



Insurance for an era of social media-driven unrest

Why demand for full political violence insurance is growing in an uncertain and hyper-connected world



Rapid mass mobilisation

Outbreaks of civil unrest across the world suggest the political violence landscape is shifting and that businesses need to be prepared. Even before the pandemic and economic downturn, we were seeing growing tension in the geopolitical landscape, and not always in a predictable form. Some territories that were once deemed relatively low risk witnessed sustained protests, with businesses taken by surprise. In the US, civil unrest has occurred, borne out of a renewed focus on racial inequality and injustice. In some instances, civil unrest has been exacerbated as a result of lockdown restrictions.

Large protests involving many thousands of people are still extremely rare¹. However, as events in the US, France, Hong Kong and other countries have demonstrated, a politically stable past is not always a guarantee for the future. What has been deemed a 'safe environment' for many decades can give way to apparently spontaneous protests, leaving corporates underprepared and under-insured for the disruption to the day-to-day running of their business.

Among the drivers is a political shift away from globalisation and a renewed focus on national and regional concerns. Brexit, the rise of populism and trade wars between the US and China and Japan and South Korea are just some of the symptoms of this shift, according to the World Economic Forum (WEF)². "Economic confrontations between major powers" and "domestic political polarisation" were the most concerning risks identified in 2020. Overall there is a sense that globalisation has stalled.

At a national level, political polarisation and outbreaks of conflict are being witnessed in both liberal democracies and authoritarian regimes alike. The growing prevalence of authoritarian leadership in some countries, characterised by increased control and repression, has led to dissent and opposition. Other trends at a country level include rising nationalism, ethnic and sectarian tensions, weakness and the corruption of institutions and a backlash against globalisation, austerity and inequality.

"Widespread domestic discontent" within global economic systems is compounding current risk factors, according to WEF, which noted: "Concern about inequality underlies recent social unrest on almost every continent, although it may be sparked by different tipping points – such as corruption, constitutional breaches, or the rise in prices for basic goods and services."

At a glance

- Some countries once considered very stable politically have, in recent times, seen significant unrest
- Social media communications are fuelling disturbances at an ever increasing speed
- In this environment, lockdown restrictions and economic difficulties are exacerbating existing frustrations
- Full political violence coverage offers improved peace of mind, with greater certainty of coverage. This reduces the likelihood of coverage gaps and claims disputes

1 <https://www.ft.com/content/c06e4822-2f9b-427e-ac18-73bb3cdaa4f7>

2 <http://reports.weforum.org/global-risks-report-2020/the-fraying-fundamentals/>



Increased political and economic polarisation and a frustrated and highly-connected youth are driving the speed, severity and protracted nature of political instability. Disturbances in Hong Kong, France, India, Indonesia, Spain's Catalonia, South Africa, Lebanon, Algeria and other parts of the world have had various triggers, from petrol taxes to more political drivers³.

Where these developments have produced violence, one feature is the impact of technology and the role of social media, with varied government responses. There have been many examples of Rapid Mass Mobilisation (RMM)⁴ in recent disturbances. RMM describes how leaderless protest movements are being organised with increasing speed and anonymity using encrypted social media communication tools, such as Telegram and Signal. Protestors in Catalonia built their own app that used a barcode to secure access, relying on "trust chains".

Against the backdrop of a global pandemic and global economic downturn, many of the trends that result in political violence are likely to be exacerbated. The new environment has already fuelled geopolitical friction, particularly between the US and China. Meanwhile, lockdown restrictions have resulted in social disorder in some countries. Pre-existing tensions will be further fuelled by growing scrutiny of governments' handling of COVID-19, according to the mid-year 2020 update of the Marsh JLT Specialty Political Risk Map.⁵

Much has been written about the "contagion effect" of political violence, with the Arab Spring one example of how a wave of unrest can spread quickly throughout a country or region. A report by Lloyd's of London⁶ notes that "contemporary conflicts can spread faster than many exposed businesses and governments can keep up with".

