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TECHNICAL NOTE
UKRAINE

Guarantee schemes for private investment in the events of terrorism and war: international experience and implications for Ukraine

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Structure

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2. Background
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1. Introduction

Motivation

- » During the war and in a post-war reconstruction, Ukraine will require private investment to achieve sustainable economic growth and green transition
- » Thereby, two aspects are important both for Ukraine and its partner countries:
 1. Ambitious rule of law reform agenda which should go hand in hand with EU accession
 2. External security risks will not be fully solved even when the war ends
- » Investments will be a function of both reforms and available insurance schemes addressing the new risk environment
- » The broad range of economic and infrastructure destructions by Russia demonstrate the **urgent need for enlarging existing insurance schemes and the development of new ones**

Purpose of this Technical Note

- » It discusses available international experience dealing with public-private partnerships for insuring war and terrorism related investment losses
- » It builds upon the results from **the Policy Paper [07 2022](#)** that described possible enlargements of guarantee options
- » Policy implications from international experience are derived for Ukraine

2. Background (1/2)

- » Different public/private institutions offer insurance for different concepts of political risks
- » However, the occurrence of war leads to exclusion of many war-related risks

Insurance coverage	Exclusion from insurance coverage
<ul style="list-style-type: none"> • Official investment guarantee programmes offered by state linked Export Credit Agencies (ECA) and/or private political risk insurance • Expropriation, payment embargo, moratorium risk, currency conversion, breach of contract etc. 	Partial exclusion of transfer risk
War related damages leading to direct war-related total or quasi-total losses	War-related partial losses
Damages from other war-related hostile actions, e.g. sabotage, terrorism, accidents by mines etc.	Widely excluded
Damages to physical persons, private households	Widely excluded
<ul style="list-style-type: none"> • Private insurance industry offerings • Damages to private property, private business interruption, transport etc. 	<ul style="list-style-type: none"> • <u>Property insurance</u>: buildings, plants, technical equipment • <u>Transport insurance</u>: transported vehicles, goods • <u>Business interruption</u>: due to lack e.g. of power, of communication channels, supply chain disruptions, workforce shortages

Source: own illustration

- **Insurance based solutions are by definition a protection against risk of future claims events and can therefore only become relevant for potential future losses**
- **Possible damages occurring by war or other forms of hostile actions can become so severe that private insurers/reinsurers cannot calculate the potential overall risk and refrain from covering**

2. Background (2/2)

- » In the Policy paper [07 2022](#), we described possible enlargements of guarantee options
- » War-caused risks are hardly covered by existing schemes
- » Enlargements of existing public and private options would be a first important step
- » For investments during the war in Ukraine, solutions beyond the currently existing ones are worth being considered, e.g. **Public-private partnerships**
- » One suggestion can include bundled offers by public guarantees **with private property, business interruption or transport insurance including private partial reinsurance**
- » Furthermore, **terrorism insurance solutions introduced in a few countries** can work as examples for public-private partnerships
- » Such schemes of terrorism insurance can be considered as possible international experience relevant for investment insurance in Ukraine during the war

3. International experience: Germany

Establishment

- In GER an arrangement was achieved between the private insurance industry and the government following the events on 11 September 2001
- GER established a specialised insurance company for extreme risks,
- Cooperation between Extremus Versicherungs-AG and sovereign government → **Public-private partnership**

Event definition

- Insurance of **terror** risk clause
- *“Acts [...] to achieve political [...] purposes that are likely to spread anxiety or fear amongst the population [...] and thereby influence any government [...]”*

Coverage

- Property, commercial and industrial activities located in Germany
- Property risk, commercial and industrial with max limit per insured of EUR 1.5 bn
- Business interruption

Further information

- Extremus covers no terrorist risks below EUR 25 m– this insurance cover must be provided by the private first insurer – and takes risks up to ca. EUR 2.5 bn in total
- In the case of even larger damages Extremus can draw a sovereign government guarantee of another ca. EUR 6.5 bn. Extremus’ cover is only available for terrorist acts in Germany

Sources: Extremus Versicherungs-AG, OECD own illustration

- **Coverage of damages to property within Germany by terrorism attacks**
- **Belgium and the Netherlands have similar schemes**

International experience: Australia

Establishment

- Established in 2003 following the events on 11 September 2001
- Purpose: Overriding the “terrorism exclusion clauses” in eligible insurance policies
- Coverage by private companies that entered a reinsurance agreement with the public Australian Reinsurance Pool Corporation (ARPC) → **Public-private-partnership**

