

# Confidence in Conflict: Insuring your Business against Civil Unrest

Insurance against social disruption

CHUBB®

Engagement Toolkit

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# Introduction to the Toolkit



Clashes between protesters and security forces can not only result in damage to premises, but also the interruption of operations, leading to potentially significant financial losses

The frequency of Strikes, Riots and Civil Commotion (SRCC) events is increasing globally. Whether in the US, Europe, Latin America or Asia, social unrest is changing society in dramatic ways and having an equally significant impact on companies' operating environments.

It is a risk that business leaders cannot afford to ignore. Clashes between protesters and security forces can not only result in damage to premises, but also the interruption of operations, leading to potentially significant financial losses.

To help mitigate these risks, companies should ensure that they have appropriate and robust insurance cover in place. However, the availability of cover for SRCC perils in the insurance market is changing as an ever more turbulent world and risk environment is driving

insurers to review how they offer SRCC protection, with many moving away from the traditional method of inclusion in property policies towards more specialist, individual cover.

This toolkit will look at social unrest events and the impact they can have on your business. We will provide you with the tools you need to better understand the changing risk landscape and the questions you should be asking to ensure appropriate insurance cover is in place.

Chubb wants to help ensure that you find the right SRCC insurance for your business.

Piers Gregory

**Head of Terrorism & Political Violence, Chubb Overseas General**

## Using this toolkit - at a glance

This toolkit will explain:

- The growing threat of civil unrest
- The immediate and future risks facing your company
- The fundamentals of SRCC insurance and how it is offered
- The challenges around SRCC insurance
- The legal perspective
- Practical tips to ensure your business is appropriately covered



## Section 1

# The Increasing Threat and Consequences of Civil Unrest

The first step to prepare your organisation is to understand the evolving SRCC risk landscape. The map below helps visualise the growth, both in scale and associated costs of recent SRCC events.



## Why are strikes, riots and civil commotion a growing threat to your business?

Strikes, riots and civil commotion (SRCC) events are on the increase globally. Not only are they becoming more frequent, but they are becoming larger, increasingly violent and extremely expensive for both organisations and insurers.

