



DAC BEACHCROFT

UKRAINE CRISIS



OVERVIEW

As the conflict between Russia and Ukraine continues, the implications are being felt across the globe. Principally, this is a humanitarian crisis tragically impacting the Ukrainian people and their property, but it is also fuelling uncertainty about the recovery of the already-strained global economy, still reeling from the COVID-19 pandemic.

The conflict has caused seismic disruption to the world's financial, trade and energy markets and is threatening long-term high inflation, contractions in global economic growth, social unrest and geopolitical security risks. Soaring commodity and raw material prices and supply-chain disruption are significantly affecting manufacturing, freight and agriculture sectors; higher prices will be passed on with a wide-scale impact on businesses and households.

The global insurance industry may be facing billions of dollars in losses as a result of Russia's invasion. The true financial cost is likely to take years to calculate amid the complexities of dealing with claims and inevitable legal battles over insurance coverage.

Regardless of where your business – and your clients' businesses – operates it is important to assess and mitigate risks arising from financial volatility, the imposition of sanctions and business restrictions on Russian entities, event cancellations, the increase in cyberattacks and the need for closer scrutiny of 'war' clauses in insurance wordings.

In this document, our global experts highlight key areas for you and your clients to review. Please contact one of our team or your relationship partner to explore further any of these or other issues you need advice on.



POTENTIAL IMPLICATIONS

- Aviation - Issues include Russia's grounding of UK and EU planes, UK/EU's imposition of sanctions on Russian aircraft, and the prevention of access to insurance for Russian aviation and space companies.
- Cyber security - There has been an increase in ransomware and infrastructure cyberattacks affecting businesses globally. Risks arise from multiple sources including Russian-based ransomware, cyber hackers coming to the rescue of Ukraine, and scams seeking fake charitable donations. The adequacy of cyber insurance, particularly the effectiveness of war exclusions and cyber terrorism carve-outs will be under the spotlight. Businesses should mitigate this risk with effective cyber security and incident response plans.
- Data breaches - Data stolen in a cyberattack often means critical information is held hostage pending payment of a ransom or data is destroyed. Business continuity issues arise. The relocation of offices and office closures will have exacerbated this risk.
- D&O - Businesses with operations in Russia, Belarus and Ukraine or which do business with entities in these countries have been significantly affected by office closures, staff safety, the imposition of sanctions, supply-chain disruption, cyberattacks and financial volatility. A review of incident response and business continuity planning is essential. Ongoing/future dealings with Russian entities requires assessment due to reputational damage exposure and possible shareholder backlash.
- Employment - Office closures and relocation of offices and staff from Ukraine and Russia to "safe" countries is creating business continuity issues. Salaries, visas and operational licences where people/offices relocate require consideration.
- Energy - Many nations are heavily reliant on Russian energy. The suspension of the oil and gas pipeline to Germany will have a wide EU impact. Higher energy prices will increase insurance claims in some lines e.g. construction and motor repairs.
- Event cancellation - Major sporting and entertainment events will be affected by the conflict. Expect litigation over politically motivated decisions on attendance.
- Financial services - Russian banks and financial institutions have been excluded from the SWIFT system (EU imposed exclusion). Blockages in the banking system means the Russian rouble is at risk of collapse and there are consequences for business continuity and contractual performance. There has been a suspension of trading of Russian shares on the London Stock Market.
- Marine - The freeze on vessel movements, including the prohibition on Russian ships entering UK and EU ports (port bans), means supplies cannot be transported to their correct "end" destination, causing supply-chain disruption. Claims for loss of stock (particularly perishable/food items) are expected. Some cargo insurance carriers have cancelled insurance and are reinstating coverage with geographical limitations.
- Motor - Car manufacturing has been significantly impacted with factory closures in Russia and Ukraine and the suspension of production in some EU nations due to components shortages. Sanctions are preventing the export of cars to Russia. Insurance claims for repair costs will be higher and may take longer to conclude.
- Products/Supply chain disruption - Disruptions in the supply of raw materials and components and disruption in the transportation network is causing manufacturing slowdown and plant shutdowns in the Ukraine and Russian markets and within the EU. Higher production costs and delays in manufacturing will increase prices further.
- Property - Exposure for the London Market is expected to be limited but for those insurers/reinsurers operating in the Ukraine and Russian market there will be coverage issues due to war exclusions.
- Travel - There are increased risks associated with travel to/from the conflict region, official and unofficial humanitarian transport operations, flight diversions, cancellations of organised tours, holidays etc.

WIDER CONSIDERATIONS

- Coverage - War exclusions will be under consideration for all lines of insurance.
- Choice of law and jurisdiction - Expect an increase in litigation/arbitration due to the imposition of sanctions and the difficulties surrounding contractual performance. Force majeure considerations arise. International/cross-border disputes raise choice of law and jurisdictional issues. Clauses addressing law, jurisdiction and forum (arbitration or courts) will be important in existing and future contracts.
- ESG factors - Expect shareholder activism and disengagement with Russia/Russian investments. This is likely to include a diversion of investments away from Russian oil and gas and into cleaner energies, and away from a nation which disregards human rights and is being investigated for war crimes.
- High inflation - Financial volatility will impact capital reserves and will add to pressure to increase some insurance ratings. Claims are expected to increase (particularly property and motor repair claims) due higher energy, raw material and component prices. Settlements may take longer to conclude.
- Sanctions - US, EU and UK sanctions are impacting Russian entities and those that do business with these entities. Sanctions include preventing access to insurance markets for sanctioned persons/entities. This is a rapidly changing landscape.

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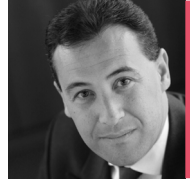
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