

Technical Update:

Policy implications of the Middle East crisis

The current crisis in the Middle East is generating a number of potential exposures for insurers and their clients across a broad spectrum of policy types. Specialty lines in particular could be exposed to claims as a direct result of the conflict itself as well as the wider global impacts resulting from the event.

The purpose of this briefing document is to provide guidance for clients as to the potential impact of the conflict on different types of cover, including:

 Political Violence

 Political Risk

 Business Interruption

 Marine

Political Violence, Political Risks and Associated Covers

At this difficult time, when our thoughts are directed to recent and ongoing events in the Middle East, the ensuing humanitarian crisis and the international support being offered, the potential for Political Violence insurance to be impacted is an area of considerable focus and the insurance markets will be considering the likely impact of such events on the industry and how claims may develop.

It is important to note that commercial property policies likely include a “war exclusion” that will exclude coverage for losses arising from acts of “war.” Typically, a war exclusion means that the property policy would exclude losses or damages arising directly or indirectly from “war.” The policy language typically specifies the exclusions as:

“War, hostile or warlike action in time of peace or war, whether declared or not, including action in hindering, combating or defending against an actual, impending or expected attack ... by any government or sovereign power.”

Underwriters will be reviewing policy wordings as well as the facts and circumstances surrounding a loss to determine whether the war exclusion is applicable to a particular claim and may decline claims where the war exclusion is found to be pertinent.

Simultaneously, large and small corporates will be examining their risk registers to determine their potential exposures. For those organizations who have Political Violence and/or Political Risks policies, with exposures in the Middle East, both physical and financial, notifications to Underwriters will follow.

The potential impact

It is not only the physical damage with which we should be concerned. Whilst many exposed corporates will still be assessing the impact, some corporates will already be able to measure the financial impact on their balance sheet relatively quickly. However, it is likely that there will be difficulties further downstream from investors who may try and recoup losses by alleging these companies could have adopted a different strategy. Directors and Officers Policy Notifications may follow.

Already we have seen the negative financial impact worldwide from the stock market volatility, oil and commodity prices, merchant cargo and shipping costs, aviation interruptions, disruptions in the banking and investment sectors and loss of Middle East imports/exports. Some pension and investment funds have plummeted in value.

Political Violence

With standard commercial policies excluding war, terrorism and associated exposures, clients needing war, political violence or terrorism insurance coverage, need to seek out bespoke covers. The purpose of a political violence policy is to dovetail with the commercial property policy and to indemnify those risks, within the political violence class, that fall within the standard exclusions in the commercial property policy.

There are a range of covers available within the political violence classes. These include:

- Terrorism and sabotage
- Riots, strikes and civil commotion and malicious damage
- Insurrection, revolution and coup d'état
- War and civil war
- Employee and general terrorism liability

Coverage is for direct physical loss or damage and resulting business interruption on either a gross earnings or loss of profit basis. Also included is ICW, loss of rental income and time element extensions.

- War, Terrorism and Political Violence Insurance offers worldwide coverage to assets exposed to these risks.
- Clients who need these covers range from small companies with single asset exposure to multinational companies with global exposure.
- Standalone policies usually offer up to USD 250 million/GBP 200 million – either Per Occurrence or Per Occurrence and Annual Aggregate.
- Deductibles range from USD 1,000 to USD 1 million.
- Terms Operational – 12 to 36 months/construction up to 60 months.

Chemical, Biological, Radiological and Nuclear

Additional optional covers which can be purchased, and which could be considered in the current climate, include CBRN. These covers include the following:

- Chemical, Biological, Radiological and Nuclear (CBRN)
- CBRN Liability
 - › Cover is offered on a worldwide basis for assets that are exposed to war, terrorism and political violence events.
 - › The use of chemical, biological, radiological and nuclear (CBRN) weapons is a growing concern worldwide. Deployment would have a devastating impact, potentially causing damage and interruption to businesses a significant distance away from the CBRN release.
 - › It is usual for the CBRN policy to be triggered when property is damaged or contaminated as a result of an act of terrorism or other malicious act.

Standard cover includes:

- Property damage caused by blast/detonation of a CBRN weapon.
- Decontamination and clean-up costs following a CBRN order.
- Demolition and debris removal following a CBRN order.
- Denial of access following a CBRN order.
- Business interruption.
- Policies usually have no location restrictions and can therefore be indemnified if the affected property is 10m or 50 miles from the origin of the attack. In other words, the insured asset does not have to be within x distance of the discharge of the CBRN weapon.
- Policies usually have the benefit of expert response consultants, providing both pre-loss planning and post-loss business continuity management services.
- Bodily injury is not normally standard but can be added.

Political Risks

Instability in a country can happen without warning, leaving investors, lenders and contractors unprepared and counting the financial cost. In the political upheaval, businesses may not be able to operate, and their assets may be damaged or confiscated, none of which would be covered by a standard commercial property insurance policy. Political risk insurance helps organizations conducting business around the world protect their assets and financial interests from monetary losses due to specified political risks.

