

# CHUBB®

## Confidence in Conflict: Insuring Your Business Against Civil Unrest

Insurance against social disruption



IHS Markit®

Kennedys

# Authors



**Piers Gregory**  
Head of Terrorism & Political Violence  
Chubb Overseas General

Piers has been with Chubb for almost 12 years and has 20 years of experience in the political risk and political violence markets. He is an Associate of the Chartered Insurance Institute (ACII). His primary responsibilities are the overall strategy, product development, execution and performance of the product line across Chubb's international network including both retail and wholesale markets.



**Kevin Smith**  
Vice President Claims for Chubb Overseas General

Kevin Smith is Vice President Claims for Chubb Overseas General and has almost 20 years of experience in handling large and complex Property claims. He is an Associate of the Chartered Insurance Institute (ACII). At Chubb he is part of a central team that coordinates property and casualty claims globally. Kevin has managed COG's catastrophe claims, including non-natural catastrophe events, since 2018. His main expertise is around managing earthquake, hurricane and hail events as well as other weather and non-natural catastrophes such as civil unrest.



**Patrick Foss**  
Partner, Kennedys

Patrick is a partner in Kennedys' London office with over 30 years' experience specialising in insurance law. His practice is primarily focused on coverage and disputes work in the political violence/terrorism, marine, offshore and onshore energy, trade credit and political risk classes. Patrick has handled political violence/risk claims for insurers in jurisdictions including the US, Hong Kong, Libya, Algeria, Syria, Thailand, Bahrain, India, Pakistan, Kenya, Nepal, Ethiopia and Mozambique, and co wrote the first three editions of *Good Faith and Insurance Contracts* (published by Informa).



**Jonathan Embling**  
Associate, Kennedys (Foreign Qualified Lawyer - New Zealand)

Jonathan is an Associate in Kennedys' London office. He qualified in New Zealand in 2015. He has experience providing disputes and coverage advice to insurers and reinsurers in relation to complex, multi-jurisdictional claims across a number of lines of business including property, offshore and onshore energy and political violence/terrorism. Prior to joining Kennedys in 2019, Jonathan was a Senior Solicitor in the litigation and dispute resolution division of one of New Zealand's leading firms.

# Contents

<b>Foreword</b>	<b>04</b>
Social upheaval is on the rise around the world. Risk management and insurance help your company navigate these turbulent waters	
<b>Age of protest</b>	<b>05</b>
Episodes of social unrest have become routine in many countries, driving insurers to exclude them from traditional property and casualty covers	
<b>Shifting risk spectrum of political violence</b>	<b>09</b>
The nature of protests can vary from country to country and affect the effectiveness of your insurance programme	
<b>Getting to grips with SRCC insurance</b>	<b>14</b>
Specialty insurers have filled a gap in the market and become the best option to provide protection against political risks	
<b>What complicates SRCC claims?</b>	<b>17</b>
Read an example of how the complexity of SRCC events can create disputes between companies and their insurers	
<b>Forecasting the risk environment in 2021 &amp; beyond</b>	<b>20</b>
There is no reason to believe companies will have a respite from social and political upheaval anytime soon	
<b>Key business actions to mitigate risk</b>	<b>22</b>
Information, prevention and a well-designed insurance programme help businesses navigate these unpredictable times	
<b>Summary</b>	<b>23</b>

# Foreword

With much of the world suffering political and social upheaval, multinational companies are facing a growing risk of strikes, riots and civil commotion

To prepare for the potential damage and disruption caused by civil unrest, risk managers need to ensure bespoke insurance programmes are in place to protect their balance sheets and international assets.

The first step in planning for these risks is to identify which insurance programmes provide the appropriate coverage. Traditionally, physical damage due to political protests is covered by either standalone political violence insurance or standard property insurance.

For a long time, insurers have offered protection against strikes, riots and civil commotion (SRCC) at no extra cost. However, elevated risk environments mean this is becoming less common and property insurers have begun excluding events of social unrest from their policies.

In the past couple of years, SRCC events have become more frequent, and losses costlier and more concentrated. Recent events in South Africa once again put the spotlight on the issue, highlighting to the world that large scale civil unrest is often no further away than a sensitive criminal prosecution or an unpopular election result. Now more than ever, insurance policies covering losses caused by civil protests and political uprisings need greater clarity and transparency in order to provide the coverage and certainty that clients demand.

It is also critical for companies to understand the limitations and

exclusions which can affect the coverage of SRCC losses, as well as the specific risk exposures during events of civil unrest that will have an impact on their business.

With such a complex and dynamic landscape, the primary purpose of this report is to open a much-needed dialogue with risk managers about their SRCC protection needs and how to meet them. We want to ensure maximum transparency in coverage and, where necessary, to offer bespoke policies for clients.

We will look at case studies exemplifying the shifting risk ecosystem, discuss the impact it is having on the insurance market and propose efficient ways to protect your company.

The goal is to reduce uncertainty, mitigate the risk of contested claims, and to ensure the protection of your assets through clear and understandable SRCC insurance covers.



In the past couple of years, SRCC events have become much more frequent, and losses costlier and more concentrated

# Age of Protest

In an age of upheaval,  
insuring against risk  
is evermore fraught  
yet essential

Episodes of social unrest in Europe, the Americas and Asia are rarely out of the news. As a result, we have all been able to see how isolated protests, demonstrations and other SRCC-type events can easily evolve into extended periods of upheaval.

The causes and consequences of such events are manifold and have put complex issues of insurance coverage under the spotlight.

The following case studies illustrate the impact such events have had on insurance claims.

## **Anti-government protests and public order events, Hong Kong (2019-20)**

The Hong Kong street protests were initially a response to the Fugitive Offenders Amendment bill which would have permitted the extradition of criminal suspects to mainland

China, but quickly grew to be about political reform in Hong Kong.

The protests which began on 15 March 2019, escalated over the next few weeks into clashes between protesters and counter-protesters, anti-government activists storming the Hong Kong Legislative Complex<sup>1</sup> and students occupying two universities which were then besieged by the police. The protests ended up claiming the lives of two protesters and a number of bystanders<sup>2</sup>.

The spreading protests heavily affected business sectors such as tourism and retail. Tensions mounted again in May 2020 after the Central People's Government of the PRC implemented a national security law for Hong Kong<sup>3</sup>.

