AmCham Ukraine Survey

WAR RISK INSURANCE

June 2023

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Survey Results Interpretations

We appreciate those who spent time to answer the questions and provided comments to the AmCham Ukraine Survey on War Risk Insurance. The turnout showed multiple sector participation, various geographical locations and senior level interest to the subject matter. Almost 70% from all respondents represented top managers of companies from Agriculture, Banking and Finance, Retail and Wholesale, Mining and Metallurgy, Transportation, Professional services and other.

Ukraine appears to find itself in the new reality following the full scale Russian invasion. For operations located in Ukraine, the impact of the war was and continues to be palpable. Only 21% of businesses had war peril insured prior to February 24, 2022. As the war started 22% of the survey participants experienced termination and/or significant limitations to their existing insurance coverages. During the war AmCham members suffered various losses both personal injuries to personnel, property and business interruption, forced abandonment and seizure of property by the Russian invaders, inability to convert and transfer funds and frustrated contracts. The range of losses incurred by the responding businesses varied from USD 50 000 up to over USD 20 million. By the time of renewing the coverage for the next insured period only 59% had their policies renewed with slightly more than a half of the respondents being satisfied with new terms and conditions.

As the answers by respondents demonstrated be it the direct effects of sustained physical damage, the forced abandonment of operations, or disruption to supply chains, a reassessment of business practices and investment strategies will be needed to mitigate long-term impact to the bottom line. As the focus inevitably turns to insurance, both force majeure clauses and war exclusions are in the spotlight. At the moment, however, insurance coverage which indemnifies damage resulting from war and allied perils has been excluded from traditional property policies, whether purchased locally or from a global insurer.

Currently at many governmental and business levels there is a discussion how to secure investment in rebuilding Ukraine, what elements should be considered to present viable solution for this unprecedented task. The complexity of the situation coupled with the scale of the present destruction (and it is still ongoing) and long term reconstruction and financial support actions, requires different players to consider following factors: geopolitical security reconstruction that would present long term stability and security to the region, international mechanisms of rapid reaction to possible deterioration of security including swift and powerful military retaliation, financial long term support to the rebuilding efforts of both physical and society matters, including anticorruption, antimonopoly, tax and other democratic reforms and establishing proper rule of law environment. Having these factors in motion will allow private and quasi government insurance institutions to offer affordable political violence and political risk coverages.

Political Violence VS Political Risk insurance

For this reason, it is important to understand what insurance coverage stands behind the packages known as political violence and political risk insurance. It can be purchased on both a standalone basis (only political violence) or as part of a political risk insurance policy (discussed later).

Political violence is typically a non-cancellable policy and covers property damage and resulting business interruption losses following war, civil commotion and even terrorism. Such policies may even protect a firm's 'contingent exposures', such as the impact on the business from losses affecting third-party suppliers.

Not withstanding the relative breadth of protection offered under a political violence policy, insurers often apply varying definitions to the covered perils. With regards to terrorism, for example, some underwriters may require an attack to have a clear political, religious or ideological motive, whereas others may adopt a broader stance based on the mode of assault. A clear understanding of the coverage purchased is crucial for risk managers to determine the most effective claims strategy under these contracts. As it was mentioned currently both Ukrainian and international private markets abstain from granting such covers. However, one should continue to test the market by explaining about individual nature of the business, geography and values involved. These factors may persuade underwriters about the level exposure to the risk. Also, with more ammunition coming to the Ukrainian Armed Forces from the International allies and its successful application against the enemy on the battlefield underwriters' confidence will grow and eventually it will come to more positive decisions on granting insurance coverage.

Extending beyond the physical damage to property and business interruption of a political violence loss, firms operating in Ukraine face several other political perils that have come into focus during this crisis. Political risk insurance supports a company with these additional perils (plus the political violence already addressed). For example, in Ukraine, a company may not suffer physical damage to their property but may need to abandon a location or the assets in the entire country ("forced abandonment") due to the security situation in which, understandably, many companies have been unable to continue to operate.

