

Geopolitics and Liability Insurance

Tom Chivers | QBE Re | Robinson College, Cambridge | 5th September 2023



We'll talk about...

- (Most of) You will learn two new words
- Chaos Theory (don't worry, it's brief)
- Some Grade-A *wrong-uns*
- Brexit (uh oh...)
- A Motown legend
- And other things...

But we'll also mention...

- Some definitions
- Geopolitical risks that affect Liability Insurance, such as:
 - Global recession
 - Brexit
 - War, and Russia's invasion of Ukraine
 - China
 - Climate change
- *How* these risks can affect Liability Insurance, such as by way of:
 - Sanctions
 - Inflation
- What underwriters can do (apart from panic)

So first, wotizzit?

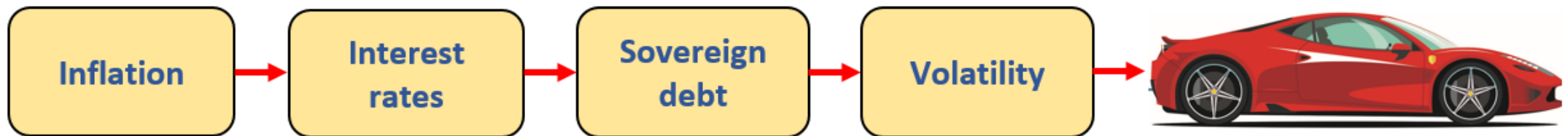
- **Concise OED:** *The study of a country's politics as determined by its geographical features*
- **Encyclopaedia Britannica:** *analysis of the geographic influences on power relationships in international relations*
- **S&P:** some of the likeliest and most impactful geopolitical risks of 2023 are:
 - Russia-NATO tensions
 - Cyber attacks
 - De-globalization
 - US-China strategic competition
 - Climate risk
 - Covid-19 fallout and future pandemics
 - Sovereign debt crisis
 - Energy security

Second, upside-down Chaos Theory

- The Butterfly Effect. *Lorenz, E. (1972) Predictability: does the flap of a butterfly's wings in Brazil set off a tornado in Texas?*
- What was Ed really talking about?
 - An attempt to find order in apparently disordered data
 - A small change in initial conditions can, over time, lead to vast differences in output
- But what about the other way round?
- Can (large) geopolitical events affect (small) Liability policies?
- Is there a relationship? Can we predict it?

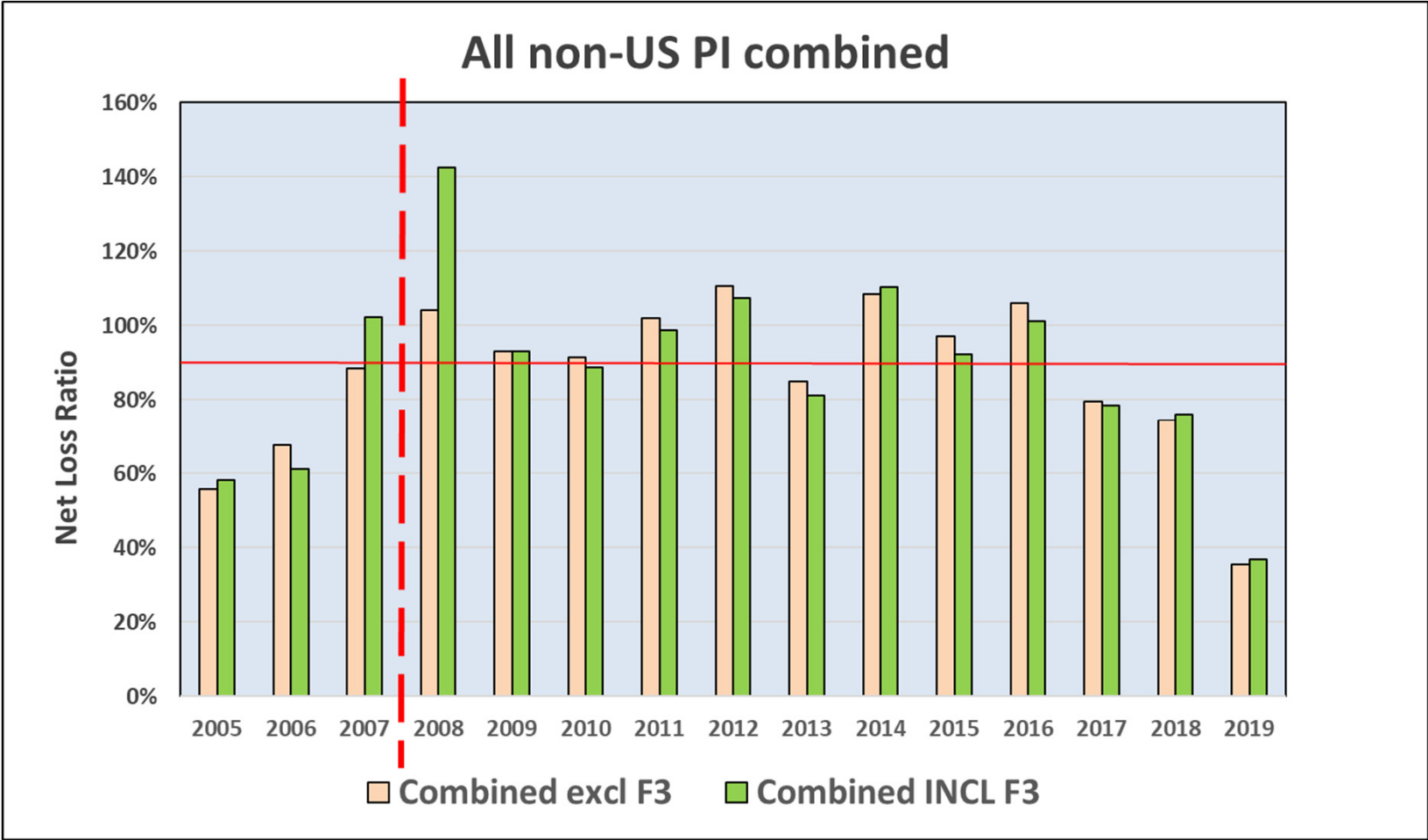
The global recession carambolage?

