU deadline
- **March 31**
Russian PM Yury Borisov declares all foreign aircraft will remain in Russia after the end of leasing contacts

Source: Insurance Insider



Impact

- Outlook Uncertain, particularly reliant on Aviation.
- Losses \$29 billion (average 'high scenario')
 ~50% on reinsurers, how much to Lloyds?
- Lloyds 2021 underwriting profit \$2.2 billion, combined ratio 93.5%
- Reinsurers 2021 improved to a 97.6% combined ratio (Gallaghers), however,
- Reinsurers In four of past five years Reinsurers have not earned their cost of capital
- Financial Mkts Inflation and volatility. (SRCC elsewhere?)
- Results Expected to be an earnings event for many, a capital event for a few.
 - The Insurer, "How Does Ukraine Compare To Previous Lloyds Losses", published online 30/3/22.



The Future

- Losses Occurring or Risks Attaching cover?
- Reinsurers have sold provided “Composite” cover for several years
 - Umbrella Layers
 - Composite / Multiline cover (e.g., Marine w/ Aviation War, Terror, War on Land).
- Sanctions?
- Capital Management? Tolerances and correlating lines of business, fat tail?
- Where next? China/Taiwan? North/South Korea?

A Murder of Black Swans?

Climate Change

Covid-19

Russia/Ukraine

