

Impact of political risks on a non-marine insurance portfolio

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Article abstract

Au Rendez-Vous de Septembre, en 1980, M. François Négrier a présenté la communication que voici. Il y passe en revue les problèmes que présente le risque politique en assurance dans un monde en ébullition. Le risque politique, c'est l'ensemble des sinistres possibles au cours d'une guerre larvée, d'une guerre civile ou d'une lutte livrée par les terroristes aux autorités par le truchement du sabotage. On lira sans doute avec beaucoup d'intérêt comment M. Négrier voit le problème, comment la pratique y fait face et dans quelle mesure. À la direction générale de S.C.O.R., c'est-à-dire de la Société Commerciale de Réassurance, l'une des grandes sociétés françaises, M. Négrier est particulièrement bien placé pour présenter le sujet.

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Impact of political risks on a non-marine insurance portfolio

by

FRANÇOIS NÉGRIER

Au Rendez-Vous de Septembre, en 1980, M. François Négrier a présenté la communication que voici. Il y passe en revue les problèmes que présente le risque politique en assurance dans un monde en ébullition. Le risque politique, c'est l'ensemble des sinistres possibles au cours d'une guerre larvée, d'une guerre civile ou d'une lutte livrée par les terroristes aux autorités par le truchement du sabotage. On lira sans doute avec beaucoup d'intérêt comment M. Négrier voit le problème, comment la pratique y fait face et dans quelle mesure. À la direction générale de S.C.O.R., c'est-à-dire de la Société Commerciale de Réassurance, l'une des grandes sociétés françaises, M. Négrier est particulièrement bien placé pour présenter le sujet.



In order to situate this paper within the general framework of the insurance of political risks, I believe that we can classify the objects of this type of insurance under three categories:

- 1) international contracts involving goods and equipment;
- 2) marine or air transportation;
- 3) the objects of non-marine insurance covered against fire, theft and destruction or persons against the risks of death or accidental injury.

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The execution of international contracts may be affected by political events which have taken place in the purchasing country. If it is a government or administrative decision resulting in a disavowal of the commitments taken with regard to the exporter, there are government insurances in each exporting country which protect more or less adequately their firms in situations which are sometimes confusing. These export insurances only bear this name because the insured can, by signing a contract and paying a premium which is sometimes remotely connected with the risk, come under an inciting administrative status giving right to tax deductions and credits at preferential conditions.

I would point out however that the export of Reinsurance does not seem to confer in general on those who practice it a privileged status acknowledged by our Governments, which may think with reason that the flow of currency which we originate is not always channelled in the right direction.

Lacking experience as "an exporter" in the administrative sense of the word, I will limit myself to point three of my classification, i.e.: the impact of political risks on a non-marine insurance portfolio.



First of all it must be underlined that for the three categories of insurance it is not a question of the same political risks:

- for export insurance, it is a question of government acts;
- for marine insurance, it is a question of war risks and confiscation.

For non-marine insurance, we have a range of slight and serious troubles, from isolated sabotage to civil war, the various degrees of gravity of each phenomenon being described in each language by different vocabularies whose fields do not always coincide exactly.

The problems of the non-marine insurer or his reinsurer are:

- 1) to analyse his exposure to these different political problems;
- 2) to take the necessary steps first in order to supervise and control his exposure, so as to adapt his rating to the seriousness of the potential tensions.

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I — Analysis of the exposure

The coverage of the political risk is of a catastrophic nature. The analysis falls under the general outline of the catastrophe.

The catastrophe is the unforeseeable event which puts an end to a pre-existing system; in the etymological sense of the word, it is the end of the performance by the Greek choir; in the mathematical sense, it is the variation of high amplitude and of low probability.

For the insurer, it is in general a cumulative event; the risk or isolated object of large dimension is identifiable.

The fire insurer calls wrongly "catastrophe", the PML error by which it must pay an entire building, whereas by technical reasoning, it had hoped to be exposed for a portion only.