- Is global recession a geopolitical risk?
- Can we predict cause and effect? Yes (probably)
- Professional Lines and global recession = strong correlation (next slide). But Liability?
- Correlation between recession and *Liability* claims? Probably difficult to prove
- But do *current* economic conditions set the scene for a rise in loss ratios?

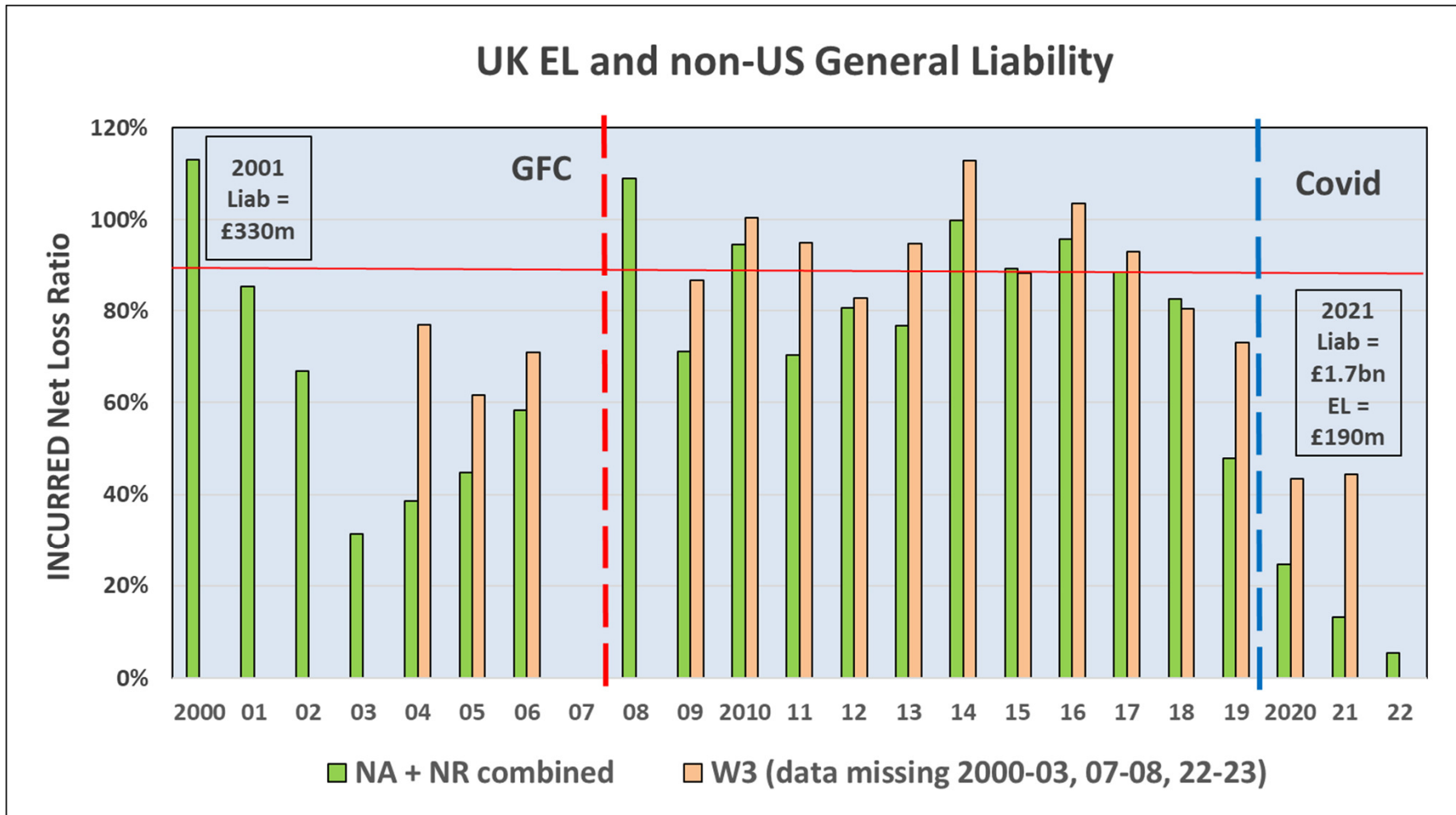


Above right: \$3.8m 14-car *carambolage* on Chugoku Expressway, 2011

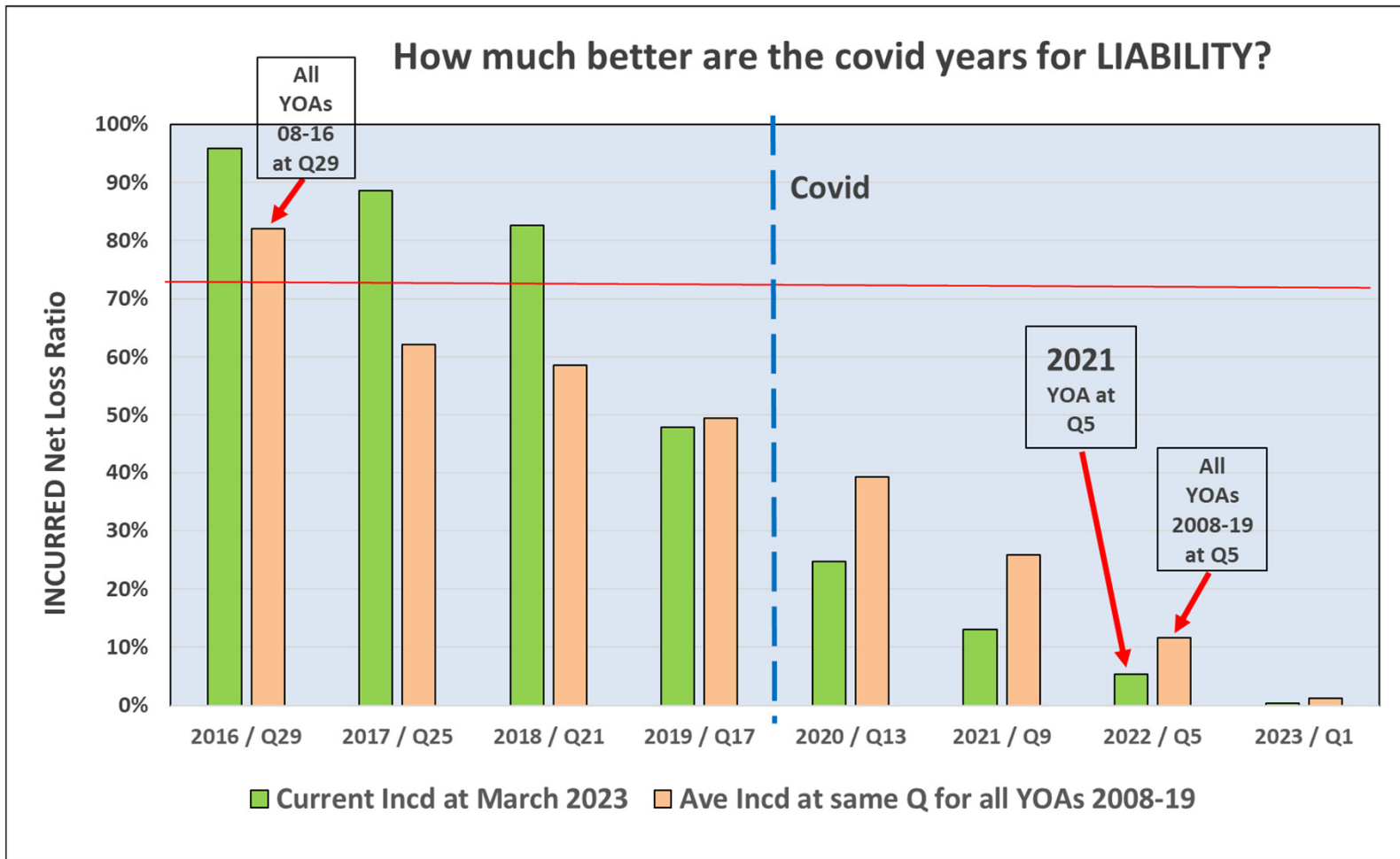
Global calamity = high LRs for Professional Lines