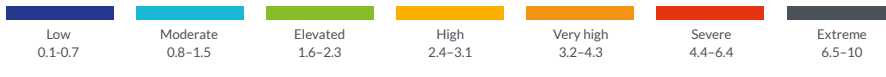
**Impact:** The protests were likened to something different than traditional



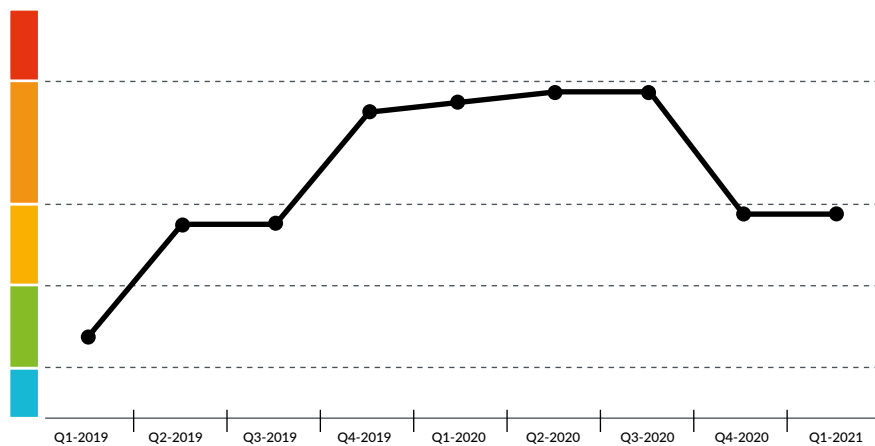
## Confidence in Conflict: Insuring your Business against Civil Unrest

### Protests and riots risk ratings

Risk is scored on a 0.1–10 scale. The scale is logarithmic, with intervals of 0.1 magnitude. This range is split into seven bands, ranging from Low to Extreme risk

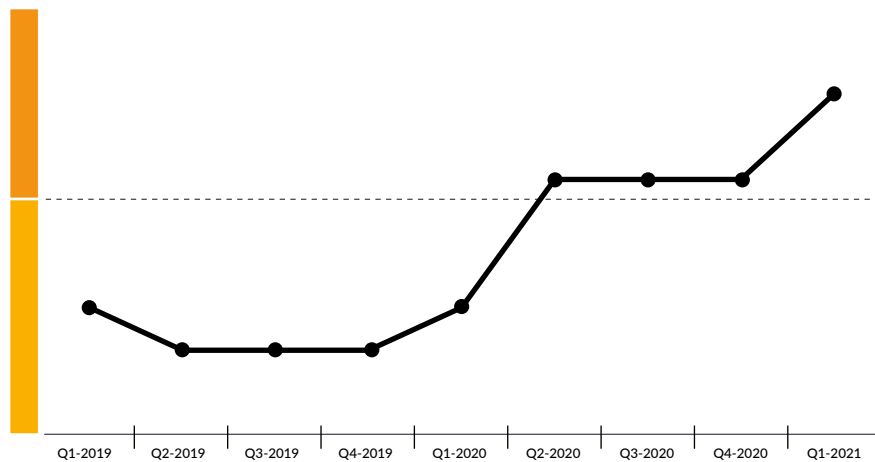


Hong Kong SAR Q1 2019 - Q1 2021



IHS Markit 2021

France Q1 2019 - Q1 2021



IHS Markit 2021

### Losses caused by the gilets jaunes protests

- The tourism sector (inc. hotels and restaurants): €850m
- The transportation sector: €600-800m
- Shopping malls: €2bn
- The insurance sector: €217m

French parliamentary report, 2019

riots or civil commotion because they were highly politicised.

With protesters paralysing business activities and confronting the Hong Kong police force, businesses tried to invoke terrorism clauses in their property insurance policies. However, notwithstanding the broad definition of terrorism often found in such policies, it may seem counterintuitive to consider these acts as being acts of “terrorism” in the generally understood meaning of this term.

### Gilets jaunes, France (2018-19)

The gilets jaunes (“yellow vests”) movement in France started as a social media protest in May 2018 over a sharp increase in diesel fuel taxes. A few months later, it had escalated into tumultuous street demonstrations against high living costs.

Violent clashes erupted in Paris and other locations, and marches took place virtually every weekend for the following 18 months. Participants protested against austerity measures announced by the government and demanded political reforms<sup>4</sup>.

**Impact:** In Paris, significant property damage was inflicted on the premises of several companies and businesses lost revenue as their facilities became inaccessible. Protesters deliberately targeted certain kinds of organisations in their quest to influence government policy.

The prospect of sustained, politically motivated civil unrest and the underlying political risk have had a direct effect on insurance policies and their construction.

### Social protests, Chile (2019-20)

Chile is one of Latin America's richest and most stable countries, but in 2019 student protests over public transportation prices evolved into

**Confidence in Conflict:  
Insuring your Business against Civil Unrest**

countrywide protests against social inequality that lasted several months.

Over the course of the protests, over 33 people were killed and more than 3,000 were injured<sup>5</sup>. Economic losses reached up to \$4 billion<sup>6</sup>.

The protests were highly politicised and triggered much debate between policyholders and insurers about how the disturbances should be categorised. Disagreements emerged on whether the losses were captured by the provisions of property or political violence insurance policies.

**Impact:** The protests started on October 18th, 2019 in Santiago, but soon expanded to several other regions of the country, affecting a number of important business sectors. The development of the disturbances raised questions about how losses were to be defined and whether geographic limits should apply. Further complications were caused by difficulties in determining whether the events that caused the losses were politically motivated.

SRCC coverage has traditionally been included in Chilean insurance policies, but some of the classical definitions of cover are now being reinterpreted and recast in response to those events.

**Black Lives Matter protests, United States (2020)**

The Black Lives Matter (BLM) movement in America gained momentum following the sharing of images of the death of George Floyd, a Black man, killed by a Minneapolis police officer in May 2020.