In some countries, governments have dealt with the issue by introducing internet lockdowns. However, protestors have been able to use virtual private networks (VPNs) to gain access to social media during these blackouts.

In May 2019, there were violent clashes between students and police in Jakarta, Indonesia, following the re-election of President Jokowi. The Indonesian government introduced curbs on social media, blaming disinformation spread online for inflaming unrest in the country. It limited the ability to upload videos or photos onto platforms such as Twitter and Facebook. And in Singapore, steps were taken to regulate fake news through the Protection from Online Falsehoods and Manipulation Act, which came into effect in October 2019.

In South Africa, more than 200 shopping centres, 11 factories and eight warehouses were reported to have been damaged as a result of rioting and looting over several days in July 2021, following the imprisonment of former President Jacob Zuma. Over 40,000 businesses were also said to be affected, with over 300 people dead. And in Colombia, damage to real estate, public transport, cargo and vehicles occurred following widespread civil unrest in April and May 2021.



³ www.ft.com/content/19dc5dfe-f67b-11e9-a79c-bc9acae3b654

⁴ www.garda.com/blog/the-role-of-social-media-in-exacerbating-threats-to-personal-safety-and-property-during-civil-unrest

⁵ www.marsh.com/uk/insights/research/political-risk-map-2020-mid-year-update.html

⁶ www.riskadvisory.com/news/political-violence-contagion/

In Hong Kong, a stand-off between protestors and police continued for several months and hit the local economy badly. There is a feeling that businesses were caught “off-guard” by the rapid acceleration of political tensions in the territory⁷, which have not historically been witnessed in China’s Special Administrative region (SAR). Protests in the former British colony took on a “multi-focused aspect”, according to Marsh, branching out from an initial focus on government buildings and transportation infrastructure to an escalation of civil commotion⁸.

At the height of the unrest in 2019 encrypted messaging apps such as Telegram and a message board - R1HKG - were used to anonymously coordinate rallies and share information in the hyper-connected city. In July alone, Telegram gained around 110,000 new users in Hong Kong as protests against a new extradition bill gathered pace. Live-streaming has become a popular way of capturing events as they unfold and an attempt to circumvent what is considered to be an environment of disinformation or ‘fake news’⁹. In June 2020, China introduced a wide-ranging new security law for Hong Kong.

Impact on business

Political and social unrest can impact businesses in six key ways: Loss or property damage, loss of access, loss of attraction, impact on people, impact on brand and reputation and impact to supply chains (see box). These exposures are not fully catered to by all-risks policies and there are often gaps in coverage when a loss occurs. As a result, there is a move underway in the insurance industry as a whole towards affirmative coverage, which is found in the political violence, and more recently, cyber insurance markets. Recent events have highlighted the growing exposure of intangible assets and, in particular, the impact of non-damage business interruption (NDBI).

IHS Markit examined three terrorism incidents that resulted in NDBI, including the London Bridge attacks, where losses typically exceeded the limits of the coverage currently provided by commercial insurers. It found that businesses were denied access to their premises by the authorities for an average of 5.5 days and that attacks against transportation infrastructure significantly increases the total area affected by NDBI¹⁰ (see charts).

After the Sri Lanka suicide bombings on Easter Sunday 2019, hotels and tourist-associated businesses experienced up to a 40 percent decline due to loss of attraction. In Hong Kong, recent business sentiment has experienced a steep decline according to IHS Markit’s Purchasing Managers’ Index¹¹.

When it comes to insuring the impact of acts of politically-motivated violence, the lines are easily blurred between acts of protest, terrorism and war. Disputes and uncertainty surrounding how an event is defined can leave companies at risk of underinsurance and/or claims disputes if they are not covered for the full range of political violence perils, which effectively bridge the gap between riots cover and total war.

Six business risks arising from political and social unrest

Property damage — Businesses may suffer physical loss or damage to their premises either directly or indirectly as a result of acts of political violence, including SRCC, looting and malicious damage, uprising, rebellions and war.