But Liability? Correlated more with covid than GFC?



Covid years performing better than average (so far)



Russia and its invasion of Ukraine

- A Liability exposure-fest e.g. Unilever, Carlsberg, Siemens, Danone, Heineken
- Sanctions, new law, rapidly-changing exposure, dilemma
- Some firms have left Russia, some have stayed. Why?
- EL for UK firms in Russia. UK EL for Russian firms in UK
- What about Dubai and Turkey, for example?
- Russia (Sanctions) (EU Exit) Regulations 2019. An example:
 - 46(B)(2)(a): A person must not directly or indirectly supply or deliver luxury goods from a third country to a place in Russia
 - 46(B)(4)(a) It is a defence...to show that the person did not know and had no reasonable cause to suspect that the goods were destined (or ultimately destined) for Russia
- *“Yeah, but Russia is an opportunity” (No it’s not. It’s really not!)*

Getting out without getting robbed

- What about Russian sanctions (*Special Economic Measures*)?
- How to exit Russia? Or stay? China too?
- Deutsche Bank example – large-scale relocation
- Uncertainty:
 - Suddenly-changing laws
 - Warfare via tax, regulation, and compliance
 - CEND perils (e.g. Russian aircraft)
 - Huge write-downs in turnover (>€100bn), company value
 - Premium (if rated on turnover, employee numbers etc.)
- What happens if staff in hostile countries sue your policyholder?
- What if policyholders domiciled in hostile countries are sued overseas?

War! What is it good for?

- Innovation, innovation, innovation
(Edwin Starr did *not* say this)
- Drones: From the Halls of Montezuma!
- Artificial Intelligence
- Dual-use technologies are a problem
- Liability insurers: sit up and pay attention! Drones need action!
- Cyber – a minefield (no pun intended)
- Can the Liability regime keep up?

Brexit

- *“...if a clod be washed away by the sea, Europe is the less.” (John Donne, 1624)*
- Love the EU or hate it, life is more complicated now. In insurance-speak, we have a DIC problem!
- Remember: war breeds innovation. And Brexit is a war (isn't it?)
- Divergent (and ever-diverging?) regimes
- You still need to comply with EU law!
- If EU law changes, will UK law change?
- Impact on inflation e.g. care workers

China – what it wants

- A. China's national imperative is to ensure that the Chinese Communist Party remains in power. Everything else is subservient to that.**

- B. However, it is its ambition at a global level – to become a technological and economic superpower, on which other countries are reliant – that poses a national security threat to the UK.**

China

- Theft, mendacity, opacity, and often in plain sight
- Big Power competition is driving innovation, exposure, and cost e.g.
 - Artificial Intelligence
 - On-shoring, near-shoring, friend-shoring
- Strategic interference, e.g. Alibaba, HSBC, Taiwan wind farms
- Unpredictability – covid lockdown reversal 2022
- Evaluation of Chinese risks is difficult
- How do you enforce your client's rights, e.g. IP infringement is a massive problem
- *"The law is only part of the solution..."* (and other advice)



Intelligence and Security
Committee of Parliament

China

Chairman:
The Rt Hon. Sir Julian Lewis MP

HC 1605

Sanctions



Office of Financial
Sanctions Implementation
HM Treasury

- UK Sanctions Regime (**very confusing!**):
 - Sanctions and Anti-Money Laundering Act (*The Sanctions Act / SAMLA*)
 - UK Sanctions List (published by **FCO**)
 - OFSI (**HMT** dept) = financial sanctions: Consolidated List of Asset Freeze Targets
 - Department for Business and Trade (**DBT**) = trade sanctions
 - Department of Transport (**DfT**) = aviation + maritime sanctions
- Do your insureds have the *staff* to deal with sanctions?