The killing of George Floyd was recorded by a passerby on her mobile phone and shared almost immediately with millions of people via social media. Demonstrations ensued and, in the following months,

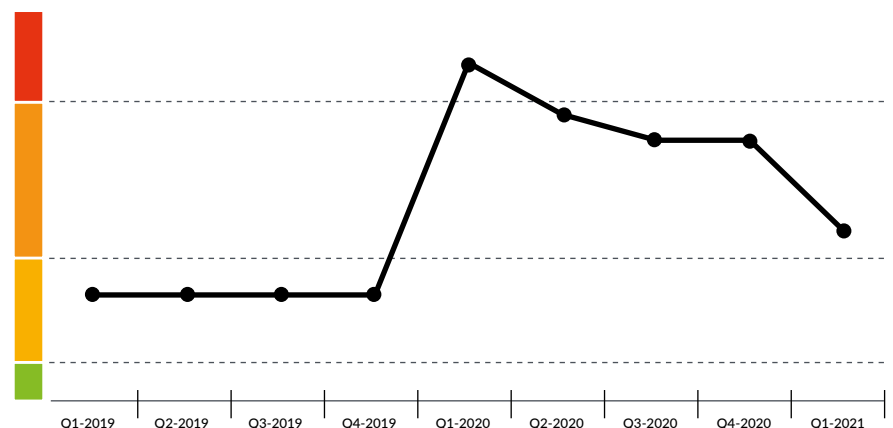


**Protests and riots risk ratings**

Risk is scored on a 0.1–10 scale. The scale is logarithmic, with intervals of 0.1 magnitude. This range is split into seven bands, ranging from Low to Extreme risk



Chile Q1 2019 - Q1 2021



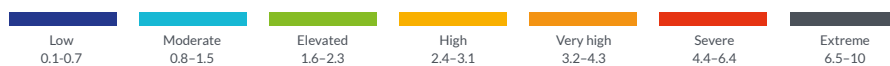
IHS Markit 2021

## Confidence in Conflict: Insuring your Business against Civil Unrest

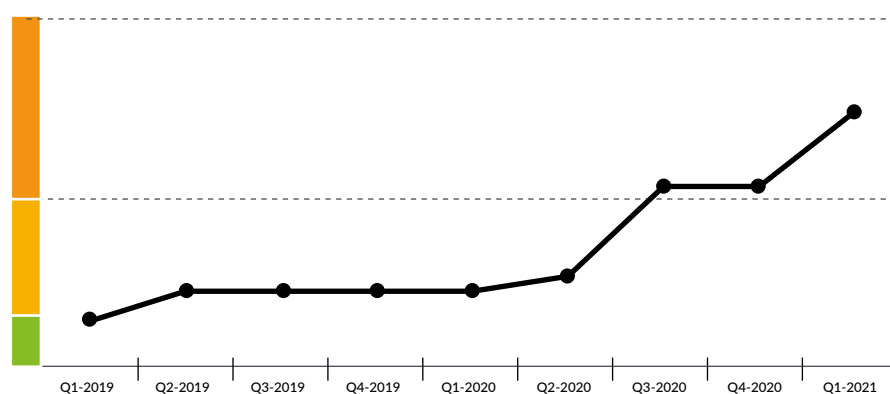
### Protests and riots risk ratings

Risk is scored on a 0.1–10 scale. The scale is logarithmic, with intervals of 0.1 magnitude.

This range is split into seven bands, ranging from Low to Extreme risk



United States Q1 2019 - Q1 2021



IHS Markit 2021

more than 26 million people took to US streets to challenge police brutality and racial discrimination<sup>7</sup>. Protests often degenerated into violence and looting and, according to the US Property Claims Service, damage to property totalled more than \$2 billion.

**Impact:** Traditional property insurance policies were tested as questions arose about proximate causes and the underlying motives of the individuals involved in the protests.

As the disturbances happened over many months and across 20 states, they stretched the boundaries of property insurance and brought into focus the need for precise language that defines which risks are covered by a policy and which are excluded.

The BLM protests also showed that a company suffering losses could have benefited from standard SRCC cover within their property policy. However, having a political violence extension would have been more likely to capture all damage arising from the protests.

### Key takeaways

- Events of social unrest are heterogeneous in their nature and motivations, and they can spread very quickly due to social media.
- Questions on the nature and scope of certain events, as well as the causes of economic losses incurred during the disturbances, can affect claims.
- There may be uncertainty about whether SRCC losses are covered by property insurance policies, as exclusions may apply.
- SRCC standalone policies and extensions in political violence policies are more likely to provide comprehensive protection.





# Shifting Risk Spectrum of Political Violence

For many businesses, the recent rise in severe social unrest elevates risk levels within a shifting operating environment.

As the frequency and scale of civil unrest events increase, and the threats overlap and worsen over time, it is no surprise that the definition of these threats has evolved too.

In this section we explain why the political violence risk spectrum may not be sufficiently defined and how recent risk trends mean it has expanded and evolved, with the lines between different terms and definitions becoming increasingly blurred.

## **Thailand Protests (2010)**

A series of political protests organised by the National United Front of Democracy Against Dictatorship (UDD) called for Prime Minister Abhisit Vejjajiva to dissolve parliament and hold elections earlier than those scheduled in 2012.

What ensued was a prolonged and violent confrontation between the protestors and the military culminating in significant damage to commercial properties at a considerable cost to the (re)insurance industry<sup>8</sup>.

Although the crisis took place 10 years ago, several challenges emerged that still exist in the insurance industry today.

Historically there has been no consensus on what constitutes the term “terrorism” for the purposes of insurance contracts in Thailand. Following the 2010 unrest, the insurance market was faced with the difficulty of deciding if the sustained property damage was caused by “terrorist acts” (as the then government proclaimed), and thereby excluded from cover under standard all-risks policies.

Those all-risks policies, as approved by the local regulator (and common across most jurisdictions), provided cover for loss and damage to property unless such damage fell within specified exclusions, including damage caused by acts of “terrorism” or “civil commotion assuming the proportions of or amounting to an uprising” but typically did not define these perils. Terrorism and political

## Confidence in Conflict: Insuring your Business against Civil Unrest

violence cover, whether standalone cover or by way of writeback/extension, was taken out by relatively few businesses.

A central issue therefore, was whether the alleged damage had been caused by acts of “terrorism” or “civil commotion” with the lack of policy definitions or legal precedent in Thailand adding complications. This resulted in conflicting judgments and outcomes for insureds and insurers alike.

### Defining terrorism and social unrest perils

The perception of what constitutes an act of terrorism has been influenced by 9/11 and the emergence of state sponsored pools that were created to plug the capacity gap that emerged. Typically, these pools will only respond to large scale catastrophic style attacks from individuals operating on behalf of a recognized terrorist organisation.

By its very nature, civil unrest can be hard to categorise, leading to significant evidential difficulties. This is particularly true when the individuals or groups causing the property damage do not claim responsibility and where their motivations remain unclear.



By its very nature, civil unrest can be hard to categorise, leading to significant evidential difficulties

While political motivations can be relevant, the line between political and economic motivation can often be blurred (with economic problems leading to political actions). Moreover, different individuals involved in one particular disturbance at any one location may have widely different motivations and intentions.

