

A NEW WORLD OF POLITICAL VIOLENCE



Phil Durrant

Phil.Durrant@integratechnical.com



Szen Ong

Szen Ong@integratechnical.com

Russia's invasion of Ukraine in February 2022 started a bloody conflict which continues today and shows no sign of a peaceful resolution. But, whilst the Ukraine war marks a historic milestone as Europe's most serious hostility since WW2, it has also created an unprecedented shockwave across the insurance world.

The conflict presents a new challenge to insurers and insured alike, a highly unusual backdrop for a multiplicity of Political Violence claims, with a perilous, fast-moving and unpredictable situation on the ground. This article examines some of the unique constraints relating to the war and how adjusters are responding.

UKRAINE WAR: A UNIQUE EVENT

Apart from the tragic human cost, Ukraine is paying a heavy price for its decimated infrastructure. A 2023 World Bank report estimates a US\$ 411 billion price tag for rebuilding the war-torn country. Multiple insured assets have been appropriated or suffered war damage as a direct result of a prolonged conflict with no end in sight. Front lines are constantly shifting as Russian and Ukrainian forces advance or retreat, creating uncertainty about the safety and accessibility of damaged sites and the possibility of secondary damage from ongoing fighting. Gathering evidence may be difficult due to local dangers, while restricted supply chain, broken transport infrastructure and sanctioned stakeholders make repairs and business restoration prolonged or impossible while the war continues.

GATHERING EVIDENCE BY SATELLITE

Ground inspection is impossible when damaged assets remain in Russian-occupied territories close to dynamic front lines and within range of artillery attacks. Even remote inspection techniques like Integra's IRIS technology are difficult to deploy without endangering operatives. Enemy drones are known to target mobile phone signals and operatives risk being apprehended and charged with espionage.

With ground operations limited, satellite surveillance has become the adjuster's go-to tool, and free low-resolution satellite imagery is available in most conflict zones. Once an insured asset is identified in low-res, a suitable satellite can be focused on the location in high-resolution and a high-res image purchased at reasonable cost.

However, there are constraints such as the high demand for satellite time from the military and other organisations, and prevailing cloud obscuring target locations. These satellite images prove very useful for scoping war damage and have sometimes demonstrated that insured assets are undamaged but remain inaccessible due to occupation by invading forces.

In more complex cases, military expertise has been engaged to assist in analysing these satellite images to provide more accurate interpretations of the data in relation to the actual ground situation.

Whilst there are different policy wordings in the market, most indemnify the insured for physical war loss, or war damage to their assets and any consequential business interruption. If the insured asset has not suffered war damage, then coverage may not be triggered, despite the asset being unavailable to the insured.

An example is when adjusters were investigating the loss of power at a windfarm in occupied Ukraine. High-resolution images facilitated an accurate inspection of not only the turbines and the distribution station, but also the insured transmission lines between the windfarm and the local grid sub-station. In this example, it was determined that there was no physical war loss¹ or war damage to insured assets. The actual damage was to uninsured third-party property which resulted in the insured being unable to export wind-generated power to the local grid. Unfortunately, the insured was not entitled to an indemnity under the PVI policy.

¹ The invading force did not appropriate insured property; therefore, it was not considered "loss".