The true catastrophe is the phenomenon with a low and badly-known frequency, which hits a multiplicity of risks simultaneously:

- there is the natural catastrophe,
- the technological catastrophe,
- the sociological or political catastrophe due to the social behaviour of man.

Let us come back to the insurer's problem. The first step is to analyse the request for coverage of the socio-political risk.

1) The private individual insures himself for the ordinary perils, more out of customary behaviour than rational analysis. In the southern countries, cars are insured under collision but not for Third Party Liability; homes are not insured under fire.

298 Nevertheless, the need for protection against the destructions by riot is reflected by legislations enabling the victims to have recourse against the authorities responsible for keeping the peace: State or local communities.

Risk awareness is not constant, but follows current events; thus the concerted action simple risk sabotage cover is sold more in Corsica and Brittany than in Paris.

2) Companies have a more rational awareness of the risk. Their covers are a result of the management policy all the more defined as the companies are larger and multinational. The SRCC guarantees are requested in all countries systematically by these major firms which generally obtain them; thus, the US multinational establishments in Lebanon were covered under SRCC.

Well before such events had affected the firms, the latter had recorded the signs of political and social tension.

The company is a privileged meeting place of social and political tension which conditions the management decisions.

In the developing countries, company decisions depend more on the obligingness of the State than on the market, and labor tensions manifest themselves more through demonstrations of violence and terrorism than through more or less ritual ceremonies which are the union/employer conflicts in the developed countries.

Companies are aware that the traditional products of fire insurance, theft, machinery breakdown sometimes involve a sizable share of sabotage, faulty workmanship, theft and embezzlement for terrorist ends.

They know how to read the clauses and use the bargaining power to obtain extensions at the best price. Lastly, they know how to present their claims file under its most favourable aspect. The events in Lebanon, Iran, Nicaragua and more recently Tchad have shown that active and well-formulated claims come most of the time from modern companies fully informed on the burden of proof due to civil war which falls on the insurer, obliging him to go and look in the debris for the trace of a rocket or a shell in order to refuse the guarantee.

The risk analysis for the non-marine insurer is the following:

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The mass of his fire, theft, motor, personal accident portfolio covers ordinary perils.

On this portfolio, he may suffer the impact of more or less acknowledged terrorist acts, industrial sabotage, bank hold ups, assassinations, etc. It will only be able to dismiss these claims by proving that they result from acts excluded by the policy:

insurrection civil war: limited exclusion

riot and terrorism: large exclusion

However, for the areas with a very high political tension, the London market has managed to impose for the SRCC guarantee a reversal of the burden of proof: it is up to the insured to prove that the damages are not due to an excluded event.

According to the countries, there exists a graduation of exclusion clauses laid down according to the history and philosophy of local law.

In France: insurrection is a term from the French Revolution; it is never covered.

riot is a notion from the 19th century: it entered the texts through the law of 1913 on the liability of the Communes.

concerted action is a notion which appeared during the Algerian war; the sabotage of oil refineries by Algerian commandos led the Supreme Court of Appeal to admit that these acts of concerted sabotage were war acts, because of the lack of a clause exempting

insurers which had not been able to anticipate this situation.

Currently, riot, popular unrest, terrorism or sabotage cover may be granted against an additional premium.

In Great Britain: one finds the SRCC covers (Strike Riot Civil Commotion) available for simple and industrial risks except for Ireland.

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In the USA: SRCC cover is included in the extended coverage clause available for Homeowners' as well as industrial risks – in fifteen States insurance companies may within the FAIR Plan System obtain reinsurance from the Federal Government (HUD act) in the areas with strong racial tensions.

In Germany: the Fire Policies excluded damages resulting from "internal troubles" without offering until recently, a guarantee extension with additional premium. Nevertheless, in 1968 and 1969, German insurers in a practical manner, preferred to pay the damages caused by the students without trying to bring up to exclusion.

Since 1980 this exclusion has become redeemable for commercial and industrial risks.

Concerning a portfolio of standard guarantee, the insurer is clearly protected against collective public action with destruction and collision with the police force.