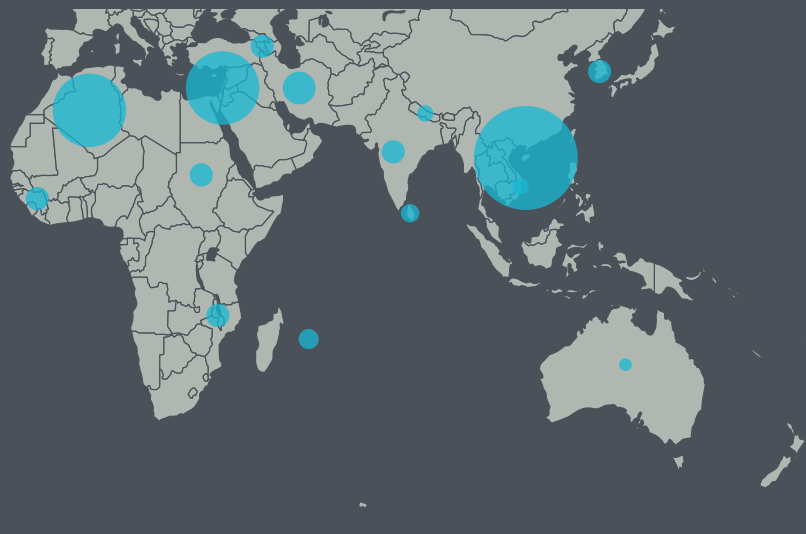
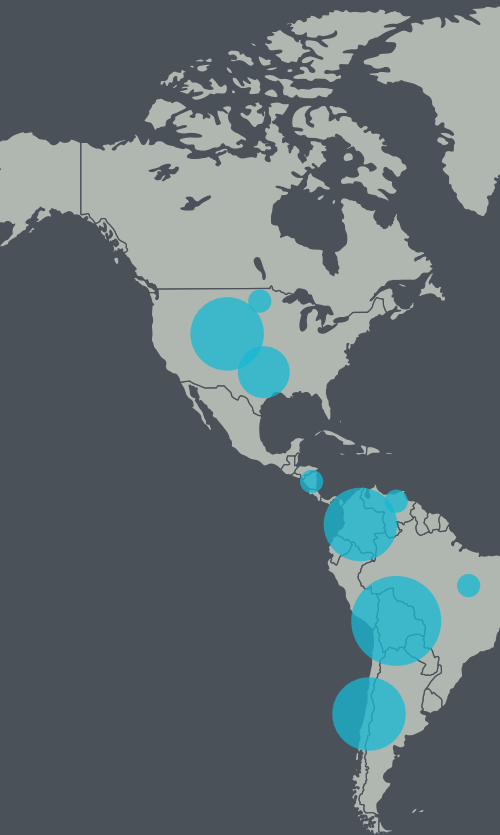
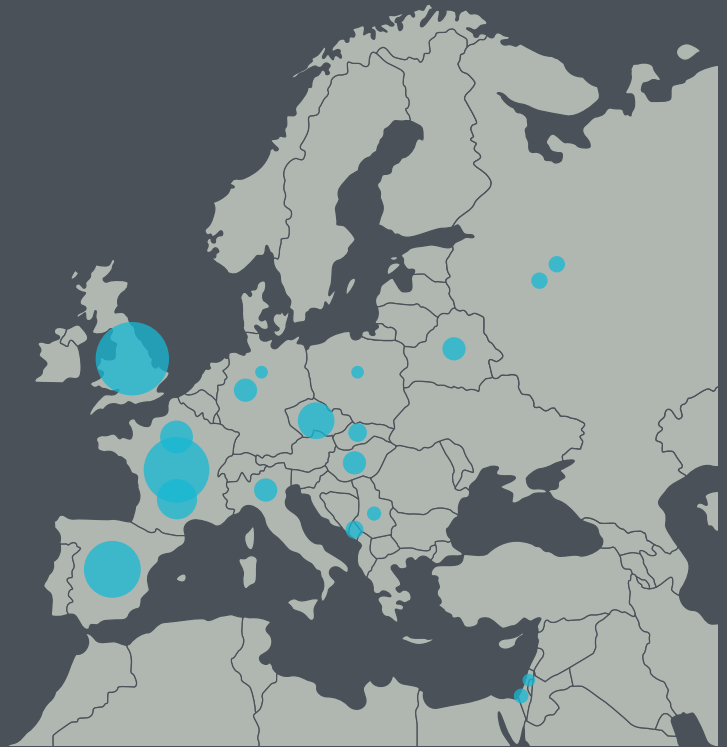
Decision makers need a sound understanding of the threats posed to their assets, operations and supply chains in order to be prepared for potential SRCC risks.

To kick start the conversation, the data below shows the growth in scale and cost impact of recent civil unrest events, while the following page flags the key risk trends our analysts believe will persist in the coming year and beyond.

### Large scale civil unrest events have increased in the last three years

Global protests of 30,000+ people motivated by economic, political or corruption factors

● Number of SRCC events



## The key SRCC risks facing your company in 2021 and beyond

**1 Social media and fake news**  
Social movements are accessing platforms such as Facebook, Instagram and WhatsApp to mobilise large crowds for strikes, riots and civil commotion across the world. Because of that, the power of social media exacerbates risks to your premises, staff and supply chains.

**2 The economic and political fallout of COVID-19**  
Protests against lockdowns and other government actions are set to remain a feature in many countries, and growing income inequality could also fuel social turmoil. Companies and governments will have to deal with the financial consequences of the pandemic while protecting themselves against the risk of growing unrest.

**3 Political unrest**  
Protests about issues such as living costs, corruption, and authoritarianism frequently turn into violent clashes with security forces. Growing inequality and unresolved social grievances mean that further tension could erupt in volatile regions like Latin America, North Africa and the Middle East. Companies will therefore have to operate in ever more complex business environments.