Denial of access by civil or military authority — Many organizations may lose access to their premises either due to a protest or as a safety measure during the protest. Where there has been law-breaking and significant disorder, the organisation may stay closed due to damage or ongoing police investigations.

Loss of attraction — Politically unstable conditions can result in a public reluctance to travel to a country.

Impact on people — Employers should take action to implement policies and have plans in place, such as building evacuation or “in vacuation” and transport plans that are part of much wider business continuity planning.

Impact on brand and reputation — Companies should invest time in preparing a crisis communication plan. While it may never be needed, it could save your company’s reputation and protect your employees from potential harm.

Impact on supply chain — Civil protests and riots have led to supply chain disruptions. Loss of communications, travel hazards and general time delays can occur due to contingent business interruption.

(source: AIG, Willis Towers Watson)

⁷ www.airmic.com/news/guest-stories/hong-kong-business-continuity-plans-under-scrutiny?utm_source=Airmic%20Limited&utm_medium=email&utm_campaign=10963485_Airmic%20News%20October&utm_content=1&dm_i=10HJ,6IZH9,575K87,PXJ75,1

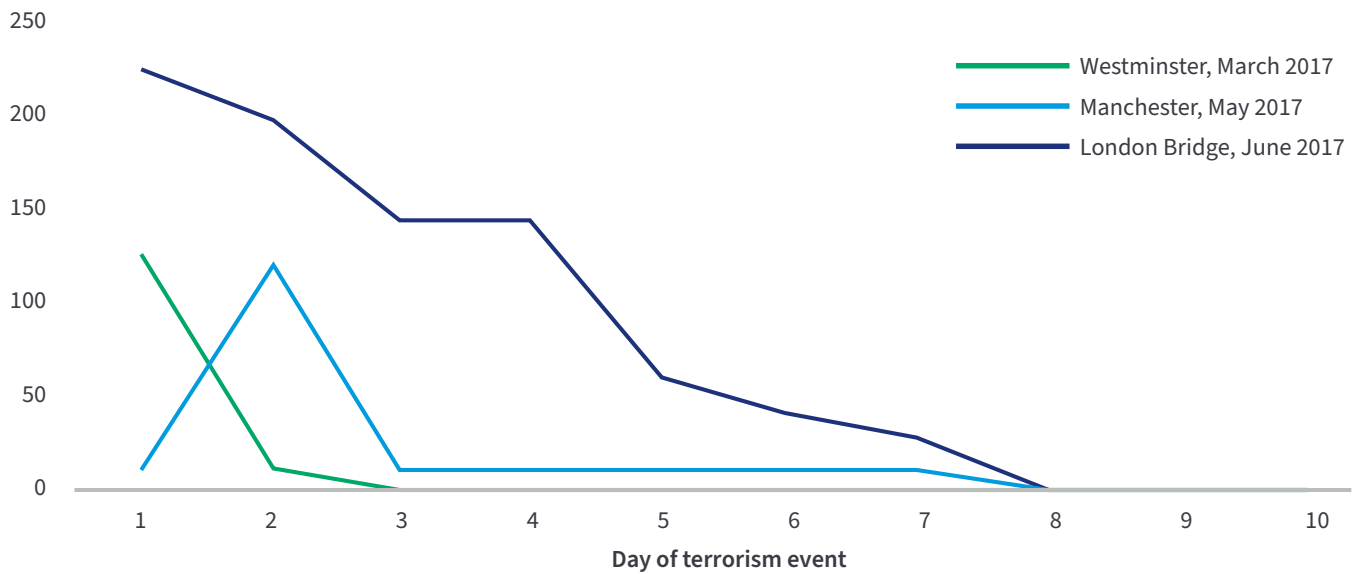
⁸ www.marsh.com/sg/insights/research/political-violence-in-asia-risk-updates-and-policy-coverage.html