The problem is more delicate with a generalisation of individual acts, fire sabotage, bank hold up, etc.; is the claiming of the act by revolutionary groups enough to exempt the insurer? It is the jurisprudence which judges according to the facts.

A) In the developed countries, we find two types of situations: either there is a change of political regime caused by mass demonstrations and by the exhaustion of previous regimes: Portugal, France (1958), more recently Spain; the transition is in general a very quick one and does not give rise to armed confrontation.

Or we may also witness the permanent existence of local separatist unrest, for instance in Northern Ireland, the Basque Country and Corsica, with serious acts of violence but sporadic and identifiable.

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The situations are recognized by the law and the Companies have no serious difficulty in exempting their liability.

The situation is more critical as regards revolutionary terrorist acts which affect most of the European countries, Italy being the most seriously hit. At the moment, terrorism is aimed more at persons who are politically and socially exposed than at property. However, there is no doubt that this form of terrorism could pose serious threats to fire insurance, if it were carried out systematically on the latest industrial installations: nuclear power plants, department stores or petrochemical complexes (such as the one in Sassol at the beginning of June by South African terrorists).

French insurers suffered from this situation during the Algerian revolution 1956-1962; since standard contracts did not exclude sabotage, the jurisprudence of the Supreme Court of Appeals considered that it was a question of foreign war acts on French territory.

B) In the developing countries, political tension has the same ethnic, local, religious or revolutionary sources, either separated or combined; one only has to refer to Ghana, Angola, Tchad, Lebanon, Iran, Nicaragua and El Salvador, and the list is far from being complete.

As in the developed countries, an undercurrent of opposition expands but the absence of a democratic system obliges it to develop in an underground and later terrorist manner. Secondly, the government in office relies for support on an ethnic group, religious faction or property-holding aristocracy which has

no hope of surviving a change in regime; the stakes are such that winner and loser can only let the outcome be settled by armed force.

302 The insurer of these countries covers only the commercial and industrial risks generally; his products are not very sophisticated; whatever the clauses of the treaties, their application depends on the proper or inspired view which the local courts have of the situation, but it can also depend on the status of the insurers, whether it is a State monopoly, little inclined to waste Government money or foreign or local private insurers. Thus, the warehouses in Nicaragua which were looted without a doubt by both sides gave rise to a claim by the Government of General Somoza to local insurers and foreign reinsurers.

The violence may reach such proportion that no claim or assessment procedure as regards the loss may take place; this escalation has several consequences:

1) it enables the insurer to disengage his responsibility when he has granted SRCC or equivalent guarantees; he then finds himself in the position of the insurer which has not committed this imprudence, such was the case in Lebanon.

2) it enables the Reinsurer to adopt the same attitude towards the local Companies submitted to a strong political power and trying to apply pressure on international reinsurance to relieve local finances.

3) it thrusts aside to a far-away time the settlement and estimate of ordinary losses which may find themselves mixed with less legitimate losses, but for which with the passing of time, the insurers will have great difficulty in proving that their cause was civil war.

The exposure of a reinsurance portfolio shows specific characteristics which deserve to be underlined:

1) in a given country, the Reinsurer's exposure is more dense and concentrated than that of the direct insurer.

a) the risks ceded are generally more exposed politically than the risks retained:

- the commercial risks are frequently looted and set on fire than the simple risk in case of a riot;
- the industrial risks are favourite targets for sabotage; the bigger and more sophisticated the more vulnerable they are, nuclear power plants are a good example.

Lastly we saw that the bigger the companies, the more they buy covers with respect to political risks, and the better they know how to take advantage of their policy clauses when the latter do not give them a clear and specific cover. We have seen the case where large multinational companies have found traces and instituted proceedings against international reinsurers in order to recover the losses suffered by their subsidiary in Central America which local insurers refused to indemnify for damages caused by insurrection or civil war.

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The persons which have the highest life and personal assurances are also the best targets for terrorists.

- b) a political event may only have a minor cumulative effect on the direct insurer's portfolio; this will not be the case on that of a reinsurer which receives the consequences of the same event from several ceding companies.