These can be from such losses as being unable to convert currency, government interference and political violence, including terrorism. Political risks insurance is designed to protect a business against arbitrary government actions such as confiscation, expropriation, and nationalism; selective discrimination; forced divestiture; license cancellation and breach of contract.

It can also include coverage for loss or damage to physical assets as a result of violence, abandonment of assets or abandonment of the foreign operations as a result of political violence.

Further, political risk insurance covers the exposures of importers or exporters in differing scenarios, such as ceasing operations where exports are crucial to the business; or loss of products that only have value if exported.

As has happened with the banking and investment restrictions, political risk can respond when restrictions on foreign exchange prevents remittances relating to dividends, shareholder loan payments, intercompany payables, and sale proceeds.

Some coverage may be available to project lenders to protect investors against the failure of sovereign governments to meet their debt obligations due to political violence.

Political risk insurance for contractors may provide coverage to construction, engineering, and other contracting firms against associated losses due to political upheaval or government action.

Trade Credit

Companies purchase trade credit insurance when supplying goods or services on credit, to protect against the risk of non payment or delayed payment by customers. Globally, the trade credit insurance market underwrites close to USD 3 trillion in trade receivables, with additional capacity provided by government backed export credit agencies alongside private insurers.

The continuing instability across the Middle East including active conflict, heightened geopolitical tensions, and the expansion of sanctions regimes is increasing the risk profile for businesses trading into or through the region. Disruption to supply chains, constrained access to shipping routes, and pressure on local economies are all contributing to a higher likelihood of payment delays and defaults, particularly where buyers are exposed to liquidity stress or sudden regulatory change.

At the same time, restrictions on financial transactions, evolving sanctions compliance requirements, and uncertainty around the movement of goods are creating additional concerns for trade credit insurers. Even where demand remains strong, the practical ability to settle cross border payments has become less predictable, increasing exposure for exporters and their insurers alike.

As a result, trade credit insurers with existing exposures in affected territories (or to counterparties reliant on Middle East trade corridors) may face elevated claims activity where insured invoices are not honoured. This risk is compounded where contracts span multiple jurisdictions or rely on transit through conflict affected areas.

As with many classes of commercial insurance, trade credit policies typically contain war and political risk exclusions. These clauses can materially limit cover where losses arise directly or indirectly from acts of war, hostilities, or state sponsored conflict. In particular, exclusions linked to conflicts involving major powers, or to the imposition of international sanctions, require careful scrutiny, as their application will depend heavily on policy wording and factual circumstances.

In this environment of heightened uncertainty, insured entities will be looking to their insurers and their advisers for clarity and confidence. Clear communication around coverage intent, exclusions, and claims response will be critical in helping businesses understand their exposure and navigate the financial and operational impacts of ongoing geopolitical instability.

Business Interruption

It is expected that there will be many potential risks which have the potential to impact on the trading profit of organizations which have either operational bases in the Middle East or have customers or supply chain dependencies in either country.

Indeed, as has been seen with the restrictions in the Strait of Hormuz, the impact on shipping can have repercussions much wider than the impacted region.

Affected businesses can be expected to review their commercial property and business interruption covers to assess whether they will be able to obtain an indemnity for their losses.

Apart from the obvious material damage directly resulting from the conflict and the trading losses which follow, there is also expected to be occasions when extensions may be triggered including:

- Customers and suppliers' extension – extending insured premises boundaries,
- Non damage denial of access clauses,
- Utilities extensions – accidental damage to suppliers and terminal ends covers, and
- Loss of Attraction.

However, fear within individuals that a dangerous insured event may take place so that it causes them to alter their activity and results in trading losses, is not normally sufficient to trigger these covers, but this may vary between jurisdictions.

Overall, the majority of business interruption covers and extensions will depend upon material damage cover that is also covered and not excluded, in order to trigger the “material damage proviso”.

Whilst the extensions may be triggered by the conflict in Middle East, we would expect that most policies, unless specifically underwritten for such risks, will include in their general exclusions section an exclusion in respect of war and similar risks such as terrorism.

The construction of the war exclusion between geographic regions varies but those reviewed relating to UK, US and Australian wordings are seen to be wide in scope and are expected to respond to the events in the Middle East.

General exclusions generally include a separate nuclear risk exclusion which is expected to work in tandem with the war exclusion should losses result from an event such as a missile strike on a power station resulting in widespread contamination.

The expectation is that the war exclusions will operate and preclude claims under commercial property wordings for damage and trading losses from progressing.

Marine

The conflict in the Middle East is disrupting shipping across the region, including in the Strait of Hormuz, one of the world's busiest maritime routes. Maritime traffic through the strait, the narrow channel linking the Persian Gulf with the Gulf of Oman, has effectively been closed since strikes on Iran began.

There are often restricted trading area warranties in hull policies, but underwriters will not likely restrict the physical passage of vessels and their cargo in the effected region, if notified prior to commencement of the voyage.