**4 The rise of populism**  
Populism is gaining ground in global politics, even in the developed world. Issues like Brexit in the UK and protests against social inequality have led to disturbances rarely seen before. Around the world, nationalistic voices are becoming louder. Companies need to proactively stay on top of geopolitical developments to avoid being caught unaware.

**5 Emerging risks**  
The geopolitical landscape is as fluid as it has ever been with new issues emerging constantly which represent material threats to businesses. Climate change is a good example of these types of boardroom level conversations. As organisations find themselves under growing pressure to embrace the environmental agenda, activists may carry out strategically planned acts of violence against companies that do not meet their expectations. Organisations need to make sure they have insurance coverage in place that is resilient enough to respond to an ever-changing world.

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## Section 2

# The Fundamentals of SRCC Insurance

With demand rising for insurance products that protect against politically motivated loss events, it is vital to know what your policy covers

The root and contributing causes may be varied and complex, but there is no denying that we are living in a period of heightened civil unrest. Unsurprisingly, the demand for insurance products that protect against politically motivated loss events is also increasing. It is worth noting that in many markets across the world traditional property and business interruption policies do not provide - or are not intended to provide - comprehensive cover for losses caused by all politically motivated actions. Instead, political violence policies are purchased to plug coverage gaps and create certainty but the lines between property and political violence policies are not always clear.

### **SRCC cover in property policies**

Traditionally, when it comes to SRCC risks, property policies have been silent, meaning cover is provided for such risks. Property policies have

generally covered 'all risks of physical loss or damage', meaning businesses have found protection for SRCC related damage and disruption within their property policy. Essentially, this means SRCC is provided on the same basis as any other covered property all risk peril.

In the past, largely driven by a relatively benign loss environment, SRCC cover has been an afterthought included by insurers for little or no extra premium. Property insurers previously did not typically analyse the risk or employ some of the necessary evaluation tools needed to anticipate significant SRCC type exposure.

### **SRCC cover in political violence policies**

Specialty insurers are companies that accept risks that traditional insurers try to avoid. They are seeing increased demand for political violence insurance as property



insurers begin to de-risk exposure to social unrest events.

SRCC clauses are features of Political Violence and Terrorism policies, which include covers that are hard to find in the broader insurance market. They are offered on a separate or standalone contract from property damage policies.

Political Violence underwriters adopt very specific risk evaluation tools and will consider a number of factors when assessing a risk, deploying capacity and pricing the cost of taking on the risk.

One of the crucial considerations is country risk - in other words, the risk of large-scale civil unrest impacting not just a location or area but a whole

country or region. Good examples of this are some of the nationwide protests and unrest we saw during the Arab spring and more recently Chile and the US.

The table below summarises some of the key ways in which SRCC is offered within the property and political violence markets.

Property Policies	Political Violence (PV) Policies
<ul style="list-style-type: none"><li>• SRCC is traditionally covered by all risks property damage insurance policies</li><li>• Coverage is provided on a per occurrence basis and benefits from full policy limits</li><li>• Coverage is usually not defined and not specifically excluded</li><li>• Typically SRCC is only restricted via the application of terrorism and war exclusions.</li><li>• Looting is not typically excluded</li></ul>	<ul style="list-style-type: none"><li>• SRCC offered on an affirmative basis through specialty PV policies</li><li>• Coverage is defined</li><li>• Coverage is on an annual aggregate basis</li><li>• Specific write backs available following an insured peril</li><li>• Looting is typically excluded</li></ul>



# SRCC Event Definitions



The spectrum ranges from acts of terrorism to acts of sabotage, riots, strikes, civil unrest, coups d'état, revolutions, rebellions, wars, civil wars, and uprisings

A variety of technical definitions can be employed in specialist SRCC policies. Politically motivated loss events are diverse. The spectrum ranges from acts of terrorism to acts of sabotage, riots, strikes, civil unrest, coups d'état, revolutions, rebellions, wars, civil wars, and uprisings. However, assigning these labels can often be difficult as the situations are not always clear and are fluid, often merging into one another.