### Evidencing terrorism or social unrest

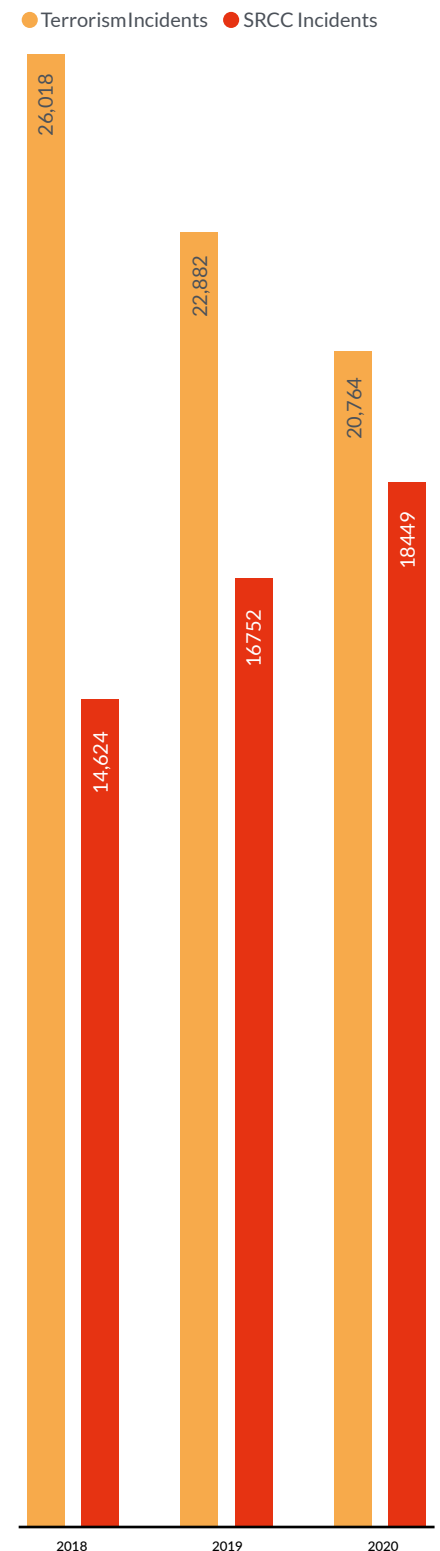
Insurers are very often hindered by difficulties obtaining reliable factual evidence. News reports may not fully relay the underlying motivations of those involved in the unrest and typically use common terminology rather than the vocabulary typically found in insurance contracts. Furthermore, social media and even official communications from authorities can be influenced by bias or vested interests.

Proving that a peril occurred in a general sense is one thing, establishing causation for a specific claim may be another. Often, geographical constraints become critical. For instance, concluding that a certain peril existed is one thing, but linking that same peril to an event at opposite ends end of the country may be more challenging.

Furthermore, “reverse burden of proof” provisions are found in many standard terrorism and war exclusions. The intention places the onus on the insured to provide the necessary proof to disprove the applicability of an exclusion, although some jurisdictions do not recognise the validity of such provisions.

An additional complicating factor is a lack of policy design. Historically, standard all risk property cover and political violence are placed with separate insurance panels. In Thailand, while arguments ensued over peril classification and

### Global SRCC incidents are increasing in frequency



IHS Markit 2021

## Confidence in Conflict: Insuring your Business against Civil Unrest

causation, other arguments focused on contribution which stemmed from overlapping policy construction. Insurance buyers found themselves with either double cover, or worse, no cover.

There are similarities between the legal challenges faced in Thailand and events that swept across the Arab world in 2011 and across other civil unrest events right to this day.

Terrorism insurance was inappropriate for insureds that suffered property damage in the Arab Spring because civil commotion and perils like insurrection, rebellion and revolution were excluded under the standard terrorism wording.

### Staying abreast of the evolving risk spectrum

Standard terrorism cover typically contemplates isolated, covert terrorist attacks - not street-level civil unrest. Standard all risk property policies, on the other hand, exclude terrorism, insurrection, rebellion and revolution, civil war, war and civil commotion assuming the proportions of or amounting to an uprising.

What occurred in many territories was ultimately regime change often preceded by large scale and violent unrest nationwide. This often meant clients were left without the appropriate level of cover, as matters developed over time.

As we reflect on other recent events, like those that took place in Chile and Hong Kong and also the recent BLM movement in the US, resulting claims are very nuanced and the problems encountered in Thailand still show through. It is critical then for both risk managers and business leaders to be aware of how events and circumstances may evolve over time, potentially triggering different insurance policies.

### Legal insight - definitions of terrorism

In the United Kingdom, section 1 of the Terrorism Act 2000 defines “terrorism” as the use or threat of “action” where the use or threat is defined to influence the government (or international governmental organisation) or to intimidate the public or section of the public, and the use or threat is made for the purpose of advancing a political, religious, racial or ideological cause. The “action” must involve serious violence to persons or property, or endanger persons or create a serious risk to the health or safety of the public.

Definitions of “terrorism” in insurance policies are usually consistent with the definition in section 1 of the Act. These definitions arose out of 9/11 and were intended to be wide enough to capture emerging terrorist threats,

but the focus was on one-off attacks in the manner of 9/11. However, the breadth of the “terrorism” definition in section 1 and many insurance policies has the potential to apply to violent actions taken in furtherance of causes referred to in the case studies in this paper. That is because the definitions focus on acts of terrorism rather than acts of terrorists.

It could certainly be envisaged that the definition of “terrorism” in insurance policies may need to change and evolve given the political and social implications of referring to violent actions ostensibly taken in furtherance of otherwise legitimate causes as being “acts of terrorism”. However, differentiating acts of those furthering an ideological cause from those that do not remains a challenge.

### Key takeaways

It is critical for risk managers and business leaders to be aware of how the risk spectrum is evolving and the consequential effects this will have on their insurance programmes. Key points to keep in mind are:

- Standard terrorism insurance typically covers isolated, covert terrorist attacks, but not street-level civil unrest.
- Standard all-risks property policies usually exclude terrorism or war related events. This typically includes insurrection, rebellion, revolution, war and civil commotion amounting to or assuming the proportions of an uprising.
- Distinctions can become blurred as civil unrest episodes develop in complexity and scope. In the Arab Spring, several countries went through regime change preceded by violent unrest and policyholders discovered they did not have cover that responded to the developing circumstances<sup>9</sup>.
- Traditional definitions of political violence and civil unrest have once again been challenged by recent events in Chile and Hong Kong and the BLM movement in America.
- It is critical for multinational corporations to keep up with socio-political trends to understand how the risk of civil unrest is evolving. By doing this, they will be much more effective in mitigating SRCC risks and acquiring insurance protection.

