



## Strike, Riot and Civil Commotion – An Increasingly Significant Form of Cover

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The root and contributing causes may be varied and complex, but there is no denying that we are living in a period of heightened civil unrest. From the protests which swept across Latin America in 2019 to those witnessed more recently in Hong Kong and Beirut, citizens around the world have been mobilizing to express their anger, frustration, and solidarity in significant numbers.<sup>1</sup>

Incidences such as the Gilet Jaunes protests in France in 2019, and the powerful demonstrations which continue to erupt across America following the tragic killing of George Floyd earlier this year, offer a stark reminder that even supposedly “stable” regions are not immune to such events.

As also witnessed here in Germany this summer, “peaceful” meetings and demonstrations do not always go as planned and can descend into riots, damage to property, and looting. Given our industry’s role in protecting individuals, their property, and their livelihoods, the subsequent losses for insurers can be enormous, often extending to millions of euros.

By helping individuals to galvanize political action and protests worldwide, social media is certainly playing a role in the increasing levels of politically motivated property damage we are seeing. So too are the societal and political shifts that continue to widen the gap between the richest and poorest in many countries.

And, while civil disorder is most associated with economic, social, and political circumstances such as corruption, oppression, and financial stability, these are not the only causes. For example, environmental issues such as pollution, and the protection of natural habitats and landscapes, have also contributed to the rising levels of political action seen in recent years.

Unsurprisingly, the demand for insurance products that protect against politically motivated loss events is also increasing – this is the case for both industrial and

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### About This Newsletter

Created for our clients, our Property Matters publication provides an in-depth look at timely and important topics affecting commercial and personal lines of property insurance.

commercial risks. It's worth noting that in many global markets traditional Property and Business Interruption policies do not cover losses caused by politically motivated actions; though the consequences of civil unrest, strikes, or lockouts are sometimes partially covered. Instead, special cover facilities cater to these risks.

This article looks at different forms of politically motivated loss events and describes current coverages using the U.S. and Germany by way of example. It also suggests preventive measures that can help to reduce losses and guidance on exposure-oriented underwriting. The insurance of political risks in marine insurance is not the subject of this article.

## Overview of damages

Exact figures on the scale of the damage caused during previous events can be difficult to obtain. As highlighted by my colleague Tim Fletcher in his blog on the recent events in the U.S., up until this year the country's most costly events were the 1965 and 1992 Los Angeles riots respectively, with losses equating to USD 357 million and USD 1,400 million today. However, early industry estimates of the financial fall-out from the events which began in Minneapolis this year, before spreading to other major cities, currently fall between USD 1 billion and USD 3 billion. If correct, they represent the largest insured civil disorder loss in American history.

In France, the Gilet Jaunes protests that were ignited by tax increases on fuel (Nov 2018 – March 2019), caused an estimated economic loss of USD 4.43 billion and an estimated insured loss of USD 220 million.<sup>2</sup>

In Chile, the riots triggered by hikes to public transport fares (Oct/Nov 2019) are estimated to have caused approximately USD 370 million-worth of damage to the capital's metro system alone. The total economic damage caused by these riots has been projected to be over USD 4 billion,<sup>3</sup> with one supermarket chain suffering damages of around USD 500 million, following large-scale looting.<sup>4</sup> Other events in the region included anti-government demonstrations in Ecuador in October 2019 and in Colombia in Nov/Dec 2019.<sup>5</sup>

Global risk analyst Verisk<sup>6</sup> currently lists 47 countries in its database where a significant increase in politically motivated acts has been<sup>7</sup> recorded. These include Chile, Hong Kong, France, Lebanon, Nigeria, Sudan, Haiti, Chile, Ecuador, and Venezuela. These conflicts pose a growing threat to the economy, particularly given the globalized nature of supply

chains today – with sales markets, and production sites often spread over several continents, it is not uncommon for supply chains to run through regions that are politically very unstable.

## Forms of politically motivated loss events

Politically motivated loss events are manifold. The spectrum ranges from acts of terrorism to acts of sabotage, riots, strikes, civil unrest, coups d'état, revolutions, rebellions, expropriations, nationalizations, wars, civil wars, and uprisings. However, assigning these labels can often be difficult as the situations are not always clear and are fluid, often merging into one another.