Event definition

- Provision of direct damages from **terrorism** including “*actions and threats to advance a political [...] cause*”
- Definition is fulfilled if Government declares the occurrence of a terrorism attack

Coverage

- Property located in Australia
- Loss and damages to property
- Business interruption and consequential loss arising from loss of, or damage to, eligible property, inability to use all or part of such property

Further information

- Layered claims compensations scheme
- Individual insurance policy deductible, Industry retention, Reinsurance, Retrocession, Commonwealth guarantee
- ARPC participation partly funded by ARPC net assets, partly retroceded to private reinsurance market
- Ultimate liability capped at AUD 10 bn (USD 6.9 bn) as a Commonwealth (solvency) guarantee for ARPC

Sources: Australian Reinsurance Pool Corporation, OECD

- **Public corporation works as reinsurer**
- **Event definition similar to GER but gov declaration needed for fulfilment**

International experience: Spain

Establishment

- Risks can be covered by private insurers but state-owned Consorcio de Compensación de Seguros (CCS) takes the coverage in case of bankruptcy or in case the private market does not cover such risks → **Public-private partnership**
- Established in 1941, legal status in 1954, now public institution under the Ministry of Economy and Competitiveness

Event definition

- Provision of social-political risks, including terrorism but also **riots, civil commotion, rebellion, actions by army and security forces in peacetime**
- No government declaration of an event needed

Coverage

- Property located in Spain, personal damages in Spain or **abroad**
- All policies by private insurers in property, life and accidents must include such extraordinary risk coverage
- Direct material damage, business interruption
- Death and permanent or temporary disability

Further information

- A compulsory additional charge to be paid, monthly reimbursed to the CCS
- Unlimited state guarantee although never used in history

Source: OECD, own illustration

- **Event definition includes social-political risks**
- **Personal damages abroad are covered**

International experience: Israel

Establishment

- Established in 1941 under British legislation
- Compensation Fund partially paid by taxpayers' money, partially by private insurers

Event definition

- War damages by foreign armies
- Hostile actions “*designed to deliberately harm the state of Israel [...] to coerce the civilian population*”
- Damages caused by Israel Defence Force acts of war

Coverage

- Partial, total losses to households/ private businesses, incl. agriculture due to direct damages from hostile actions/war
- Private businesses / employees located at the border region are compensated for not being able to utilise assets and compensated for indirect damages, e.g. loss of revenue, prevention of profits, losses due to absence of employees,
- Indirect damages to be decided on case-by-case determination by the Finance Ministry
- Compensation for damages abroad need evidence showing cause of damage is connected to Israel national identity

Further information

- Compensation for direct damages to property other than households' is unlimited
- Compensation for direct damages to households is limited to EUR 20 k, additional coverage for up to EUR 140 k is possible
- Coverage is possible for property outside of Israel at 0.5 to 4.5% of value

Source: OECD, own illustration

- **Event definition includes war damages by foreign army and acts of war by Israel Defence Force**
- **Special coverage for indirect damages to private businesses/employees at border regions**

4. Implications for Ukraine (1/2)

- » New approaches need a combination of private insurance cover, public investment guarantees, reinsurance for Ukraine
- » A partnership of private and public institutions is highly recommended
- » Ukraine needs a cooperation in the form of public-private partnership that covers both domestic and foreign investment within Ukraine
- » Existing public (bilateral or multilateral) guarantee schemes that cover foreign direct investments are indispensable
- » Partial risk taking by private Ukrainian insurance companies may be considered but Ukraine's private insurance market is not yet sufficiently developed
- » The foundation of a state-owned insurance company for public-private partnerships would require fiscal space that Ukraine does not have

4. Implications for Ukraine (2/2)

- » There is need for international partners to step in, a joint and coordinated European investment strategy or multilateral risk pooling should be examined. EBRD, IFC and other IFIs can take part e.g. as providers of partial risk or partial credit guarantees
- » The institutional concept can be built upon AUS (ARPC) where a public company works as reinsurance for private companies
- » For Ukraine's case an integrative approach between international insurance companies and an ARPC-like institution capitalised by Ukraine's partners might be one option for the beginning
- » In the long-term, the development of the domestic private insurance market can contribute to the public-private partnership
- » Israel's concept of war-related and terrorism insurance might be one Ukraine can built upon:
 - Coverage of damages caused by hostile actions (e.g. terrorism) and acts of war by foreign army, other damages caused by acts of war by own Defence Force
 - Special cover for damages in border regions
- **Public-private partnership institutionalised based on ARPC example**
- **Coverage based on Israeli example**

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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