For instance, in the case of Lebanon, the reinsurers of a certain size were and are still affected by the losses from Lebanese ceding companies, but also and even more by the cessions of French, British or American Companies included in the treaties of the insurers from the said countries; the fact that there existed in Lebanon a "de facto" freedom to provide services enabling foreign insurers to issue policies from their head office on Lebanese risks has not helped to clarify the situation.

- c) the non proportional reinsurance treaties, when the events covered are not specifically defined, help to protect the ceding companies against the phenomenon of accumulation essentially. An XL, covering a fire portfolio beyond the value of the largest risk, will only be applied

in case of a natural catastrophe or riot; thus the guarantees "cat cover" were applied for the racial riots in the USA which occurred simultaneously in several cities at intervals of a few hours in the 60's.

They were once again affected in May 1980 by the riots in Miami, all the more so since Florida does not benefit from the HUD government reinsurance plan set up to cover these risks.

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2) Contrary to the local direct insurer, international Reinsurers have a geographical spread for these exposures, but this is only a slight advantage, since the political risk is difficult to harness. We can draw a parallel with the earthquake risk. For this risk, it is possible for each country to determine several seismic areas which cannot be altered in time; in political matters, each country is an area, but a group of several countries may be contaminated. The earthquake risk obeys, even though we know it badly, physical laws determining seismic areas resulting from the ratio between the frequency and the intensity of energy release. There may be in public life, tempos of violence, but the release of this violence may be channelled or take such varied forms that predictions, when they are formulated, look strangely like weather forecasts: serious at 12 hours, interesting at 48 hours; for the political risks, we can replace the hours by weeks; beyond that, one must content oneself with observing the political atmosphere.

All this does not give the international Reinsurer the possibility of creating a product for his non-marine portfolio because of the lack of an adequate spread and an objective rate which is readily adaptable.

II — Supervision and control of the exposure

Let us try and see how the insurer and the reinsurer can try to control their exposure, and what means they have available for this purpose.

Different types of action are possible by defining:

- an underwriting policy;
- a rating policy.

A) Underwriting policy

It implies first of all:

- 1 — The definition of the guarantees;
- 2 — A quantitative policy in order to control accumulations;
- 3 — A qualitative policy in order to carry out a selection;
- 4 — To provide for more frequent possibilities of cancellation.

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1) Seen by an international reinsurer, the definition of guarantees is a very complex problem.

One agrees to classify the political risks by seriousness in the following order: isolated sabotage, concerted sabotage, damage due to strikes, riots, popular unrest, insurrection, civil war, foreign war; but these are French definitions; if we use the English or German language, the translations do not cover exactly the same things.

For instance, “mouvement populaire” is an expression which has been tried out by French jurisprudence; its literal translation Popular Unrest has never been tested by the House of Lords or a Supreme Court in the U.S.A.

Another example: the English word “Riot” is translated in French by “émeute”, term which conjures up troubles sufficiently serious for a law in 1913 to decide that the damages caused should be reimbursed by the Communes. However, the House of Lords decided in 1907 that “at least three persons coming together in order to demonstrate and intimidate at least one reasonably courageous person” was enough to be considered as Riot, without there necessarily being commotion or disorder. This definition can also be found in the legislation of a certain numbers of States in the U.S.

These differences, which enable legal experts to exercise their subtlety, have not, in practice, a great significance, since each group of clauses corresponds to a legal and historical context which enables to correctly define their contents, on two conditions:

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1. that the local political environment is not undergoing a rapid development since in this case, words change quickly in meaning, for instance the sabotage of an oil risk in France was no longer in 1960 a sabotage but an act of foreign war if it was the result of an action by Algerian commandos.
2. that these groups of clauses have not been taken out of their social and political context; thus, in Lebanon, we find French policies and English policies with popular unrest riot extensions and SRCC extensions thus giving Lebanese courts very abstract problems of interpretation which will maybe end up at the Court of Justice of The Hague.