The following forms of politically motivated events exist:

- **Malicious damage:** Loss/damage resulting from a malicious political act committed during a public disturbance.
- **Uprising, revolution, and rebellion:** Conscious, organized armed civil resistance against the laws of a sovereign government.
- **Coup d'état, mutiny:** Sudden, violent, and illegal overthrow of a sovereign government; resistance by members of legally armed or peace-keeping forces against a superior officer.
- **War, civil war:** Conflict between two or more sovereign nations, declared or undeclared; a war fought between opposing citizens of the same country or nation.
- **Strike:** Any deliberate action by a striking/excluded worker during a strike; any action by a lawful authority to suppress or minimise the consequences of a strike.
- **Civil disturbances, civil unrest:** Any political act committed during a disturbance of the public peace by a group of persons; any act by a lawful authority to suppress or trivialise a disturbance.
- **Terrorist act:** An act or series of acts, including the use of force or violence, by a person or group(s) of persons, whether acting alone or on behalf of an organisation for political, religious, or ideological purposes.
- **Sabotage:** Any deliberate physical damage or destruction perpetrated for political reasons by known or unknown persons.

The extent to which these descriptions are accepted as firmly defined terms is disputed. As country-specific legal clarification is often required, it is not discussed further here.

## Insuring civil unrest: Examples from the U.S. and Germany

Politically motivated loss events, and any resulting property damage, are not always insured. However, in many countries, they are part of the normal scope of a Property insurance policy. For example, in the U.S., damage linked to such events is usually covered. The same applies to Homeowner's insurance, where damage to the homeowner's property caused by fire, explosion, riots, vandalism, or malicious damage is also insured. Reimbursement for additional expenses such as hotel accommodation and restaurant meals can also be claimed if the house is no longer habitable.

Should a business suffer physical damage to its buildings and facilities due to fire, riot, civil unrest, or vandalism, these damages are usually covered under the Business Owner's Policy (BOP). Business interruption as a result of property damage, and the resulting loss of income, are also typically covered. If access to a specific location is blocked by an official order, and this blocks access to the business premises, the resulting loss of income can also be covered.

Other countries take a different approach. For example, in Germany, damage linked to civil unrest is considered difficult to calculate and is therefore excluded from most Property insurance policies. They can, however, be included under the applicable ECB (Extended Coverage) conditions if the insured property is directly destroyed, damaged, or lost as a result of violent acts linked to civil unrest.<sup>8</sup> However, in this context, the definition of civil unrest is not entirely clear. According to insurance conditions, it is when numerically significant parts of the population start moving and committing acts of violence against persons or property in a manner that disturbs public peace and order. The prerequisite for this is that crowds of people are involved. If there is only a manageable group of people on the move causing damage to other people's property, this usually falls under vandalism.

Often, the form a politically motivated act takes and the extent to which it describes an event in a Property insurance contract that triggers a compensation payment, requires legal clarification. A sizeable number of rulings have already been made in different countries and more are expected in the future.

In some cases, to establish liability, the authorities must declare the events causing the damage to be politically motivated and classify them according to the above definitions. This usually provides an indication of

who is liable for the damage and the level of possible compensation. Sadly, cases of governments avoiding declaring an act a concrete event to avoid triggering their corresponding payment obligations are not unknown.<sup>9</sup>

Ultimately, coverage depends on the individual situation of the policyholder concerned and the underlying insurance contract. In some cases, uncertainty as to the scope of cover is further complicated by the difficulties in providing the evidence necessary to establish the true cause or purpose of certain incidents.