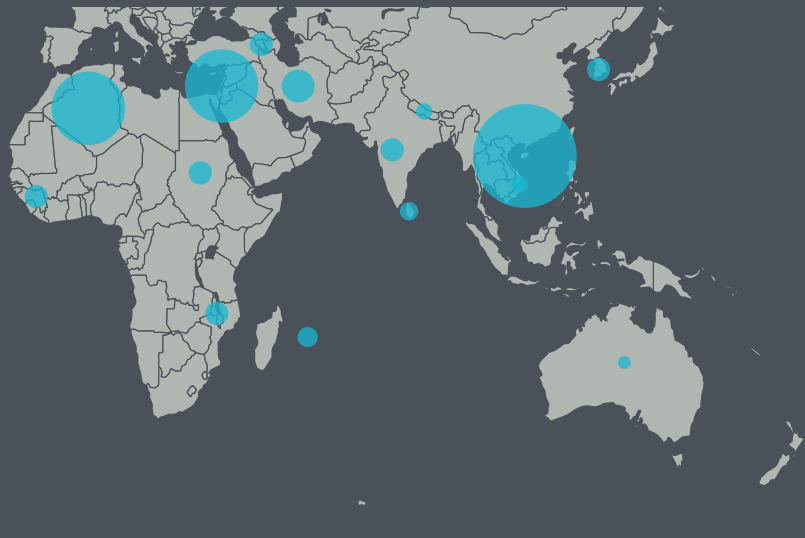
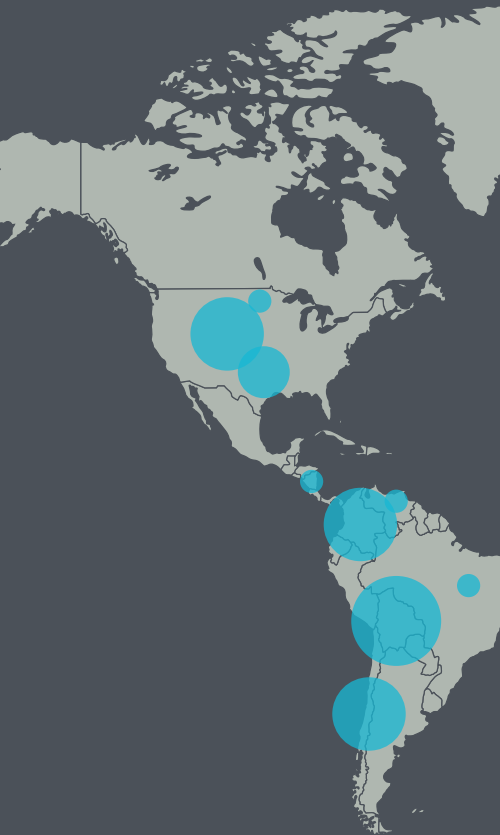
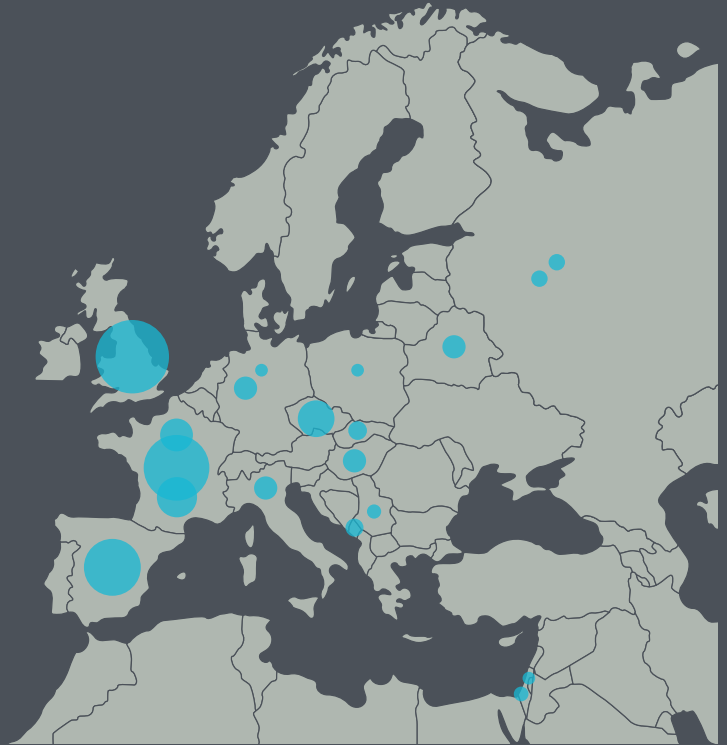
# The Spread of Civil Unrest

Hong Kong. Chile. France. Cities all over the United States of America. All have experienced large scale civil unrest in the past two years. But they are not alone. Strikes, riots and civil commotion (SRCC) events are increasing in both frequency and size. And this poses a serious threat to the operations and assets of businesses around the world.

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

Number of SRCC and Terrorism events occurring in key geographies between 2018-2020

● Number of SRCC events



## Confidence in Conflict: Insuring your Business against Civil Unrest

As traditional insurers shy away from underwriting such risks, businesses are turning to specialty insurers for SRCC coverage. However, as SRCC event frequency increases and global risk consultancies report that a growing number of nations face instability and civil disruption in the coming years, it is critical that organisations protect themselves with the appropriate insurance coverage.