1124. **Name 6:** PUTIN **1:** VLADIMIR **2:** VLADIMIROVICH **3:** n/a **4:** n/a **5:** n/a.

Name (non-Latin script): Владимир Владимирович Путин

DOB: 07/10/1952. **POB:** St Petersburg (then Leningrad), Russia **a.k.a:** PUTIN, Vladimir **Nationality:** Russia **Address:** Moscow, Russia **Position:** President of the Russian Federation **Other Information:** (UK Sanctions List Ref):RUS0251. Financial sanctions imposed in addition to an asset freeze: Trust services. Date trust services sanctions imposed: 21/03/2023. (UK Statement of Reasons):Vladimir Vladimirovich Putin is the President of the Russian Federation, carrying ultimate authority for the policy of the Russian government and Russian armed forces. In February 2022, Putin ordered Russian military forces to launch an invasion of Ukraine, undermining and threatening the territorial integrity, sovereignty or independence of Ukraine. (Gender):Male **Listed on:** 25/02/2022 **UK Sanctions List Date Designated:** 25/02/2022 **Last Updated:** 21/03/2023 **Group ID:**

So, how to deal with sanctions?

- LMA 3100:
 - No (re)insurer shall be deemed to provide cover and no (re)insurer shall be liable to pay any claim or provide any benefit hereunder to the extent that the provision of such cover, payment of such claim or provision of such benefit would expose that (re)insurer to any sanction, prohibition or restriction under **United Nations resolutions or the trade or economic sanctions, laws of the European Union, United Kingdom or United States of America.**”
- But, what about the 43 countries that have autonomous sanctions lists? e.g. Japan, Australia, Switzerland
- Divergent regimes, e.g. Brexit (again!)
- Supply chain analysis (more on that in a mo)
- Sanctions-busting – Dubai, Turkey, CSTO, Kyrgyzstan, Armenia

Supply chains

- Large multinationals = opaque
- Do you know where everything ends up?
- G7 Sustainable Supply Chains Initiative
- Political litigation (e.g. Russia, China?)
- Problems:
 - Multi-component products
 - Dual-use products
 - Grey imports
 - Third countries (currently a BIG problem)
 - Recently-moved production
 - Reputational damage
- Do you evaluate supply chains? How?

Climate change and inflation – an example

- CPI = 7.9% June 2023 but construction materials +8.7%
- Materials up 26% in 2022, but huge differences (see right)
- Q3 2022 Wages +6.6% but construction wages +12.8%
- ONS: 250,000 fewer construction workers versus 2020
- Shortage Occupation List – building trades weren't on it (they are now). But it's bonkers!
- Climate change impact on building cost inflation, e.g.
 - Climate policies e.g. decarbonizing the cement industry, removing formaldehyde
 - Building Reg changes: from June 2022 all new homes in England = 30% less CO₂ (+7.2% on newbuild cost)
 - Early indicators e.g. Canadian lumber
- Climate change **LITIGATION** will be a bigger problem for Liability insurers than climate change itself

UK construction material price change

Greatest price INCREASES

| | |
|-----------------------------|-----|
| Insulating materials | 35% |
| Screws etc. | 33% |
| Gravel, sand, clays, kaolin | 30% |

Greatest price DECREASES

| | |
|---------------------------|------|
| Imported sawn/planed wood | -18% |
| Concrete rebar | -13% |
| Particle board | -11% |

12 months to March 2023 Y-o-Y

Source: Department for Business & Trade, Monthly Statistics of Building Materials and Components, April 2023

Some conclusions, before some advice

- Individuals and small companies cannot escape geopolitics
- You *are* plugged into a global web of influences that you can't control
- But you *can* identify and plan for (some of) them
- Common themes
 - Uncertainty and unpredictability
 - Divergent regimes
 - Financial interconnectedness
- 2024 is a Big Year, a VERY Big Year!

What can Liability underwriters do?

- Read the news!
- Know that Liability Insurance is susceptible to things you can't control. But understand them
- Evaluate your insureds *in depth*
- Don't obsess about *theoretical* outcomes
- Remember Deuteronomy 5⁹
- You *can* prognosticate (sort of!)
- And...

...don't be Phil Mickelson

“They [the Saudis] are scary mother***** to get involved with. We know they killed Khashoggi and have a horrible record on human rights. They execute people over there for being gay. Knowing all of this, why would I even consider it? Because this is a once-in-a-lifetime opportunity...”

Source: Daily Mirror, 9 Feb 2023, accessed 19 August 2023: <https://www.mirror.co.uk/sport/golf/phil-mickelson-liv-golf-news-29176132>

Questions?