Finally, one must observe that the best defined legal notions: war, blockade or civil war for instance, change with techniques and morals: in the 20th century, a blockade is carried out at sea by submarines, wars are no longer declared. Also, since the events in Lebanon, it no longer appears that the state of civil war may result solely from an insurrection intended to overthrow the Government, but also from the extent and intensity of the struggle between two groups which renders the State powerless.

2) Quantitative underwriting policy

The PML approach on a non-marine portfolio is extremely complicated for several reasons: first of all, a portfolio containing damage risks and even risks of persons may be affected by political disorders, even if it includes very severe exclusion clauses. This results from the burden of proof of the excluded cause which falls upon the insurer. When the disorders reach a certain level, the proof can be furnished more easily, but how to assess the mass of losses to be borne before the courts admit that the seriousness

of events could not be taken into consideration by the previous rating?

Secondly, when there is purchase of additional SRCC guarantees for the Anglo-Saxon countries, riot, popular unrest in France, of what usefulness will the amounts of the guaranteed sums be added thanks to data-processing, even if these are broken down by class of business and geographical area? It is obvious that a company which does not underwrite SRCC in a country with strong social and racial tension, is less exposed than a company which accepts to, but the accumulation of the insured sums in SRCC does not give a clue enabling to calculate exposure in case of civil war, since one does not know exactly when civil war starts.

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Because of the difficulty of a quantitative approach, lets us look at a qualitative one.

3) Qualitative underwriting policy

It results from a more detailed analysis of the tensions within a country: social, local or separatist, ethnic or religious. These analyses could lead in theory to refuse political risks extensions or even the coverage of standard risks to the categories of insureds which are the most exposed to these tensions. These measures may have a certain effectiveness, but they are difficult to apply: in most countries they cannot be applied openly under penalty of coming across legal suspensions of discrimination or in default of too controversial reactions in the media. If these measures are applied under dissimulated forms, they obviously lose their effectiveness. They can only be carried out by small-sized organizations or through a decentralisation of the decision: it is a matter of not naming an agent in an ethnic minority area, without it being written that the company refuses the risk of such an ethnic group. Nevertheless, at long-term, these measures lead to government intervention through defaulting by insurers, for instance the case of the black ghettos of the major cities in the USA.

Whatever the obstacles to such a policy, a responsible insurance company cannot neglect at least the qualitative analysis of its portfolio by groups of tension; this may help it to estimate if certain groups, of a purely local nature, may reach the national scale.

An example taken in France shows, however, the limits of such thinking: in 1956, could one assume that the Algerian insurrection would influence the future of the IVème République?

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4) Cancellation clauses

The previous developments have shown unfortunately the difficulties which are encountered by an insurer who wishes to have an underwriting policy with regard to political risks:

- difficulty of analysis;
- difficulty of application.

The problem is partly due to the fact that the portfolio is static in its physical and legal consistency, whereas the political risk is extremely variable in time, without these variations following statistical laws which we can apprehend with our present means. Under these conditions, why don't non-marine insurers use more often the system of marine insurers for war risks which enables them to suspend the guarantee with a prior notice of 7 to 14 days, or like the credit insurer which suspends his guarantee to a buyer whose financial situation worries him?

The war risk and credit insurers will reply that their client has always the possibility of diverting his vessel from the hot area or not to sell anymore to the buyer who is in a difficult situation. Industrialists, shopkeepers, private individuals, do not have the possibility of acting in order to avoid or minimize the increased risk; the refusal to cover in the future is not an useful warning to protect the operations of the insured, but an abandoning of the insured under adverse conditions.

In practice, commercial or industrial risks are covered by annual periods and the extensions of guarantee correspond to these same maturities.

However, one can mention a certain number of exceptions:

In France, for the simple and industrial risks, the cover of the riot and popular unrest risk is annual but if it extends to terrorist and political sabotage acts it becomes cancellable at any moment under a prior notice of 7 days.

The same notice is applicable to the new SRCC clause in Germany.

In Italy, the cancellation notice is one month.

Finally, one must also mention the MUNICH RE clause for long-term CAR policies whose SRCC cover extension is cancellable with a prior notice of 2 weeks.