⁹ www.scmp.com/news/hong-kong/society/article/3032734/fake-news-and-hong-kong-protests-psychological-war-hearts

¹⁰ <https://ihsmarkit.com/research-analysis/nondamage-business-interruption.html>

¹¹ <https://ihsmarkit.com/research-analysis/deepening-HK-downturn-in-sep-fuels-business-gloom-Oct19.html>

Total number of businesses within the denial of access footprint



Source: IHS Markit

Following riots in Bangkok, Thailand in 2010 (see case study box), the Thai government described the demonstrations as an act of “terrorism”. However, some insurance companies felt the clashes between the Red Shirts and Democrat Party-led government fell within the definition of strikes, riots and civil commotion (SRCC). Disputes over definition resulted, in some cases, in lengthy claims litigation.

In countries that have not historically experienced significant social unrest, insurers have historically relied upon a narrow scope of coverage, sabotage and terrorism insurance and SRCC. However, lessons from recent events show that when it comes to political violence, past loss experience cannot always be relied upon to gauge the future threat landscape. A lack of broad coverage can prove inadequate if the security landscape deteriorates, but clients are not always aware when they do not have the sufficient level of coverage. According to brokers, many property underwriters are now explicitly excluding strikes, riots and civil commotion coverage (SRCC) from all-risks coverage in certain regions and for certain occupancies.

Attempting to secure capacity for political violence when a situation becomes volatile is extremely challenging. There are inevitable shifts in underwriting appetite as insurers review their own exposures and aggregations of risk. To avoid gaps in cover or coverage disputes down the line, the recommendation is for corporate insurance buyers to purchase a full suite of political violence cover before any initial rumblings of discontent erupt into a full-blown crisis.

“It is extremely difficult to deal with or indeed predict political events,” commented Willis at the time of the Arab Spring. “If insurers had mounted a campaign in, say, October 2010 to sell political violence coverage in a ‘safe’ country like Bahrain, they would not have had much success, but if recent events have taught us anything it is that today’s stable or ‘investor friendly’ regime can very easily become tomorrow’s hot spot.”¹²

Case study:

2010 Bangkok riots

The Bangkok riots began in March 2010 when the “red shirts” – supporting former Prime Minister Thaksin Shinawatra – launched a series of protests against the government in and around the city centre. There was widespread damage as a result of the clashes, with several buildings targeted, including the Siam Theatre, Center One shopping mall and Central Pattana’s Central World, which was set on fire.

Disputes arose over how to classify the civil disturbances, after a member of the government described the actions of the protestors as an act of “terrorism”. There was debate over whether claims should be picked up by terrorism policies or property-all-risk policies, falling within the definition of SRCC. Following the riots and the claims litigation which ensued there was a rise in demand for full political violence insurance cover with a desire to cover all forms of unrest, regardless of the definition.

Political violence risk and insurance considerations

As discussed, outbreaks of political violence can be extremely difficult to anticipate given the complexity of the threat and speed with which disturbances can occur in a connected age. Companies should attempt to analyse their exposures and identify potential pressure points using the latest risk advisory from their risk and insurance partners. Based upon these exercises, gaps in cover can then be identified and addressed.

Business continuity plans and tried and tested crisis management procedures are the first line of defence in an increasingly uncertain world, helping to mitigate the extent of disruption if a loss occurs. Organisations should frequently review and update their contingency and crisis response plans, regardless of the perceived threat levels and breadth of existing coverage that is in place for political violence.

Organisations should also assess how their company and brand is perceived in the territories in which they are operating. Multinationals can unwittingly stir up social tensions within less stable regions due to the nature of their operations or perceived affiliations. In parts of Africa, for instance, energy and mining companies have been the source of strikes and industrial unrest in recent years.

Talking regularly to brokers and underwriters about the exposures they face, how best to mitigate the risk and to stress-test portfolios as part of the tripartite relationship can successfully identify potential gaps before a loss occurs. Underinsurance is best avoided by ensuring an organisation is covered for the full range of political violence and terrorism perils.

