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## THE IMPACT OF THE RUSSIA-UKRAINE WAR ON THE INSURANCE INDUSTRY

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### **Abstract**

*This study examined the impact of Russia Ukraine war on global economy and global institutions like the insurance industry; which was extended to the African and the Nigerian insurance industry. This is a qualitative research using mainly primary data for reviews. Data were also collected through the interview method from 25 insurance practitioners in Nigeria on the subject of investigation. These respondents were selected using the purposive sampling method. The results from the reviews and interview showed that the war would impact negatively economy and the insurance industry. The same should be expected to happen to the African and the Nigerian economies and their insurance industries.*

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### **Background to the Study**

Russia and Ukraine were part of the defunct Soviet Union which break up in the mid 1980s. It is important to note, according to Russia that part of the agreement between the new states were that they would not join the North Atlantic Treaty Organisation (NATO). The fifteen countries that came out of the USSR are Russia, Ukraine, Georgia, Belorussia, Uzbekistan, Armenia, Azerbaijan, Kazakhstan, Moldova, Turkmenistan, Tajikistan, Latvia, Estonia and Lithuania. NATO was formed by the USA during the era of cold war between USA and Russia and it drew its membership from America, Europe and Asia. It is also important to note that following the demise of USSR, most of the countries that came out of it had joined NATO against their initial agreement with Russia (which the superpower among them all). This prompted Russia to come up with a policy that it will never allow any of its neighbours to join NATO. When Georgia attempted to join NATO, Russia had resisted it strongly and the country had to abandon the idea of joining the organization. In the same manner, Ukraine muted the idea in 2014 and since then the country has been having running conflict with Russia which engulfed to full blown war, following the Russia invasion of the country on 24<sup>th</sup> February, 2024.

### **Research Objectives**

The main objective of the study is to find the impact of the Russia Ukraine Conflict on the Nigerian economy and its insurance industry and by extension that of Africa.

The specific objective is to find if there has been adequate awareness of the impact among insurance practitioners in Nigeria and what the industry should do as a response to the conflict.

It is pertinent to note that there have been some skeptical studies on the conflict globally with little or no emphasis on the African environment. Thus, this is need therefore for studies too on the effect of this war on the African economy and its financial institutions.

### **Methodology**

This is a qualitative study which will use more of primary data as there have not been available empirical studies on the conflict owing to its nascent nature. In this way, the study will rely more on newspaper reports, institutional reports, etc as the basis for literature reviews.

Twenty five Nigerian insurance practitioners will be interviewed for the study using purposive sampling method. This is to enable the researcher identify the impact of the conflict on the Nigerian market. The data collected from the reviews and the interview will be discussed together below.

### **Literature Review**

#### **Impact of the war on global economy**

Eight years ago, Havlik (2014) had observed that the Ukraine conflict which was then in its infancy would have serious consequences not only for Russia and Ukraine, but that the conflict had potentials to damage the frail economic recovery in Europe. Havlik also revealed that as at 2014-2016, the cost of the conflict on Ukraine was at that time 1% of its GDP while individual EU countries suffered worst state depending on their dependence on the Russian market. The countries that were mostly affected then were Finland, Luthuania, Estonia, etc. (Havlik, 2014). This does not mean that other European Union members were immune from such economic situation.

OECD (2022) in an interim report on the war, had postulated that the most important consequences of the war in Ukraine is the lives lost and the humanitarian crises associated with the huge numbers of besieged and displaced people. Prior to the war, according to OECD, most key global macroeconomic variables were soon returning to normality over 2022-2023 following the COVID-19 pandemic. The OECD posited that there would global growth of World economy in 2023 with return to rates similar to those prevailing in the immediate pre-pandemic period, with full employment, and inflation converging on levels close to policy objectives, etc.

The report of the OECD (2022) went further to note that although Russia and Ukraine are relatively small in output terms, they are large producers and exporters of key food items, minerals and financial shocks, particularly in commodity markets, with the prices of oil, gas and wheat soaring.

Similarly, according to Ozili (2022) the multiple international sanctions imposed on Russia, to compel the country de-escalate the crisis worsen the situation. Ozili observed that the sanctions imposed, although intended to hurt Russia, had spillover effects to the global economy mainly on global supply chain disruption. The conflict led to energy supply shocks, commodity and trade shocks. this translated to rising energy prices, rising commodity prices, and a rise in food prices, thereby leading to a rise in global inflation in many countries (Ozili, 2022).