## Forms of insurance

Like the political risks themselves, the insurance solutions available to mitigate them also differ in terms of their scope (with further variation existing between different legal systems). Generally speaking:

- **Strike, Riot and Civil Commotion (SRCC) Insurance** provides cover for loss or damage caused directly by strikers, locked-out workers, people involved in work-related unrest and riots of various kinds, or by a riot involving a large number of people whose collective action causes damage to people or property.
- **Property Terrorism Insurance** provides cover for property damage and business interruption that may result from violent acts that are politically, religiously, or ideologically motivated.
- **Political Violence Insurance (PVI) and Political Risk Insurance (PRI)** are examples of policies that provide cover for war, civil war, rebellion, insurrection, riot, coup d'état, and other civil unrest, including terrorism.<sup>10</sup>

Political Violence Insurance (PVI) and Political Risk Insurance (PRI) policies typically offer very broad cover including many political risks that can lead to property damage and consequential losses. While the usual terror cover excludes war, military action, invasion, rebellion, civil war, etc. (see for example LMA 3030 Lloyds Sabotage & Terrorism Only Form),<sup>11</sup> a full PVI/PRI policy covers property damage from almost all politically motivated acts, including rebellion, coup d'état, civil war, terrorism, revolution, and war.<sup>12</sup>

## Preventive protective measures

Preventive measures against politically motivated damage are difficult to implement because often, neither the timing nor the nature of the events can be predicted. Nevertheless, there are some things that can be done to help limit the extent of the damage when events do occur:

- **Access to risk** – A company whose premises are protected (e.g., by a fence) is less at risk than a company whose premises are freely accessible. Additional security also reduces the probability of a possible attack. For example, for shops and businesses with storefronts that look out onto a street, the protection of windows and entrances using robust metal roller shutters has proven to be effective.
- **Business Continuity Management (BCM)** – Having a Business Continuity Plan (BCP) in place which describes the possible emergency and necessary restart measures, can help business operations resume as quickly possible.<sup>13</sup>
- **Supply chain management** – To reduce the risk of not being able to obtain necessary materials or goods in the event of prolonged political disputes, dependence on suppliers and customers in high-risk areas should be reduced. To evaluate potential threats to an existing supply chain, risk maps providing initial indications of the political stability of a country are freely available on the internet. Information from government agencies (e.g., the respective foreign ministry of a country or from private companies specialising in advising on crisis situations and interventions) can be used to supplement the available information.

## Notes for underwriters

While it is possible to estimate the risk of property damage and business interruption for traditional hazards, assessing political risks in terms of their probability of occurrence and the potential consequences is extremely challenging. As mentioned, political situations can develop rapidly and have far-reaching consequences.

It is understandable that the demand for insurance for SRRC-related risks remains low in traditionally “stable” countries, however political moods can change quickly and it’s important that insurers monitor these situations closely and reflect any changes in their underwriting. For example, increasing political instability could warrant a corresponding increase in premiums or the reduction of a possible accumulation scenario by limiting the scope of cover.

In recent decades, greater focus has been placed on acts of terrorism than SRRC-related hazards, but the picture is now changing, and underwriters must take both areas into account. This applies not only to insurance covers explicitly catering for such acts but also to standard Property policies where consequential losses from politically motivated acts

can also be covered. The following checklist contains some of the most important points for underwriters to consider:

- **Location**  
When evaluating insured locations, political stability and the possibility of State intervention in the event of any unrest should be taken into consideration. Risk maps profiling local risk situations are available on the internet.<sup>14</sup> Analysis of loss events shows that loss frequencies and amounts are significantly higher in urban areas. Accessibility to the location to be insured also plays a role. Whether the premises faces directly onto a street (with directly accessible windows, etc.) is also important.
- **State liability**  
In some countries, the government is legally responsible for compensating for damage caused by (certain) politically motivated acts. For example, the Riots Act of 1886 in the United Kingdom.<sup>15</sup> It is important to clarify what the State is liable for and the extent of the compensation. Depending on the details, no compensation may be due, or only to a limited degree.
- **Wording**  
Especially in the case of all-risk wordings, close attention must be given to exclusions. Even for named peril policies (e.g., FLEXA – Fire, Lightning, Explosion, Aircraft), grey areas can exist if an insured loss is caused within the scope of a politically motivated event and an absolute exclusion for direct and indirect consequential losses is missing from the insurance conditions. Additional costs may also be covered (e.g., those covered by denial of access), regardless of whether the insured risk is directly affected by the loss or indirectly caused by a loss event in the vicinity, or by a public authority order.
- **Sum insured**  
It is important to establish what sum insured has been agreed to for politically motivated risks, but also how it has been calculated.
- **Scope of cover**  
Insured perils and coverage arrangements should be clearly detailed. For example, does the cover only refer to the compensation of material damage, or are associated financial losses also insured? How the liability is defined also requires careful thought. For example, as “each and every loss at each and every location” or as “occurrence” cover with an hourly clause. It is also important to know what provision has been agreed to regarding reinstatement of the cover/limit.

