Ukraine Crisis - an Insurance Perspective

(Helsinki, 21.2.2014): As the crisis in Ukraine escalates further from a peaceful demonstration to violent and deadly clashes between different factions, what does this mean for Finnish companies in respect costs that could be incurred and how well would they be covered from the insurance products that are available?

Business and Expatriate Travel - Additional War Risk Insurance

Business and Expatriate Travel Insurance do not indemnify a loss or injury which is caused by war, rebellion or another similar event. At this point, The Ukraine is not yet categorized as a war risk area, but this may change rapidly. In case of an armed operation initiates in The Ukraine, the Business Travel Insurance or Expatriate Insurance is typically valid for 14 days in this area, assuming the insured has already commenced his journey before the event began. After this, the coverage in the area in question becomes limited in scope or ceases to exist altogether, depending on the insurer.

Once a country is categorized by the insurer as a high risk area, additional insurance is needed when travelling there.

Property Damage

Property owned by Finnish companies in the Ukraine that are damaged or destroyed in the ensuing violence are unlikely to be insured as the violence escalates further. Most insurance policies will provide cover for property damage resulting from Riots or Civil Commotion. This is usually defined as a group of individuals that are acting in a way which threatens the public peace. However, insurers are very reluctant to provide coverage for anything that starts to become political in nature. As a result the insurers protect themselves by including an exclusion for Terrorism. The definition of terrorism is broad as it states:

“Terrorism means an act of any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organisation(s) or government(s), committed for political, religious, ideological or similar purposes including the intention to influence any government and/or to put the public, or any section of the public, in fear.”

Clearly from the very early stages of the events in the Ukraine there is scope for insurers to claim that property damage ensuing as result of demonstrations in the Ukraine could be classed as a terrorist event, whether or not it is declared as such by bodies such as the European Union or the Government of the Ukraine.

Should the demonstrations escalate further into a civil war, property insurance policies will contain a War exclusion that includes Civil War and also confiscation, nationalization, requisition, destruction of or damage to property by or under the order of any government.

Business Interruption

A business interruption policy will insure the loss of profit resulting from property damage covered by the policy. Therefore property damage to a Finnish company’s own property in the Ukraine or that of a key supplier or customer, would be excluded as per the comments made above. As a result there would be no business interruption coverage.
Furthermore, not being able to supply or deliver materials into the Ukraine purely as a result of the violence would not be covered either.
So how can these risks be insured? It is possible to buy Terrorism insurance and Political Risks insurance that provide coverage for the events that are happening in the Ukraine or that could develop in other countries around the world where Finnish companies are operating:

**Terrorism insurance**

Terrorism insurance is typically placed on a stand-alone basis as its own separate insurance policy providing property damage and business interruption cover as a result:

- Sabotage and terrorism
- Strikes and/or riots and/or civil commotion “SRCC”
- Malicious damage
- Insurrection, revolution and rebellion
- Mutiny and/or coup d’etat
- War and/or civil war
- Liability

The coverage can also be extended to include key suppliers and customers which could result in a business interruption loss to your organization.

**Political Risks Insurance**

- Like Terrorism insurance, Political Risks insurance is typically placed as its own separate insurance policy. It can cover unforeseen political events which can lead to:
  - Confiscation, expropriation or nationalization of assets
  - Imposition of export/import embargoes or cancellation of export/import licenses
  - Physical damage to assets from political violence
  - Termination of or default on contracts
  - Non payment or moratorium due to exchange transfer and currency inconvertibility
  - Non delivery/shipment of goods
  - Calling of on-demand bid or contract bonds and guarantees for unfair or political reasons
  - Forced abandonment or divestiture
  - Non payment by government and/or government owned entities of trade related debt to financial institutions
  - Non payment by private entities of trade related debt to financial institutions

The range of possible actions that can be taken by governments is very broad and often leads to increased costs, penalties, forced shutdowns, loss of profit or liquidated damages.

**Lessons Learned**

So what are the lessons that can be learned for Finnish companies as a result of the events in the Ukraine:
- Understand that there are gaps in traditional insurance products that will mean events such as Terrorism, Political Violence and Civil War, are not insured.
- There are insurance products that can cover these risks and Finnish companies should be pro-active to understand where they are most exposed
- As a result of the exposure, companies should evaluate whether to purchase these special insurance products.
- Realizing these risks after events have taken place or damage has been done, will mean insurance coverage is either not available or what is available is limited in scope and expensive.

For further information, please contact your Account Manager.