### The number of countries facing instability and civil unrest is predicted to keep growing

101 of 212

countries are likely to see civil unrest increase in the the next 12 months

IHS Markit 2021

121 of 212

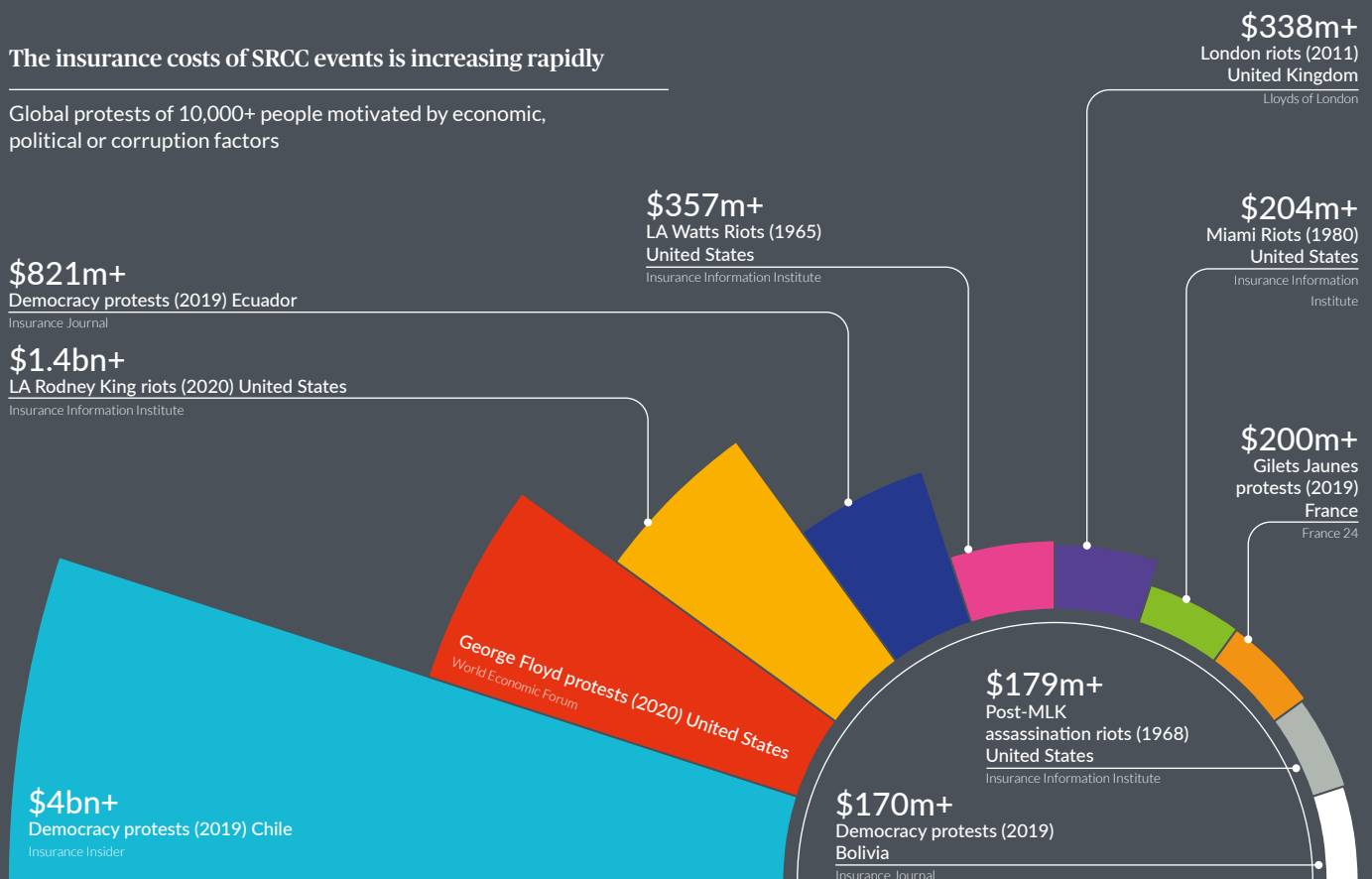
countries are likely to see civil unrest increase in the the next 36 months

From damaged property to compromised supply chains, through to the cost of a disputed SRCC claim, organisations are at risk of incurring serious damages - both financial and operational.

The cost of SRCC events to insure continues to grow, so organisations should act sooner rather later to avoid the potentially serious consequences of risk exposure.

### The insurance costs of SRCC events is increasing rapidly

Global protests of 10,000+ people motivated by economic, political or corruption factors





# Getting to Grips with SRCC Insurance

Given the changes witnessed in the property market, the demand for civil unrest coverage is shifting into the specialty markets

Looking back over the last ten years or so, it is apparent that civil unrest episodes are becoming more frequent. In this section we examine how SRCC coverage is offered within a traditional property policy versus a political violence policy and why we are starting to see a trend for tighter wordings and exclusionary language within the property market.

## **SRCC in traditional property policies**

SRCC insurance is straight forward. Its goal is to cover loss or damage to property caused by people involved in social unrest events like strikes, protests, and riots. It can also provide cover for financial loss suffered by a company when damages to infrastructure prevents it from

continuing or resuming business as usual, or when premises are closed down by the authorities as they work to control the unrest.

But, despite much recent progress, challenges can occur at the time of a claim. As we have explored, one reason for potential complications is that the definition of what constitutes an episode of civil commotion or riot is not always clear cut.

When we look at damage and disruption related to SRCC, property policies have traditionally been silent, leaving cover implied – neither explicitly including nor excluding these risks. Property terms have generally covered ‘all risks of physical loss or damage’, meaning businesses

## Confidence in Conflict: Insuring your Business against Civil Unrest

have found protection for damage and disruption related to SRCC within their standard property cover.

Effectively, this means the cover is provided on the same basis as any other covered peril - in other words: full limit; per occurrence basis and without a specific wording.

Now, with the frequency and severity of these risks increasing, property insurers are beginning to re-evaluate how they offer this coverage especially in light of the very specific underwriting tools needed to accurately assess and price these risks.

As a result, terms are being tightened and we are seeing a trend towards more exclusionary wording, with cover for SRCC being removed from, or limited in, standard property cover.

### **SRCC within political violence policies**

Specialty insurers are companies that accept risks that traditional underwriters select against. Given the changes witnessed in the property market, the demand for civil unrest coverage is shifting into the specialty markets.

### Legal insight

Whether a particular insurer is willing to provide cover for SRCC risks turns largely on standard underwriting and commercial considerations. Underwriters will take into account the legal framework and the current and prospective risks in relation to the particular policy. However, in particular jurisdictions, the legislative environment may impact on whether an underwriter is willing to provide such cover.

### Legal insight

The situation on the ground when civil unrest occurs is crucial to determining whether a policy covers resulting loss of or damage to property. For example where a civil commotion (often covered under an property SRCC policy) becomes a civil commotion amounting to a popular uprising (generally covered under a specific political violence policy). For example, information regarding the situation on the ground is necessary for determining whether the events can be categorised as a civil commotion (often covered under a property or SRCC policy) or a civil commotion amounting to or assuming the proportions of an uprising (generally covered under a specific political violence insurance policy).





SRCC clauses are features of political violence and terrorism policies, which include other covers that are hard to find in the broader market and are offered on a separate or on a standalone contract.

Political violence underwriters adopt specific risk evaluation tools and will consider a number of factors when evaluating a risk, deploying their capacity and deciding on appropriate rates and pricing.