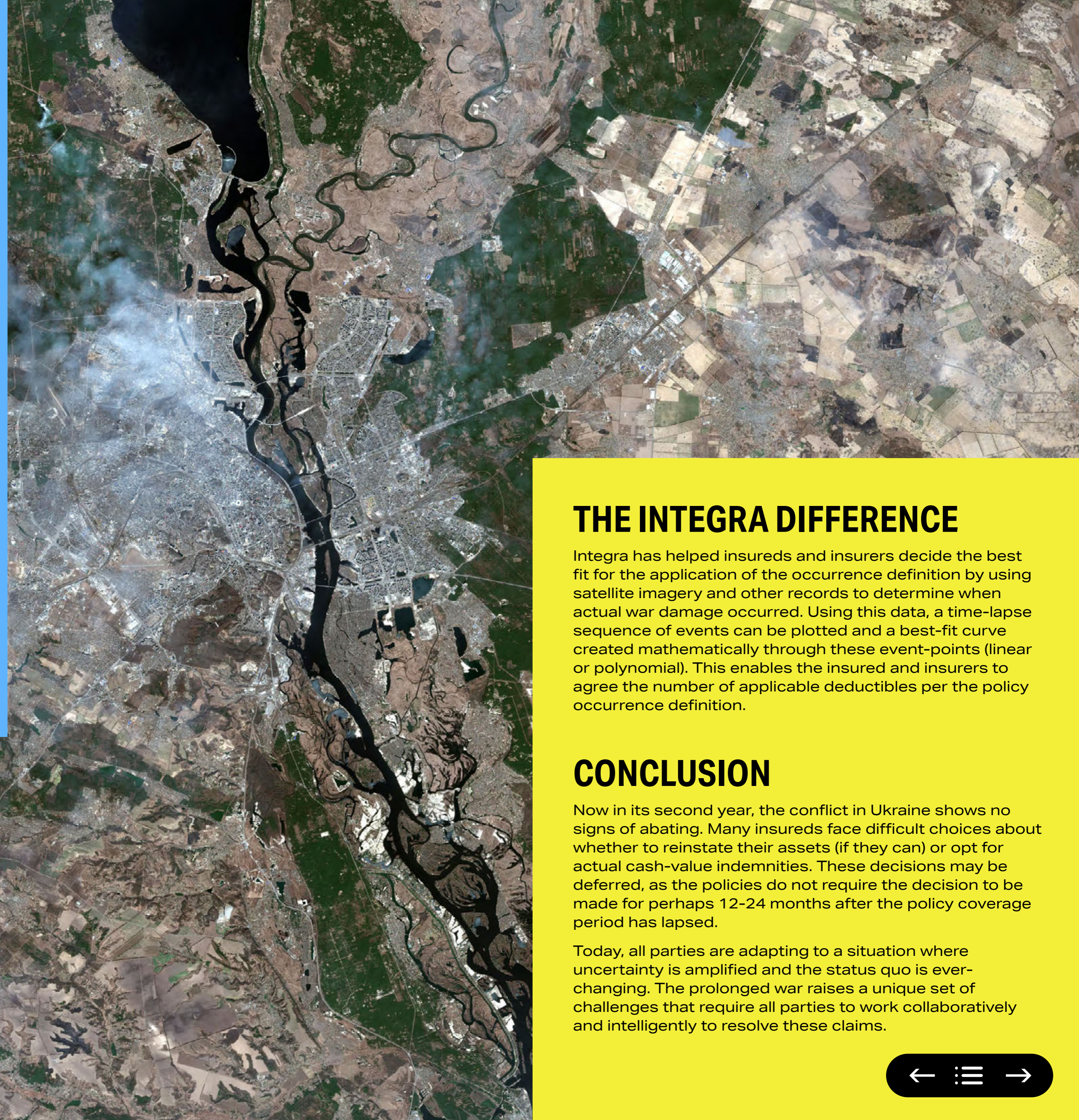


COUNTING MULTIPLE OCCURRENCES

During a state of war, assets typically undergo multiple attacks over a period of time, rather than a single incident of damage. For instance, a site may be struck by a number of missiles or bombardments over weeks or months, and as front-lines move the site may be damaged further through vandalism or looting by occupying forces.

This presents adjusters with a number of challenges: the policy often defines an occurrence as "...the duration and extent of any one occurrence shall be limited to all physical loss or damage sustained during any period not exceeding 30 consecutive days arising out of and directly occasioned by such insured peril(s)...".

- ▶ The insured is contractually entitled to determine the best fit to minimise the number of property damage deductibles to be applied during the policy period.
- ▶ It is necessary to identify damage to critical assets which are the actual drivers of the business interruption claim. It may be that multiple property damage deductibles are applicable, but only one or two business interruption waiting period deductibles are relevant.
- ▶ If the insured is able to undertake some repairs to mitigate the business interruption claim, the driver of the business interruption loss may move to another more recently damaged asset. In that case, the maximum indemnity period may change to run from the new occurrence date and the indemnifiable interruption period may be extended.



THE INTEGRA DIFFERENCE

Integra has helped insureds and insurers decide the best fit for the application of the occurrence definition by using satellite imagery and other records to determine when actual war damage occurred. Using this data, a time-lapse sequence of events can be plotted and a best-fit curve created mathematically through these event-points (linear or polynomial). This enables the insured and insurers to agree the number of applicable deductibles per the policy occurrence definition.

CONCLUSION

Now in its second year, the conflict in Ukraine shows no signs of abating. Many insureds face difficult choices about whether to reinstate their assets (if they can) or opt for actual cash-value indemnities. These decisions may be deferred, as the policies do not require the decision to be made for perhaps 12-24 months after the policy coverage period has lapsed.

Today, all parties are adapting to a situation where uncertainty is amplified and the status quo is ever-changing. The prolonged war raises a unique set of challenges that require all parties to work collaboratively and intelligently to resolve these claims.