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## Russia's Invasion of Ukraine: It's Impact on the Insurance Industry

By [Alexandra V. Dattilo](#) on May 5, 2022

The impact of Russia's invasion of Ukraine is being seen and felt across the world. The invasion has affected almost every industry and sector and continues to strain an already burdened supply chain. Industries impacted include farming, wheat, oil, gas, shipping, and transportation. Additionally, over 300 companies have either withdrawn or significantly restricted their operations in Russia, the list and breadth of those industries include the giants in travel, retail, energy, fast-food, technology, carmakers, sports, and entertainment with more organizations joining this list every week. Recently the All England Lawn Tennis Club (AELTC), which hosts Wimbledon, became the most recent sporting organization to ban or cut ties with Russian sports teams or players. AELTC joins FIFA, which has indefinitely suspended Russian representative teams for both men's and women events and FIA, which announced it would forgo holding the Formula 1 Russian Gran Prix this year. In addition to these announcements, Formula 1 team Haas, terminated its contracts with Uralkali, a Russian potash fertilizer firm that had been its title sponsor last year, as well as with Russian driver Nikita Mazepin.

Withdrawing from the Russian market has and will continue to collectively cost these companies millions or billions of dollars in revenue but also leaves their property in Russia vulnerable to seizure by the Russian government. It is believed that the foreign built or leased aircrafts grounded in Russia due to sanctions alone could account for 10 to 13 billion dollars in damages. Russia has threatened to mirror the sanctions the West is imposing which includes seizing and nationalizing foreign assets. With this type of potential risks and exposure, companies are looking to their insurance carriers to help minimize these losses.

Typical insurance policies may not provide coverage for the types of claims resulting from exiting a market due to an invasion or war. However, there are a number of companies, given Russia's behavior in the region for the last decade, COVID, and the over-stepping of other government regimes' impact upon the supply chain, that have taken additional precautions and purchased specific insurance such as political risk insurance that may cover some of the losses the companies are experiencing. Political risk insurance typically covers government seizures of property, forced abandonment, cancellations of government licenses for operations, and the inability to convert foreign currency. There are reports that at least one billion in new political risk insurance was written in Russian in 2020.

Even for companies that have political risk insurance, coverage may be uncertain. The debate, depending on the language of the policies, will center on whether the losses suffered by these companies are due to Russian governmental action. Questions that will need to be answered include whether the company voluntarily abandoned property, was it forced abandonment, or was it seized.

Because insurance companies' potential exposure is estimated in the billions, insurance companies are already taking steps to limit further exposure and losses. This includes refusing new contracts with Russian ties, incorporating endorsements that bar future claims related to the Russian invasion and warning customers to avoid certain designated areas.

Whenever claims increase, insurance premiums follow. While it may take a while to see the increase of premiums across the board, insurers in the marine industry have already raised costs for insuring merchant ships sailing through the Black Sea from 1-2% all the way up to 5%. This can translate into hundreds of thousands of dollars for a single ship, depending on its travel route and destination. We can expect this increase in premium to directly impact the costs of goods and continue to add to the supply chain issues.

With so many unknown and unprecedented issues we can expect these coverage issues to be litigated or arbitrated, and it will likely take years to know the actual cost of the Russian invasion on the insurance industry and the long-term effects.

### For More Information

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