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B) Rating of non-marine political risks

Everything that has been said before shows the extreme complexity of the political risks exposure of a damage portfolio.

In marine insurance and in export credit insurance, the probability of a loss results from the objective and subjective assessment criteria, but the guaranteed event is better defined: war act, confiscation or disavowal of the commitments; we can more or less reasonably set up successive lists of assumptions whose probabilities will multiply. There are exposure indexes in political risks such as that of BERI (Business Environment Risk Index) set up in Newark (USA) for 45 countries on quarterly notations from 104 international consultants.

The large multinational companies use political analysts who come from the American State Department most of the time.

For the insurance of persons, it is possible to exclude from the guarantee the stays in a hot area or to include them in return for rates calculated more or less empirically by applying additional premiums which may attain 2 or 3% of the sums. Frequent problems appear with respect to the proofs and circumstances of the loss in order to assess if he is covered or not because of the confusion which surrounds it.

As regards the property risks, isolated but repeated sabotages of a political inspiration are covered for free as long as they have not reached a systematic level of terrorism. In this respect, the French clause excluding or permitting to cover against 30% to 60% of the simple risks fire premium sabotage resulting from concerted action enables Companies to refuse to those who have not paid the additional premium, the losses committed by regional autonomists.

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For industrial risks one can find a variety of ratings:

Industrial risks France, additional premium 0.10 o/oo to 0.30 o/oo;

Industrial risks Great Britain, 0.12 o/oo to 0.35 o/oo with malicious damages;

SRCC, industrial risks Italy 0.7 o/oo to 1 o/oo;

SRCC, industrial risks Germany, 0.05 o/oo to 0.30 o/oo;

Industrial risk SRCC clause rated in London for hot area from 1 o/oo to 10 o/oo (rates of around 1% per month were mentioned in Lebanon in 1976).

Are these differences in rates the reflection of rating policies on behalf of the Companies? There are in fact two types of situations:

- a) rates established by national associations for national risks; they are applied to large categories of insureds: commercial risks, simple risks, according to the possibilities of recovery from the Government and local Communities (France, Great Britain);
- b) SRCC type guarantees issued by the London Market and major international reinsurers, either an annual guarantee or with shorter notices of cancellation for certain countries. The rates are set up with reference, to those of other countries, more or less modified, without rarely reaching dissuasive levels. In this case the lack of coverage is preferred by both parties. Indeed, if the tension reaches an unusually high level, a SRCC guarantee, even if very expensive, may be useless for the insured who will have the civil war exclusion applied against him; the in-

surer himself, with certain exceptions, prefers in the same situation the absence of a guarantee to a juicy but morally uncomfortable premium.

With the reinsurer's aerial and sometimes superficial view, one does not find, in the field of non-marine political risks, a specialized product or an dynamic rating policy. If this had been the case, in the manner of the London Market on specific maritime risks or confiscation and kidnapping, companies would have undoubtedly developed profitable portfolios connected to an image of speciality of service, as for assistance for example; however, this has not been the case except for one Lloyd's non-marine Syndicate which has made a speciality of it, probably because non direct company can find a balance on the national scale for this product.

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International compensation cannot be supplied by international reinsurers in a form other than sustained and unwanted, for lack of their knowing their true exposure.



To finish, let us look at the international reinsurer's slim margin of action to control his exposure. It is an action of an essentially defensive nature.

1) As regards a facultative cession on an isolated industrial risk, the PML assessment may vary according to the extension of the political risk granted. If an ordinary riot guarantee does not affect perceptibly the PML of a major petrochemical complex, a terrorist acts extension covering organized commando attacks must lead to a considerable increase of the PML.

2) Towards a given ceding company, the reinsurer can supervise the ceding company's underwriting policy, its exposure on minority groups, on peak risks, it can set aside the treaties which are too encumbered with these risks, it can include in these treaties guarantee exclusions of a political nature; it can also at any moment have recourse to a treaty cancellation stipulated in case of civil war and other special cases provided for in all the treaties.