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



Specialty insurers employ strict definitions to clarify what kinds of events are covered or not

but an entire country or region. A good example of this is some of the nationwide protests and unrest we saw during the Arab Spring and more recently in Chile and the US.

In order to manage such volatile and catastrophic risk, political violence insurers will often deploy capacity on an aggregated basis, as opposed to per occurrence. Policies are issued on a named perils basis and often define the risks and exclusions which constitute the cover, with definitions such as what constitutes a “strike”, “riot” or “civil commotion”.

Contract language is of critical importance and businesses must ensure that political violence and property policies are aligned in the words and definitions that they incorporate.

Settling a claim where the parties diverge on interpretation can be a difficult experience for policy-holders. But problems can be avoided with the support of 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.

## Key takeaways

- Property damage insurance used to always cover losses linked to civil unrest, no questions asked. This is no longer the case.
- Driven by increased frequency and losses, property insurers are increasingly looking to limit SRCC cover particularly for those assets more prone to damage or located in central business or major metropolitan areas where large scale damage can occur
- SRCC cover is increasingly offered by specialty insurers, employing stricter definitions and aggregate losses.
- It is important to pay attention to the language of the policy and to work closely with brokers and insurers to avoid headaches when there is a claim.



# What Complicates SRCC Claims?

Far from straightforward, settling claims resulting from civil unrest can become a tangle of conflicting opinions

Strikes, riots and civil commotion (SRCC) claims usually result from complicated and constantly evolving situations, and their settlement requires a careful and considered approach.

To highlight the SRCC claims challenges a company may face, consider a hypothetical scenario, influenced by real events, that follows John Prudent, Chief Risk Officer for the Americas at GadgetMark, a fictitious tech retail giant with stores around the globe.





## Day 1

John becomes aware that a growing number of individuals are taking to the streets in the capital city of a Latin American country which is a key market for GadgetMark. They are demanding lower transport prices, better healthcare and access to fairer pensions.

Throughout the day, the number of people continues to grow. However, while most are protesting peacefully, news reports show a group of people in masks throwing rocks and confronting police.

By early evening, the situation has escalated and a building is set on fire. When John sees the footage, he is shocked to see that it is the city's main GadgetMark store. The company executive knows he will be fielding calls from his stakeholders asking what measures have been taken to protect the store and what will be done to resume trading as soon as possible. Luckily, he had bought insurance that should cover the damage. Or will it?

During recent renewals, John added a number of extensions to his property damage policy for the country in question. However, the country was known for its normally peaceful nature, so he only opted for a handful of clauses to cover civil unrest.

Reviewing the contract at the day's end, John notes the policy covers riots, but excludes civil commotion. Judging by the footage of masked thugs and of the GadgetMark store, he feels confident the losses will be covered.

## Day 2

John is shocked to learn from his broker that GadgetMark's insurers say the event does not meet their definition of a riot, though they will continue to monitor the situation. He instantly regrets not taking a closer look at the policy and its wording before signing the contract. But with so many policies to renew each year, can he really be expected to read every word of them?

With the protests into their second day, it was impossible for John's team to access the stores to evaluate the damage. To make matters worse, the protests had started spreading to other big cities in the country.

Next, John learns that GadgetMark stores are being targeted because of a viral social media post. GadgetMark becomes a focal point for the unrest, with protesters labelling it a symbol of increasing inequality. Untrue allegations of unfair labour contracts and unpaid wages serve to fuel protesters' anger.

Media reports increasingly refer to the protests as "riots" so John phones his insurance broker who explains to him that the terms used by the media often cause this sort of confusion. The broker tells John that few people really understand the difference between riots and other SRCC perils, so the media always "keeps things simple".

## Day 3

John is informed by his team that the government has deemed the unrest an act of terrorism, triggering emergency powers under the Terrorism Act. He also learns that what appear to be homemade bombs have been thrown into three different GadgetMark stores across the country.

The escalation in violence prompts John's insurers to review the events and they advise the broker that they now consider this to be terrorism. John recalls that his insurer had offered a terrorism and political violence policy that would have provided substantially more cover, but it was expensive and the company was cutting overhead costs to recover from a pandemic. As a result, he rejected the extra cover.

## Day 4 - 7

The protests continue throughout the week. John's regional team reports that a total of 15 stores have been affected. Three have been burnt to the ground, five are extensively damaged and the remaining seven are structurally sound but have been looted by opportunists.

GadgetMark's lawyers inform John that it might be possible to secure some insurance indemnity for the losses suffered. However, with the uncertainty around how much of the claim might be covered, he should prepare the board for a financial shortfall.

## Day 7 - 28

GadgetMark's insurers agree to appoint loss adjusters to investigate the claim. While the damage to regional stores could be reviewed relatively quickly, things were more challenging in the capital. Groups of protesters begin to barricade the central business district and the government implements a lockdown, preventing access to the flagship GadgetMark store.

It takes a few weeks for things to calm down, and for John and his team to have a clearer idea of the losses suffered.

## Key takeaways

- An unrest situation is constantly evolving and can be extremely complex.
- Media reports often use terminology that is inconsistent with policy definitions.
- Misinformation can be particularly damaging where it causes an organisation to be unfairly targeted. Social media undoubtedly plays a role in spreading such fake news.
- Different policies may define perils in different ways. A successful property and terrorism insurance programme is underpinned by consistency of language.
- Taking a piecemeal approach and trying to bolt extensions or endorsements on to property policies often leaves gaps in cover that may be exposed when a claim occurs.

## Day 28 - 50

As events wind down, John turns his attention to GadgetMark's claim. However, this means calling in a number of experts to help him quantify, formulate and then present the claim. He is grateful for advice from a national law firm with specific expertise in SRCC matters. John braces himself for a claim settlement process that could drag on for the rest of the year.



# Forecasting the Risk Environment in 2021 & Beyond

There seems to be no let-up in sight of troubling events exposing businesses to growing risk and uncertainty

It is clear that 2020 was an unprecedented year of risk. First, there was the coronavirus pandemic and its economic impact on individuals and businesses. Second, there was the death of George Floyd that sparked civil unrest across the United States and beyond. Third, unrest is a worldwide issue, the incidence of which seems to only be increasing - for example recent events in Colombia and South Africa.

Despite the promise of vaccines and economic recovery, the unpredictable nature of the risk environment is only likely to increase. Here are the key risks businesses need to be aware of and the challenges they present:

## **Ongoing impact of social media**

The rise of social media and fake news is a key driver behind increasing global instability. Social media platforms not only help amplify economic, political and social ills, but can act as catalysts for strikes, riots and civil commotion (SRCC) around the world.

