SPECTRUM
Asset Management

Limited Direct Insurance Exposure to Russia and Ukraine

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We believe Global Property and Casualty (P&C) re/insurers have limited direct exposure to Russia and Ukraine. Stakes in Russian subsidiaries and/or sovereign and other fixed income holdings in the region are small, thus minor in the context of Group earnings and capital. Rather, the impact of the crisis on insurers is more indirect by way of international corporate clients with exposure to the region and through broader economic and inflationary headwinds. Following in-person meetings with insurance management teams at a recent industry conference, we gained greater clarity on where exposures could arise. **We expect insurers to manage through the Ukrainian crisis.**

Most traditional insurance lines contain war exclusions. However, certain niche insurance products may provide multinational companies with contingency or war-type coverage. Cyber insurance war exclusions are more untested -- see link. Credit and political risk/violence coverage may protect policyholders from perils such as contract frustrations and expropriations, or on-ground damage − *e.g.,* a global hotel brand with physical presence in Ukraine. Despite these added protections for customers, some policies may have been cancelled in advance of the conflict's escalation. More importantly, global insurers have pulled back from underwriting risks with exposure to the conflicted region, especially following Russia's annexation of the Crimean Peninsula in 2014.

Specialized aviation insurance markets are another key area where coverage may apply. Russian airlines continue to operate hundreds of jets owned by western aircraft leasing companies. Russia has signed legislation which indicates its intent to prevent lessors from repossessing their planes. As such, lessors could file valid insurance claims on niche aviation policies that contain "war" language. However, this will likely be a drawn out and litigated process, as insurance cancellations could have been sent to policyholders with sufficient notice ahead of loss triggering events. There are also potential loss mitigants such as collateral retained by lessors. Meanwhile, Russia's confiscation of jets could be hindered by the inability to access western parts and servicing.

While losses from select insurance coverages could be material – and may be more concentrated among a handful of specialty re/insurers – they are expected to be manageable for the leading insurers in which we invest. Industry capitalization continues to rise to record levels in the trillions of dollars, despite COVID and historic losses in recent years, including over $100 billion of natural disasters in 2021. Rising loss inflation and elevated calamities continue to pressure profitability. However, such pressures have been supportive of hard P&C pricing and healthy product demand. **The global insurance sector thus remains well positioned.**

Our thoughts are with the people of Ukraine.

Chad Stogel, Vice President
Joe Urciuoli, Head of Research