



War Insurance on Land

MONDAY, 14 SEPTEMBER

Presentation by **Bengt Humble**
Member of Cargo Insurance Committee

War Risks Insurance on Land

Presentation made at the IUMI Conference, Lisbon 1998

**Bengt Humble
Head of Marine Underwriting
Skandia Ins. Co. Ltd**

War Risks Insurance on Land

There can be no doubt in our minds that conflicts defined as war or civil war are frequent. If you ask a researcher of conflicts, he would be able to tell you of 50 to 100 existing conflicts. Maybe it is enough to mention a few to freshen up our memories; Afghanistan, Cyprus, Haiti, Indonesia, Iran, Iraq, Kosovo, Kuwait, Liberia, Sudan, Yugoslavia, and this list could be made very long.

I believe most of us also know the background to the Waterborne Agreement and the subsequent withdrawal of war coverage for landrisks.

Following the Spanish civil war in 1936, the insurance market viewed the potential damage to be too large for land war coverage and in 1937 the waterborne agreement emerged from the war risks agreement and excluded Lloyd's underwriters from insuring landbased war risks. The biggest fear was cumulation, especially within larger port-areas and other larger storage-areas.

Since that time, most of the world's insurance market has totally abstained from covering war risks on land. In the mid-1980ies, Skandia International started to write this class of business after an approach from A.W.R.I.S., the Arab War Risks Insurance Syndicate, due to the ongoing conflict between Iran-Iraq.

I will shortly come back to the present situation regarding land war coverage, but before doing so I am going to show you a videoclip of a genuine Skandia International claim from 1992.

It's about an international company involved in Angola. We happen to have a unique situation here because:

1. The damaged goods were insured against war risks on land.
2. There was a loss sustained
3. It turned out to be a situation of civil war at the time of the loss.
4. The loss was paid out in full with US\$ 2 million.
5. A representative of the Assured was filming with his video camera and thus documented some of the events.

Remember also that this is not a Hollywood production, but an amateur video mainly filmed from a hotel balcony or window by a probably very worried and scared person.

The background of this case is the following:

An international company, the Assured, had a couple of contracts in Angola, related to the forest industry, one of which for a 25-year period.

The company was required to import vehicles, forestry equipment and all other supplies necessary for their contract work. All this equipment was to be forwarded to a location in the Benguela province alongside the Benguela railway, where it was intended to be used for forestry of the eucalyptus trees growing on both sides of the about 1.500 km long railway.

The consignment of contract equipment etc. was loaded onto the vessel Auersberg in Vigo, Spain on October 6th 1992 and arrived directly at the port of Lobito, Angola on October 20th.

Angola became independent from Portugal in 1975 and they then had a civil war for 16 years until May 1991. On September 29-30th 1992 Angola had a political multi-party election plus a presidential election.

After the independence FNLA - The Front for the Liberation of Angola- and UNITA - The National Union for the Total Independence of Angola - merged into one group, UNITA, under the leadership of Dr. Jonas Savimbi.

The other group MPLA - The Popular Movement for the Liberation of Angola - formed a government in 1986. In 1992 the leader of MPLA, Jose Eduardo Dos Santos, was the sitting president. These two gentlemen, Dr. Savimbi and President Dos Santos, were the main opponents in the presidential election September 29th-30th 1992. Immediately after the result of the election was disclosed, with President Dos Santos getting 49% and Dr. Savimbi 40% of the votes, Dr. Savimbi accused the election to be fraudulent and commenced a remobilization of UNITA-troops.

The second half of October 1992, the conflict between UNITA-forces and government-forces escalated so that at the end of the month tanks and other heavy weapon attacks took place.

I mentioned earlier, that the shipment from Spain arrived on October 20th and the discharging was finalised October 22. The vehicles and the equipment were due to be driven to the site camp on October 23, but in view of the rapidly deteriorating political situation in Angola, it was arranged for more secure storage of the consignment at the Benguela railway yard, located in the centre of Lobito town. The representative of the Assured who filmed this, talked on the phone directly with the underwriter and asked permission to move the consignment to the railway yard and throughout the conversation the underwriter could hear the sound of shooting in the background.

On Saturday October 30, it was obvious that UNITA had taken occupation of parts of Lobito town.

The railway yard in Lobito stands in a compound that incorporates the railway office, workshops and open storage yards. The entire compound is surrounded by a chain-link fence, which has entrance gates manned by armed guards. Seven armed guards were provided by the police and the private security company engaged by the Railway Company. For additional security, the Assured provided 11 German Shepherd dogs, which were chained to some of the vehicles.