Subject to sanctions rules, cover for voyages in the region and for static/storage/stock throughput risks and associated physical loss or damage may still be available. Rates are of course subject to negotiations and the individual underwriter's decision, but will likely harden, if cover is indeed available from some of the niche insurers.

War and other exclusions

Marine hull and cargo standard clauses have specific exclusions for any loss or damage caused by war, capture, seizure or acts of a belligerent power.

Hull policies operate on a named perils only basis, where the onus is on the insured to evidence where damage by one of those perils has occurred. Conversely, cargo cover is on a wider 'all-risks' basis with named exclusions. Cargo insurers have the burden to show one of the exclusions caused the loss.

War cover is available in the hull and cargo markets on the same basis but not always purchased and will not cover frustration of voyage or loss/damage caused by delay. Delay is a generally excluded peril under most marine insurance policies. Some policies may have extra expenses and forwarding charges clauses, but again these normally require the operation of a named peril before they are triggered. We expect to see losses arising from insolvency or default of shipowners and cargo shippers as a result of the impact to their trading patterns, but these are generally also excluded.

Trading restrictions

Whilst normal marine physical loss or damage insurances will continue (and marine insurance for liabilities to crew, pollution etc. is compulsory), trading will be severely restricted due to sanction issues.

With parts of the Middle East being significant exporters of oil and gas, refined petroleum products, fertilisers and other key raw materials, shipowners and cargo shippers/receivers involved in those trades are likely to be heavily affected by ongoing regional instability. Some shipowners will have purchased loss of hire insurance (akin to business interruption policies for shipowners), but these generally require a recoverable hull insurance claim before they are triggered.

There are likely to be numerous shipments awaiting export from affected Middle Eastern ports that cannot be moved physically or legally due to conflict-related disruption, sanctions, port closures, or security risks. This may result in delay, spoilage, pilferage and rejection issues. While some large commodity trading firms purchase trade disruption insurance for their cargo,

individual policy wordings will determine the extent of cover for any losses arising from the current Middle East situation.

Claims

In the event of an incident involving a vessel, its cargo or static stock arising from the hostilities and/or the sanctions all of the above must be considered along with the actual policy wording, location of the cargo, the voyage and the nationalities/firms being the parties to the maritime adventure – essentially the nexus of the marine risk.

Cyber

Many countries and global businesses are seeing an increased risk to cyber security as collateral damage from state-sponsored cyber-attacks on infrastructure and other strategic targets.

Cyber-attacks are now common in modern warfare. As witnessed with prior cyber-attack campaigns that were likely originally intended for a specific target or a country, it is possible that internet-wide disruptions can occur, including in regions and countries where our company, clients and affiliates operate or have business.

This can be caused directly by the nation-state perpetrating the attack or by cybercriminals who often obtain and weaponize state-sponsored tools on a broader scale.

Threat actors frequently seek to take advantage of vulnerabilities created by disruptive world events, which is why we saw a spike in cyber-attacks during the pandemic.

In this heightened risk environment, we encourage insurers and their insureds to take all precautions to reduce their cyber vulnerabilities. This should include ensuring that:

- All cybersecurity protocols are implemented and are enforced
- Security operation centres are appropriately staffed
- Systems and devices are all patched, including third-party software and firmware

- Firewalls are tested and enforced
- Antivirus software is updated
- Passwords are unique and updated
- Backups are running correctly and the ability to restore from backups tested
- Employees are briefed on the heightened risk and encouraged to report anomalies

Coverage considerations

The insurance market is assessing the increased risks and exposures stemming from the escalation of activity in the Middle East and looking closely at the wording and application of war exclusions as it may not be obvious how to attribute an attack that was, for example, perpetrated by a threat actor using a tool developed for an act of war.

In the Lloyd's Market, all insurance and reinsurance policies must contain a war exclusion, except in very limited circumstances. However, the LMA Cyber Business Panel drafted four Cyber War and Cyber Operations clauses in 2021 (LMA5564-7), which means the extent of coverage and exclusion may vary from policy to policy.

The complexity of the situation and the application of different clauses in the market means a close examination of policy wordings will be required in the event of any claim. Crawford's dedicated teams are on standby to assist and respond as needed.

For further advice or guidance, please contact one of our experts:

Vic Noble ACII, FCILA, FUEDI-ELAE

Regional Director, Middle East

M: +971 56 113 0796
E: vic.noble@crawco.me

Paul Kottler

U.S. President - GTS

M: +1 480-559-2211
E: paul.kottler@us.crawco.com

Paul Handy BSc(Hons), MBA, ACII, FCILA, FIFAA, ACMI

Global Head of Cyber

M: +44 7827 879187
E: paul.handy@crawco.co.uk

About Crawford & Company®

For over 80 years, Crawford has led the industry through a relentless focus on people and the innovative tools that empower them.

10K employees | **50K** field resources | **70** countries | **\$18B** claims managed annually

Crawford®

Learn more at
www.crawco.com    