

SUPPORTING UKRAINE

PRI webinar

28 February 2024

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Insuring Black Sea grain shipments – Unity Facility

Now Live

Description and status

Purpose

- Providing insurance needed to cover shipping from Ukraine through the Black Sea in heightened risk environment. “Normal” War Risk insurance became prohibitively expensive when Russian withdrew from BSGI on 17 July 2023
- Essential for humanitarian, economic and freedom of navigation purposes

What is covered

- Ships/Crew/P&I from non-sanctioned nationalities trading to and from the Ukraine
- Black Sea and Danube transit
- From February 2024 expanded to include ships carrying all cargos, not just grain

Quantum and Timescales

- Available for ~1000 ships per annum to a maximum insured value of \$50M each to ship - around 30 million tons of grain per annum.
- Launched by Prime Minister Shmyhal 14 Nov 23
- Premiums under 50% of those outside this facility

What is the approach

- Ukraine government provides a ‘reimbursement fund’ capped at \$20M, accessed through Letter of Credit (LoC) held by Ukrainian bank(s) and underwritten by DZ Bank
- Specialist war-risk underwriters from Lloyd’s of London provide normal “ground up” cover but benefit from LoC in event of a loss

Progress

- Unity Facility live
- Specific grain cargo facility (outside PPP) activated
- Examining a parallel facility to cover cargo, backed by EBRD funding to Government of Ukraine

Giving investors, insurers (and governments) access to granular war risk data

Now Live



The Government of Ukraine has robust data on **all war-related incidents since February 2022**

It is sharing **aggregated data** with bona fide **investors, IFIs, governments and (re)insurers** to enable better risk modelling

300 registered users to date

The platform allows both **assessment of individual risks** and **portfolio-wide strategy setting**

It shows by **location and time** a breakdown of events including damage level:

- **Event type** (e.g., airstrike, UAV attack)
- **Object type** (e.g., Energy, Infrastructure)

The data shows that 66% of Ukraine communities have not had a single explosive event since February 2022
Yet 15,000 artillery rounds per days on frontline - the level of violence is hugely varied across the country

War risk insurance for aviation to allow reopening of some Ukraine airspace: Under Development

Description and status

Purpose

- Provide the war risk insurance for aviation to allow Ukraine to start to open up its airspace
- Reopening the aviation sector for passengers and cargo is assessed as being worth 5-8% increase in GDP
- Key part of strategy of 'normalisation'

What is covered? (tbc)

- War risk cover for aircraft, passengers, cargo and aviation infrastructure on agreed routes to nominated airports

Quantum and Timescales

- Potentially Lviv and Kyiv (Boryspil)
- Political intention announced 1 Dec (Zelenskyy)
- Political ambition is to have [an] airport open asp - during H1/24. This is ambitious

What is the approach (under development)

- Reduce risks (airport/corridor security; route and airport selection;
- Reduce liabilities (passenger numbers, aircraft type etc)
- Reduce exposure (through PPP along lines of Unity facility)

Progress

- On 1 Dec, Ukraine government (Yermak) announced intention to open Kyiv and Lviv asp
- High level discussions with government and leaders of Ukraine aviation sector
- Deeper engagement with market as proposed operating models emerge

Challenges

- **Sizing** the compensation fund required
- **Sourcing \$300-500M** (tbc) public sector compensation fund
 - Donors
 - Using frozen RU assets
- Getting Ukraine government , airline and international regulator **agreement on:**
 - Routes and airports
 - Protocols
 - Milestones
- Aviation insurance market badly burned by Ukraine war (stranded and confiscated aircraft in RU etc), **but there is strong market interest**

War risk insurance for business travel to facilitate investment: Under Development

Description and status

Purpose

- Providing affordable war risk insurance for business travellers to Ukraine
- Crucial whilst **Western governments advise their citizens to avoid travel to Ukraine**. These policy decisions by governments invalidate all insurances that potential visitors may have
- Current rates of \$1200-1500 per day per \$1M of cover are a **major impediment to investment** in Ukraine

What is covered?

- Available for businesses to protect their people covering life insurance, medical insurance and evacuation insurance etc

Quantum and Timescales

- The greater the usage the lower the rates
- Ambition to have rates of c\$300 per day per \$1M insured
- Scheme to go live H1/2024

What is the approach

- Global scheme where companies buy bundles of multiple days cover
- Standard benefits
- Challenge is aggregation risk for major conferences (eg YES)

Progress

- Basic cover should be available January
- Cover for conference aggregations may not be available for further ~6-8 weeks

Challenges

- Aggregation risks for conferences
 - Markets struggle to insure >c10 people at one location
 - Need reinsurance/donor capital to underwrite aggregation risks
 - System required to monitor aggregation

Providing large scale insurance to enable national recovery

Not currently under development

Description and status

Purpose

- To provide insurance at scale once the current level of hostilities has considerably diminished to enable the huge investment required for the large scale recovery and transformation of Ukraine
- To have a plan that fully engages the global (re)insurance market

What is covered

- Property and investments
- War-risk and political risk

What is the approach

- Insurance industry is clear it will not engage at scale without some government support
- A government backstop, provided by G7 + countries, along the lines of public/private partnership pools to insure against terrorism has been proposed
- Detailed options of how this would work at an international level have yet to be developed

Quantum and Timescales

- Investment will ramp up as violence diminishes. Initially need \$10bns of cover, growing perhaps to approach \$100bn per annum as risks reduce and recovery builds momentum
- Plan likely to take c12 months to develop

Progress

- Report outlining the need and high level principles considered at URC23 in London
- G7, Government of Ukraine, IFIs and the insurance industry all consulted
- No work to develop war risk insurance at scale taken forward following URC

Challenges

- Natural reluctance of finance ministries to expose their balance sheets to large contingency risks
- Whilst public private insurance partnerships have been used nationally for terrorism, there is no experience of using them at an international level
- **Since UK handed over URC, no government has taken on responsibility for sponsoring the work required to develop options**
- Unless the work is done, large scale insurance is most unlikely to be available for Ukraine recovery when it is needed

War risk insurance for Ukraine - lessons learned

- The major sources **insurance capital** **very reluctant to engage** in Ukraine
- Access to robust and granular **war risk data** is crucial for both investors and insurers
- War risk insurance during hostilities almost invariably requires **public private partnership**
- With government support **high risk specialist insurers will engage**
- **As confidence builds**, those with lower risk appetite start to engage
- But unlikely to be **very limited capacity available** before cessation/diminution of hostilities

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