During Sunday November 1st and Monday November 2nd 1992, fierce conflict occurred in Lobito between the Government and UNITA forces. On Tuesday November 3rd 1992, after three days of fighting in Lobito, the Government utilised their Air Force using military aircraft including Mig 25 fighters with the result that UNITA rebels requested assistance from the United Nations to arrange an immediate cease-fire. The cease-fire was agreed during the morning of November 3rd 1992.

(Authentic videorecording from Angola 1992)

We have now seen what unfortunate political events and bad timing can cause a claim. The damage in the case we've just watched primarily relates to loss of wheels, windscreens, batteries, starter motors, lights, radio cassette players, speakers and miscellaneous property that was contained within the vehicles. Most removable items were stolen by the looters and only heavy equipment was left behind.

You may have questioned the underwriting in this case. US\$ 2.000.000 in one shipment – is that wise? Maybe not, but six months earlier when the risk originally was written, the intention was to have three separate shipments. Due to various delayed deliveries from subcontractors etc. it was agreed to have one single shipment and at the time of that underwriting decision the political situation in Angola seemed stable and reasonably acceptable. A couple of other risks covering war risks on land in Angola had also been running successfully for some years.

And now back to the general situation regarding land war coverage.

Lloyd's involvement with war on land risks goes back over a century. Insurance against property war damage in South Africa was the first test and left underwriters with a substantial loss. In the early days of the First World War a Lloyd's underwriter introduced a new form of cover by insuring a building in the City of London against bomb damage. At that time, the German zeppelins were regarded as a great threat but they were a failure and the planes that succeeded them did comparatively little damage.

After 1918, Lloyd's underwriters provided broader war risk coverage in Ethiopia, China, Palestine and in Spain in 1936. There, it became clear that air warfare was now so advanced that severe losses might be incurred in areas of concentrated high values and as mentioned before this was the reason for the Waterborne Agreement and the market's halt to land war coverage.

Since a period of almost two years Lloyd's is now back in this class of business and that has surely increased the interest and focus on land war coverage.

Skandia International, nowadays Hannover Re, has been heavily involved writing land war business for almost 15 years.

The French market has for many years covered land war, but only for French clients.

AIG is writing this class of business, but seems to restrict it to add-on facilities to standard political expropriation risks.

Liberty Mutual started to be active in this field about three years ago.

The T.T.-Club has done a limited cover for containers against land war risks for more than ten years.

The Company Market in London writes very little land war, and when doing so mainly with the purpose to protect their cargo portfolios.

Lloyd's syndicates involved in this class of business predominantly write land war as part of package deals involving various elements of political risks.

This difference between I.L.U. and Lloyd's is very significant for how to view this business today and most likely also in the future, especially for us when acting as cargo underwriters. Normally a cargo underwriter does not have the specialist knowledge regarding the political situation etc. of various countries and regions of the world, as does the political risk underwriter. This means that it is a lot easier and perhaps more logical to package the land war-element together with various political risks covers. It's easier to get a reasonable premium for the war element when packaged with the political risks. I think we all know that with the present soft marine market all our clients would want land war coverage as an add-on to their cargo policies. Would our clients also be prepared to pay an additional premium for this extra cover? Of course not, not a penny.

The main reason for that is something that, in my opinion, is one of the greatest misconceptions within the marine insurance field – the fact that the commonly used Institute War Clause or similar war clauses do not cover risks exposed to war hazards on land. Our average client certainly believes he got such a cover, as he knows he got war cover as an add-on to his cargo policy and of course he is not aware of any exclusions of such major significance as there indeed is. Maybe we all should reflect on whether there is a better way of presenting our clauses in order to avoid such a widespread misunderstanding.

This is one of the pedagogical problems with land war coverage. It's very difficult to convince a client who already thinks he got this cover, that he has to pay perhaps double the cargo-rate to also include land war. The average cargo client is unwilling to buy war on land cover until an applicable war situation already is at hand and that is of course the same thing as waiting to buy fire cover until the fire already started.

From an underwriting point of view cumulation control is essential for this type of catastrophe business and that also makes it hard to believe that land war cover will be integrated into cargo policies. It's not a very easy task to keep perfect control of all your cargo clients' shipments and storage with values and locations often spread all over the world. It's estimated that the present total world capacity for land war coverage is around US\$ 400. It would be extremely difficult to cover the whole world trade against land war with such a capacity.

To sum up and for the above mentioned reasons the future of this class of business is rather pessimistic from a cargo underwriting point of view but there is no doubt that war risks insurance on land is adding value to our clients. However, my personal belief is that war risks insurance on land will never become a general cover linked to cargo policies but rather an individually selected one. Therefore the future for land war coverage is more in the hands of our valued colleagues within the political risks insurance market.