Political risk insurance typically covers not only acts of expropriations by a "host country" but also extends to cover forced divestitures if the insured's country of domicile requires it to sell off shareholdings, the inability to convert or repatriate funds, to export or import goods or tangible assets to or from the host country, and the incurred and unreimbursed expenses related to frustrated sales or investment contracts.

Survey Results Interpretations

As such, political risk policies tend to be more comprehensive in their scope, and while typically costlier than political violence coverage, provide protection against the capricious acts of governments which could permanently impact a company's long-term strategy. A key characteristic of political risk insurance policies is that they are typically multi-year programs with policy periods often three, five, and upwards to 20 years. The coverage is non-cancellable during that entire period and underwriters cannot increase the rate, which affords the investor with stability of coverage during that time.

In the current environment, it is vital for organizations with suspected exposure to losses in the region to pay particular attention to claims notice clauses within their insurance policies. Most political violence and political risk contracts will have timely notification periods for situations which might give rise to a loss, and risk managers should consult with their brokers as to how best to navigate these requirements.

Moreover, the potential for spill-over effects from the crisis is vast, and a key takeaway for companies is to consider such coverages in advance of the next crisis, while capacity may exist at a time and rates are not prohibitive.

We understand that almost all who took part in this survey had taken new measures to address political risk and political violence since February 2022. In prioritizing insurance perils required for the safe operation of their business 57% of respondents identified political violence while 43% voted for broader political risk insurance, including political violence and other perils such as expropriation, export/import restrictions, currency inconvertibility, etc. 44% of companies are aware of the U.S. Development Finance Corporation, Multilateral Investment Guarantee Agency (MIGA), UK Export Finance, PricewaterhouseCoopers or similar government export credit agencies ability to offer political risk insurance on a case-by-case basis and 30% have already investigated this route.

Respondents

68 respondents

70%

CEOs

30%

C-level

Company sector

25% Agriculture and Food Processing

16% Banking and Financial Services

15% Professional Services

15% Retail, Wholesale, E-commerce

Energy - **13%**

Transportation and Logistics – **10%**

Consumer Products / FMCG – **9%**

Mining, Metallurgy – **7%**

Machinery – **4%**

IT / Software (Products and Outsourcing) – **4%**

Telecom – **1%**

Other – 25%:

- Medical Devices
- HealthCare
- Pharmaceutical
- Non-profit
- Educational, Cultural, Humanitarian Exchanges, International Technical Assistance
- Production of UPVC profiles
- Construction
- Oil and gas

Have your assets been insured against war-related risks since February 24, 2022?

73% No

21% Yes

Other – 6%:

- Currently there is no such offer on the insurance market
- Partially (only warehouse)

Have your employees been insured on February 24, 2022?

Other – 13%:

- Partially YES, coverage limited, e.g. for transport damages, etc.
- War-related risk is a disclaimer

Has your insurance been terminated or limited since February 24, 2022?

Other – 18%:

- Only Country Director’s insurance
- Health insurance for employees who went abroad was limited and then terminated
- Partially YES, coverage limited, e.g. for transport damages, etc.
- Were not insured

Have you renewed your insurance for the new period after February 24, 2022??

59%

Yes

28%

No

Are you satisfied with your current insurance coverage?

- Yes – **53%**
- No – **32%**

Other– **15%**:

- Only partially satisfied since no war risks are covered
- Only with health insurance

Other – 13%:

- This issue is under consideration
- Renewal takes place annually
- Yes, but without war risks coverage. Property insurance is limited based on the location of this property.
- The majority of insurances, not all
- Only health insurance

What insurance limit is required to be helpful to your business?

26,5%

>20 million USD

22%

1 – 5 million USD

19%

5 – 20 million USD

50,000 – 250,000 USD – **12%**

several billion USD – **7%**

<50,000 USD – **6%**

250,000 USD – 500,000 USD – **6%**

500,000 USD – 1 million USD – **1,5%**

What types of losses has your company suffered since February 24, 2022?

60% Logistical (transport) constraints

54% Business interruption

49% Business interruption due to hazardous conditions

47% Property damage

Contingent business interruption (damage to key customer and/or supplier) – **32%**

Forced abandonment of location of the business – **29%**

Storage (warehouse) constraints – **26%**

Personal injury – **21%**

Other – 10%:

- No data yet
- Declining sales in 2023
- Other notional and sporadic interruptions
- Forced to form significant reserves for potential losses
- Transfer of company employees to remote work mode
- None

In which category have you suffered a political risk loss in Ukraine?