The following forms of political violence perils exist and are typically defined as follows:

**Malicious damage**

Loss/damage resulting from a malicious act committed during a public disturbance.

**Uprising, revolution, and rebellion**

Conscious, organised armed civil resistance against the laws of a sovereign government.

**Coup d'état, mutiny**

Sudden, violent, and illegal overthrow of a sovereign government.

**War, civil war**

Conflict between two or more sovereign nations, declared or undeclared; a war fought between opposing citizens of the same country or nation.

**Strike**

Any deliberate action by a striking/excluded worker during a strike; any action by a lawful authority to suppress or minimise the consequences of a strike.

**Riot**

Any violent disturbance by a group of persons assembled together for a common purpose which threatens the public peace.

**Civil commotion**

Any substantial violent uprising by a group of persons assembled together and acting with common purpose or intent.

**Terrorist act**

An act or series of acts, including the use of force or violence, by a person or group(s) of persons, whether acting alone or on behalf of an organisation for political, religious, or ideological purposes.

**Sabotage**

Any deliberate physical damage or destruction perpetrated for political reasons by known or unknown persons.

The extent to which these descriptions are accepted as firmly defined terms is disputed and subject to the relevant jurisdiction within which the risk occurs, as well as the definitions (if present) provided for such perils in the relevant policy itself.

Traditionally, coverage for SRCC risks has often been assumed by clients to be within their property policy. In the light of such uncertainty both in terms of risk outlook and coverage boundaries, this is changing.

# The Key SRCC Insurance Challenges

SRCC events and causes are manifold. So too can be claims settlements especially where policy wordings are not concise and clear. The following outline some of the key recent issues encountered when resolving SRCC related claims.

## **Event definition**

What constitutes civil commotion or a riot? As the frequency and scale of civil unrest events increase, and the threats overlap and morph over time, the lines between different terms and definitions are becoming increasingly blurred. Civil unrest can be hard to categorise. To define an SRCC event is much harder than an earthquake or flood.

## **External influences**

Social media, various news outlets and cases of fake news can distort perception often creating an impression of an event that does not always correlate with contractual definitions and legal precedent.

## **Legal context**

Although large scale social unrest events are increasing in frequency, there is not a significant amount of legal precedent in many jurisdictions in relation to the interpretation of perils typically insured by political violence policies, and the interpretation of such perils will inevitably vary between jurisdictions.

## **Fluid risk environment**

Timeline is critical and events can occur over a protracted period often with different actors with variable motivations. In the Arab Spring, we saw a combination of low-level riots,

terrorism with the emergence of Islamic State to all out civil war, within the same event but occurring over an extended period of time.

## **Determining the facts**

Insurers are often hindered by difficulties obtaining reliable factual evidence. This is particularly true when those causing the property damage do not claim responsibility and where their motivations remain unclear. Furthermore, “reverse burden of proof” provisions are found in many standard terrorism and war exclusions.

## **Time limits**

Time restrictions within a policy can create disagreements between parties, especially as social unrest episodes can last several months.

## **Building consensus between policyholders and brokers**

Property exclusions for perils like terrorism and war can be broad in interpretation encompassing much wider events than is often expected by clients. The classical definition of terrorism was originally designed to be triggered by large scale terrorism events like 9/11; not necessarily civil unrest events such as those that have taken place in areas of the world like Hong Kong, France, Chile and the US in the last 24 months.

Settling a claim where the parties diverge on interpretation can be a difficult experience for clients. But such challenges can be mitigated with the support of specialist brokers and underwriters who know the SRCC market well, understand how this

increasingly volatile risk has evolved and what ultimately is the most appropriate insurance solution.

Business leaders should work closely with risk management departments to make sure insurance coverage is adequate.