## **COVID economic and political fallout**

Imposition of further restrictions has provoked anti-lockdown protests worldwide, the pandemic has also widened the inequality gap, sparked strikes and protests over jobs, pay, healthcare, education, pensions and public services. The unequal rollout of the vaccine programme across

## Confidence in Conflict: Insuring your Business against Civil Unrest

Chile riot risk ranking



the world (coupled with associated resistance to vaccination) poses an additional risk factor.

Additionally, governments are coming under increasing pressure from activist groups calling for key social-justice reforms.

### Exacerbation of existing grievances

Civil unrest continues to spread across the world with protestors demonstrating about a range of issues from the rising cost of living to corruption and infringement of democracy, often spilling over into violent clashes with police.

Because many of these events are now happening in unexpected places, and with greater frequency and severity, they are even harder for businesses to anticipate. They may only gather pace as disadvantaged groups in society become more marginalised and seek recourse.

### Persistent rise of populism

Amid such uncertainty, politics is becoming far more divisive, splitting nations, communities and families. This is giving rise to populism, with extremist movements that appeal to people's political ideologies mobilising support.

### Climate change acceleration

Business are coming under mounting pressure from environmental activist groups and protest movements. Some of these movements continue to carry out strategically planned acts of violence or sabotage against companies seen as lacking appropriate action or an adequate response. Perceived inaction can trigger large-scale unrest if not managed effectively or addressed.

### Future risk monitoring

Due to the unpredictability of these events, analysts are finding it



The unpredictable nature of the risk environment is only likely to increase, despite the promise of vaccine programs and economic recovery

increasingly difficult to foresee such risks, making it harder for insurers and the insured to mitigate against them.

Many of these new challenges will continue to test definitions and exclusions within insurance policies, particularly for traditional property, which contain SRCC clauses, and political violence coverage.

### Key takeaways

- SRCC risk has fundamentally shifted over the past decade, driven by social media, inequality, populism and climate change.
- Protests and civil unrest are occurring far more often and on a greater scale.
- Working with their insurers, businesses need to monitor key risks closely and protect themselves by securing their premises, people and supply chains, and having an effective business continuity plan.

# Key Business Actions to Mitigate Risk

Risk managers must be prepared with the right insurance cover in place, a pre-emptive action plan and a business continuity strategy

**1 Claim-scenario planning**  
Trying to predict the risks your business could be exposed to is not easy, but by looking at all potential outcomes and making sure your policy is fit for purpose, you can ensure you are covered for every possibility. It is best to test this using a range of different scenarios, understand how they would affect your business and what type of cover you would need.

**2 Have a clear approach to wording**  
The simpler and more consistent you can make your policy wording the better, to avoid any ambiguity or disagreement if you need to make a claim. Problems can arise when you require more than one policy or are using multiple insurers for different policies, in which case you need to make sure terms and language are as similar and consistent as possible.

**3 Define your limits**  
You need to have the correct limits and deductibles. This goes back to having effective claim-scenario planning in place, helping to determine how much you are willing to pay versus what you will be able to claim if an event occurs.

## Legal insight

Clear policy drafting is of utmost importance. In particular, it is always best to provide definitions in the policy for SRCC and related perils so as to avoid any ambiguity and ensure certainty. Many of these perils have been considered and defined by the English courts, but such decisions may not always be relevant where the policy is subject to overseas law. Including definitions of the relevant perils and exclusions will assist in considering any claim that may arise.



# Summary

Social and political turmoil has increased globally in recent years. In response the insurance market has developed creative solutions to help companies mitigate risk in a fast-changing business environment scattered with political risks. As opportunities arise in a post-pandemic world, nobody wants to be caught unawares by episodes of social unrest that have the potential to severely disrupt business operations.

Much like the risk itself, the market for strikes, riots and civil commotion insurance covers is also evolving. While traditional policies may no longer provide adequate SRCC protection, the introduction of specialist political violence covers is offering high levels of protection and expertise in a rapidly shifting risk landscape. Your insurers and brokers can help your organisation obtain the cover needed in challenging environments across the world.

# Sources

<sup>1</sup> *Hong Kong police evict protesters who stormed parliament*, BBC News, 02/07/2019

<sup>2</sup> *Hong Kong police ends 2-week campus siege*, The New York Times, 29/11/2019

<sup>3</sup> *Chinese parliament approves controversial Hong Kong security law*, The Guardian, 28/05/2020

<sup>4</sup> *The rise and fall of France's Yellow Vests - what remains after two years?*, rfi, 17/11/2020

<sup>5</sup> *Chile protests: President Piñera condemns police 'abuses'*, BBC News, 18/11/2019

<sup>6</sup> *Chile riot claims expected to approach \$4bn*, Insurance Insider, 15/01/2020

<sup>7</sup> *Black Lives Matter may be the largest movement in US history*, The New York Times, 03/07/2020

<sup>8</sup> *Descent into Chaos: Thailand's 2010 Red Shirt Protests and the Government Crackdown*, Human Rights Watch, 02/05/2011

<sup>9</sup> *The Arab Spring 2011: An incomplete revolution*, Deutsche Welle, 15/12/2011

# 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)

### Denis De Puydt

Senior Property and Terrorism Underwriter

O +32 3 241 38 19 M +32 472 413 412

E [denis.depuydt@chubb.com](mailto:denis.depuydt@chubb.com)

### Robert Zijderveld

Senior Property and Terrorism Underwriter

O +31 10 289 3570 M +31 6 2292 6945

E [robert.zijderveld@chubb.com](mailto:robert.zijderveld@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](http://Chubb.com)



# Chubb. Insured.<sup>SM</sup>

All content in this material is for general information purposes only. It does not constitute personal advice or a recommendation to any individual or business of any product or service. Please refer to the policy documentation issued for full terms and conditions of coverage.

Chubb European Group SE is an undertaking governed by the provisions of the French insurance code with registration number 450 327 374 RCS Nanterre. Registered office: La Tour Carpe Diem, 31 Place des Corolles, Esplanade Nord, 92400 Courbevoie, France. Chubb European Group SE has fully paid share capital of €896,176,662. Chubb European Group SE, Netherlands Branch, Marten Meesweg 8-10, 3068 AV Rotterdam, is registered at the Dutch chamber of commerce under number 24353249. In the Netherlands, it falls under the conduct of business rules of the Authority Financial Markets (AFM).