3) On a given market, the reinsurer can also choose his ceding companies. The portfolios of Western insurers in developing countries, loaded with risks involving multinational companies, are far from being reliable from the political risk angle. Inversely, it does not appear that the state insurance companies are more exposed or more lenient than the other local companies as regards the losses of a political nature, such was the case in Iran. It is not always the same thing when the insured is the State itself, obviously this only concerns the small States.

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4) On an international level, certain reinsurers do not hesitate to cancel the whole of their commitment in a country giving signs of apparent agitation; more than Lebanon, Portugal, Iran and Nicaragua have been the subject of such measures which are easier to take by a reinsurer underwriting through a broker than by a professional reinsurer operating with his own marketing force.

For the long-term CAR policies on the major work sites in the hot areas, the reinsurers often provide for the SRCC extension with a very short prior notice of cancellation similar to that of marine policies.



Lastly, we must not forget that reinsurers purchase at a high cost from other reinsurers catastrophe covers which do not exclude the losses of a political origin; the covers, which are negotiated in a very practical manner, do not exclude these risks since in the memory of underwriters, no political catastrophe has up to now cost them more than an earthquake or a hurricane such as Betsy in the United States.

One of the outstanding phenomena of the political risk exposure of a non-marine portfolio, is that one has great difficulty in finding out how much insurance had to pay for well-known events, which are internationally covered by the media.

I see three reasons for this:

first of all, the uncertainty on political losses paid under ordinary policies;

next, the confusion which reigns over the whole of the disputed claims during numerous months on the guarantee principles as well as the inquiries on a case by case basis;

lastly, the reticence between reinsurers with respect to this matter. The more readily they will admit unashamedly how much money and concern Betsy or Camille cost them, the more the losses resulting from an insurrection at the other end of the world seem to give them a guilty conscience. If the guilty conscience had to be proportional to the possibilities of analysis of their exposure to the risk, it is obviously more from their earthquake and hurricane liabilities that reinsurers should more often blush.

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To conclude and sum up these considerations it must be reminded:

first of all that for the non-marine insurer, the insured objects are and in a way unable to avoid political troubles.

It is therefore unthinkable that the insurer grant covers for war and civil war, which the insurers of mobile objects can do, i.e., marine and aviation insurers, which can divert or stop the insured flow.

The coverage or exclusion of less serious situations; concerted sabotage, riots, popular unrest is a controversial matter since if it is obvious that all political risks must be excluded from standard policies, some companies believe that because they will have to pay a certain portion of the non-marine sabotage losses in the standard policies, why not then collect a sizable additional premium on an endorsement of an SRCC extension. This is all the more so since in case the political situation deteriorates, it will always be possible to refuse the guarantee by alleging insurrection or civil war.

Other insurers believe that no statistics enable to calculate a correct premium and that wisdom dictates to minimize the risk exposure and set aside any extension of political coverage.

My personal view would be more subtle, simply because non-marine insurers cannot ignore totally the problems of their best clients.

It would be possible to suggest certain research channels in this direction:

1) In the manner of the large multinational companies or certain American Business Schools would it not be possible for insurers to rely on more detailed political analysis from specialized and discreet experts?

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2) It is certainly possible to carry out more often than has been done up to now, a qualitative and selective underwriting policy; thus the exposure resulting from an extension of the riot popular unrest cover, depends on the nature of the risk, its localization, the notoriety of the insured; classifications are possible and would enable to set up dissuasive rating policies.

3) Maybe professional associations could consider and offer insureds cancellation clauses, if they do not already exist, which are more open for insurers, for instance a prior notice of 3 months at any moment in order to benefit from the example of marine insurers which manoeuvre cleverly between serious situations thanks to a very short notice of cancellation. Such a clause would at least enable to raise the rates rapidly.

In short, I would say that if the political risks show serious incompatibilities with the basic insurance technique, they are not the only risks in this case and our portfolios include sizable numbers. However, since we must live with them, we should try to perfect our means of analysis and our underwriting methods in order to better supervise our exposure, especially since we would like it as low as possible.