International organisations can purchase insurance to protect their operations and employees against the perils of political risk, political violence, war and terrorism. Among the coverages available are the options to purchase coverage extensions to existing policies or take out full standalone political violence insurance, currently the broadest possible cover available for the full range of exposures.

Specialist political violence insurance developed in the aftermath of 9/11, when it became apparent there was a need for a broader scope of coverage and wording for politically-motivated violence. Certain events have helped drive awareness and take up of the product, including the 2010 Bangkok riots and Arab Spring of 2011. More recently, disturbances in South Africa and Hong Kong have resulted in a growth in demand for standalone political violence cover, and for the wider Latin American and Asia Pacific regions.

Political violence insurance provides coverage related to war, civil war, rebellion, insurrection, coup d'état, and other civil disturbances. Within the product group, sabotage and terrorism insurance typically provides coverage for the physical damage and business interruption that can result from acts that are motivated by politics, religion, or ideology. SRCC extensions to property policies are narrower in definition and indemnify against losses specifically relating to strikes, riots and civil commotions.

Risk engineering

Risk experts in political violence and terrorism are on hand to help companies better understand the threats they face, and evaluate the impact which may result from those threats, with a view to preventing, or mitigating and recovering from the impact. AIG's Global Security Practice team includes security practitioners and terrorism risk engineers who are available globally to undertake physical and personnel security assessments. AIG also has cybersecurity practitioners and business continuity experts able to assist in other domains. The team has a number of analytical tools at its disposal, including hazard modelling from partner Riskaware, which offers advanced threat intelligence and incident modelling.



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In addition to the established suite of products designed to indemnify insureds against losses relating to geopolitical tensions and acts of violence, sophisticated buyers also have access to a range of innovative products and solutions designed to protect against emerging risk within the class. This includes encompassing denial of access and/or loss of attraction.

Claims considerations

Political Violence is a specialist insurance. Companies should be looking for a market leader with strong product knowledge and technical claims experts, who understand how the policy responds to customer needs. Some of the considerations organisations should make when determining which insurance programme best suits their exposures include:

- Ensuring the limits of insurance purchased provide adequate protection for multiple loss scenarios;
- Reviewing the location of your assets to determine the appropriate insurance solutions;
- Understanding policy terms, conditions and limitations of coverage (eg does it indemnify for denial of access/loss of attraction?);
- Working within the tripartite partnership of broker-insurer-insured to stress test coverage and carry out scenario analysis, ensuring they are clearly defined, mitigating the grey area that exists if perils are silent and providing affirmative coverage;
- Consulting with third-party risk specialists to understand your property and employee exposures in order to make informed decisions and mitigate potential losses

The suitability of the different coverage options can be measured around the unique risk profiles of the organisations, their risk appetite and the countries and regions they are operating within. It is critical to understand what is included and excluded under general property and sabotage and terrorism policies, what risks an insured is keeping on its own balance sheet and whether affordable solutions to transfer the risk are available if exposures are deemed too great.



Political violence – a broad spectrum of risk

Political violence insurance and sabotage and terrorism insurance span a broad spectrum of risk, ranging from strikes and riots through to the outbreak of war. The following are some of the perils typically covered under full political violence insurance:

- Riot, strikes and civil commotions
- Malicious assailant (active shooter)
- Rebellion, insurrection, revolution, mutiny and coup d'etat
- War and civil war
- Sabotage and terrorism
- NBCR – Nuclear, biological, chemical and radiological
- Denial of access
- Loss of attraction

Full political violence insurance provides cover for physical damage to insured's assets, denial of access/loss of attraction and the extra expense following property damage and other named perils and third party/public liability and employers liability. It is important to ensure that the programme offers coverage for the full spectrum of perils, from terrorism through to war and everything in between. All other coverages are extensions that can be bought on a sub-limited or standalone basis.

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