54% Business interruption following physical damage

47% Inability to convert or transfer funds out of the country

35% Frustrated contract due to political perils (war etc.)

34% Forced to abandon the property/goods and/or do not know the status and cannot access due to security situation

Political violence/war property damage of stationary location – **28%**

Political violence/war property damage of goods in transit – **15%**

Seizure of property by Russian government (stocks, equipment, or whole company) at the stationary location or in transit – **9%**

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Have your assets been damaged since February 24, 2022?

49%
No damage

38%
Yes, partially damaged

7%
Both damaged assets and assets under occupation

6%
Assets under occupation

In which part of Ukraine did the losses occur?

69%
North (Cherkasy, Chernihiv, Kyiv, Poltava, Sumy, Zhytomyr regions)

57%
South (Kherson, Kirovohrad, Mykolaiv, Odesa, Vinnytsia regions, Autonomous Republic of Crimea)

50%
East (Dnipropetrovsk, Donetsk, Kharkiv, Luhansk, Zaporizhzhia regions)

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Were you able to assess your damage?

50%

Yes

31%

No

Other – 19%:

- Partially, only in government-controlled territories
- The evaluation is not complete yet

What is the approximate total/partial loss your business has suffered in Ukraine since February 24, 2022?

- <50,000 USD – **23%**
- 50,000 – 250,000 USD – **23%**
- 1 – 5 million USD – **15,5%**
- >20 million USD – **15,5%**
- 250,000 USD – 500,000 USD – **15%**
- 5 – 20 million USD – **8%**

Are you aware that the U.S. Development Finance Corporation, Multilateral Investment Guarantee Agency (MIGA), UK Export Finance, PricewaterhouseCoopers or similar government export credit agencies are able to offer political risk insurance on a case-by-case basis?

56%

No

44%

Yes

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The inability to procure which type of insurance is an impediment to your new investment, reinvestment or expansion of an investment:

44% Business interruption following political violence

43% Currency inconvertibility/ non-transfer

43% Political violence (physical damage to property)

Credit/trade finance – **29%**

Forced abandonment (no physical damage, but needed to abandon due to security situation) – **28%**

Confiscation, expropriation, seizure by Russian government – **19%**

Other – 19%:

- International insurance
- War risk insurance
- Lack of war riders or additional coverage for life and health for expat staff
- No obstacles for investments

Please choose what is more important to you:

53% Political violence/war coverage for property damage to assets in a stationary location

46% Both

1% Political violence/war coverage for property damage to assets in transit

Within the insurance marketplace, which insurances are of most importance to your business:

- 57% — Political violence insurance
- 49% — Property insurance (non-war risks)
- 43% — Broader political risk insurance
- 37% — Business interruption insurance
- 30% — Credit insurance/trade finance

Standard liability and excess liability insurance – 22%

Workers' compensation/employers' liability insurance – 19%

Inland marine war peril – 16%

Ocean cargo war peril – 15%

Executive risk (directors and officers/errors and omissions) – 15%

Ocean cargo insurance – in transit on water without war – 12%

Inland marine insurance (in transit over land) without war – 10%

In your view what should the insurance market do now to support your business in Ukraine?

- Introduce comprehensive war risk insurance for both foreign and domestic entrepreneurs with participation of all relevant stakeholders, including the G7 countries, other governments, and the EU.
- Categorize risks, determine the probability of specific risks occurrence, and establish relevant insurance parameters depending on a territorial principle.
- Offer trade affordable insurance.

What should the insurance market do to secure your business after the war?

- Introduce bad debt insurance for the private sector.
- Restore property and business interruption insurance, including risks of property damage and goods in transit during military operations.
- Provide affordable insurance against both commercial and non-commercial risks such as political violence and currency inconvertibility.
- Underwrite trade finance.
- Offer special solutions/comprehensive health insurance packages for war-casualty, wounded, returning captive employees.

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