## Summary

- SRCC insurance has traditionally been provided within property damage insurance policies.
- However, as a result of increasing global social unrest, many insurers now hesitate to offer SRCC protection within property policies
- Standalone SRCC covers may instead need to be provided by a specialty insurer
- Political violence insurers use specific risk evaluation tools to assess SRCC risks terms and conditions tend to be stricter and more rigorous than those offered by traditional insurers
- SRCC covers can be acquired as a standalone product or as extensions to other policies
- Claims can be complicated by a number of factors hence the drive for greater clarity within wordings



### Section 3

# Legal Considerations

A number of legal issues commonly arise in respect of claims emanating from loss or damage incurred during the course of civil unrest

Where the policy in question provides cover for loss or damage to property on an “all risks” basis, the claimed loss or damage will likely be covered unless the policy contains a relevant exclusion. Such policies have traditionally excluded more “serious” forms of civil unrest, such as acts of terrorism, war risks, insurrection, rebellion etc, but there has also been a recent trend towards also excluding what were previously regarded as less serious forms of civil unrest, such as SRCC perils, from “all risks” policies.

Under such policies, at least from an English law perspective, the onus is on the insurer to demonstrate that a relevant exclusion applies. However, exclusions relating to political violence perils often contain a “reverse burden of proof” clause, which means that, so long as insurers make out an arguable case that the exclusion applies, the onus falls on the policy holder to prove that the exclusion does not apply. Some

jurisdictions however disregard the application of such clauses.

Where the policy in question is provided on a “named perils” basis, and lists the relevant political violence perils it covers, the onus falls on the insured to demonstrate that loss or damage was caused by one of the named perils. This can result in evidential difficulties for policyholders in seeking to demonstrate, for example, that the loss it has suffered was caused by an SRCC peril.

In relation to both policies, the key consideration is how the relevant perils (either as excluded perils in an “all risks” cover or covered perils in a specific political violence insurance policy) are defined in the wording. Relevant as well will be what law and jurisdiction applies to the policy. Different jurisdictions may interpret and apply the various definitions in different ways.





## Section 4

# Business Action Checklist

Advance planning can help to mitigate against the complex challenges that can arise during a social unrest event

If your company suffers losses during a social unrest event, it is likely to face some complex challenges. These can be mitigated against by ensuring you have the right knowledge, ask the right questions and have carefully considered the structure of your insurance programme.

Follow our checklist below to help put the appropriate action in place:

- Be well-informed. Stay on top of the evolving risk environment by subscribing to global alert services focused on political risks.
- Pay close attention to SRCC definitions in your policy and review them at every renewal. Check if the policies calculate limits on a per occurrence or aggregate basis. Your risk management and legal departments, as well as your insurance broker, should be able to assist.
- Review SRCC covers included in all your insurance policies and check if

they overlap. Ideally property and SRCC policies should dovetail in the cover they provide.

- Assess the value of purchasing additional SRCC coverage.
- Gather data about events and any operations that could be affected by them. If any SRCC episodes take place, this will help you keep up with the evolution of losses.
- Ensure your risk management department has access to appropriate expert resources if the necessity arises.
- Work closely with your broker and insurers to share information and maintain dialogue.
- Collaborate with the experts appointed by insurers and any advisors that you retain to ensure an accurate picture of the facts is established.



# Contact Us for More Information

## **Chubb**

### **Piers Gregory**

Head of Terrorism & Political  
Violence, Chubb Overseas General  
T + 44 203 964 7499  
E [piers.gregory@chubb.com](mailto:piers.gregory@chubb.com)

### **Kevin Smith**

Vice President Claims, Chubb Overseas General  
T +44 7833 255 432  
E [kevin.smith4@chubb.com](mailto:kevin.smith4@chubb.com)

Or visit our website:  
[Chubb.com](http://Chubb.com)

## **Kennedys**

[Kennedyslaw.com](http://Kennedyslaw.com)  
25 Fenchurch Avenue  
London EC3M 5AD

Chubb.com



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