- **Sublimit**  
It is important to establish whether liability extends to the agreed sum insured or if a sublimit has been agreed upon.
- **Extensions/risk sums**  
These could, for example, include agreed loss minimization costs, costs for clean-up, or for specialists, etc.
- **Exclusions**  
The best way would certainly be to exclude exposure for politically motivated violence. To be on the safe side, such an exclusion would have to be formulated as an absolute exclusion that excludes both direct damage and indirect consequential damage. In most cases, fire damage, for example, is also covered as consequential damage of politically motivated violence.
- **Deductibles**  
The deductible should be sufficient to exclude minor damage. Business Interruption insurance should also include a deductible for a certain period of time, e.g., three days.
- **Known targets**  
Supermarkets, consumer electronics stores, retail outlets, department stores, DIY stores, and warehouses are particularly vulnerable to looting and theft, especially if high-value goods are available, e.g., fashion or electronics. Higher exposure can also be assumed for urban risks, e.g., infrastructure risks, police stations, public administration buildings, embassies, etc.
- **Risk management culture of the company to be insured**  
A company's attitude toward (and awareness of) the possible threats posed by politically motivated acts influence its likelihood to take precautions. Even classic security measures (such as fence and perimeter systems, mechanical burglary protection, guards, and video surveillance) and fire protection measures (such as automatic extinguishing systems) can help to minimise damage.
- **Exposure through reciprocal and retroactive losses**  
It is important to establish the dependencies a company has on other parts of the organization, or on suppliers and customers in less politically stable countries as well as reserve capacities and alternative procurement options (e.g., additional suppliers in another country).
- **Loss history**  
In addition to simply looking at the frequency and value of previous losses, it is prudent to also consider the location, along with any past losses directly or indirectly linked to politically motivated events.
- **Maximum Foreseeable Loss (MFL)**  
What might be a possible worst-case scenario (Probable Maximum Loss (PML)/MFL) in the event of a politically motivated loss event? And, what is the expected duration of the expected cessation of business and the resulting interruption of operations? In addition to property damage, this includes considerations of Business Interruption losses and an increase in financial loss through insured first risk sums.
- **Business Continuity Management (BCM)**  
Does the company practice good BCM and have a Business Continuity Plan (BCP) in place to help business activities be resumed quickly in the event of a loss? Are its BCM provisions regularly reviewed and adjusted as necessary?
- **Insurance premium**  
Has adequate premium been calculated for politically motivated loss events, taking into account the existing exposures?
- **Accumulation consideration**  
Losses stemming from civil disorder can quickly accumulate in an insurer's existing portfolio, especially if there are regional concentrations of insured risks, meaning multiple companies are affected simultaneously. Franchises and large retail chains, which are typically insured under a master policy, can also present considerable accumulation burdens for insurers in the event of widespread protests.

## Summary

Damage from politically motivated acts has been on the rise in recent years and not only in countries deemed politically unstable.

From an underwriting point of view, coverage of SRCC risks can sometimes be seen as secondary and is often included without an adequate premium supplement attached. However, these perils represent considerable exposure and can lead to substantial claims payments. This is particularly the case if the cover is extended beyond SRCC perils to other political risks.



In addition, definition wording is not always court-proof, since many legal systems have different legal definitions, which can lead to disputes and unexpected results.

It is vital that underwriters take proper account of these risks and extensions when making decisions on capacity and pricing. In addition, the possible accumulation exposure within an individual policy with many locations or an insurance portfolio should not be neglected.

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