Same way that the United Nations Conference on Trade and Development (2022) maintained that there is a rapidly worsening outlook for the world economy, underpinned by rising food, fuel and fertilizer prices, heightened financial volatility sustainable development divestment, complex global supply chain reconfigurations and mounting trade costs. All these as a result of this war.

The UNCTAD (2022) reported that:

*“This rapidly evolving situation is alarming for developing countries, and especially for African and least developed countries, some of which are particularly exposed to the war in Ukraine and its effect on trade costs, commodity prices and financial markets. The risk of civil unrest, food shortages and inflation induced recessions cannot be discounted, particularly given the fragile state of the global economy and the developing world as a result of the COVID-19 (cornavirus disease) pandemic.*

Liadze, Macchiarelli, Mortimer-Lee & Juanino (2022) in an econometric analysis of the cost of the Russia-Ukraine war found that, using global econometric model, NiGEM, the level of global GDP would reduce by 1% by 2023, which is about \$1 trillion of Global GDP and this would add up to 3 per cent global inflation in 2022 and about 2 percentage points in 2023. These researchers based their findings on the fact that Russia and Ukraine are important suppliers of commodities, including titanium; and also envisaged supply chain problems intensifying for users of such commodities, including cars, smartphone and aircraft markers. Europe, indeed, is the region that would be more affected mostly, given its trade links and reliance on Russian energy and food supplies; emerging markets are affected less than advanced economies (Liade, et al, 2022).

It is pertinent to note that there has been studies recently on the impact of this war on global economy and the economies of the developed economies, with little or no such studies on the developing and African economy.

### **The impact of the war on the insurance industry**

Permit me to observe that war leads to destruction of lives and property; which by extension would lead to claims for insured losses in the insurance industry. The level

of such losses in these few months of the war is high. According to Smith and Morris (2022), the insurance industry in Ukraine braces for soaring payments from the war, with Aviation underwriters being the most affected, and huge damage of buildings alongside. Smith and Morris maintained that stranded planes, battered ships, bombed-out buildings and unrecoverable debts created by Russian invasion of Ukraine have left the global insurance industry braced for soaring payouts and protected disputes. The war could cost insurers billions of dollars in claims, with the aviation insurance sector alone facing potentially the highest lost event in its history due to hundreds of aircrafts that were grounded in Russia (Smith & Morris, 2022). Fitch Ratings towing the same way, noted that the Russia Ukraine war would be more likely to affect the European Insurance sector through second order financial market volatility than through direct effects from sanctions on Russian entities or other measures restricting Russian businesses. The Fitch Rating posited that European insurers and reinsurers have little direct Russian and Ukraine exposures in their insurance books and investment portfolios, and negligible Belarusian and Ukraine exposure. However, volatility in global financial markets caused by the conflict could affect their capital ratios. Moreover, the conflict raises the prospect of even higher inflation, which could lead to pressure on profitability, particularly from non-life insurance (Fitch Rating, 2022).

The USA insurance industry is also not immune too. According to Hallo (2022) while direct exposure could be limited, the US insurers might face 'significant' indirect exposures. This is similar to the findings of Smith and Morris (2022) above on the European market. Hallo reported that the largest exposure at the moment using AM Best figures would be less than 2% of capital and surplus of the companies. This amount could easily be absorbed by the companies.

Gangcuangco (2022) examining the likely exposures of the Lloyd's market postulated that the global insurance industry could be facing billions of dollars in loss as a result of Russia's invasion of Ukraine. Gangcuangco added that the insurance marketplace Lloyd's is potentially looking at overall losses worth somewhere between US\$ 1 billion and US \$ 4 billion. This excludes reinsurance claims associated with the war claims from insurers.

There have not been observable investigations on the impact of this war on the African insurance market. Notwithstanding, it should not be ruled out that there would also be some negative impact on this market too.

### **Discussions**

There are presently not available empirical reviews on this war hence most of the reviews are from primary data. The evidences from the reviewed literatures have shown that the Russia Ukraine war would have serious negative impact on the global economy and global institutions like the insurance industry. Although, not much

study has emerged on this impact, it is important to note that the case of Africa is worse in terms of studies on this problem. This does not mean that the African economies and institutions are not negatively affected too. The evidences of such are everywhere, especially on the streets in Africa where inflation is now the order of the day. The high cost of oil is global; this is no doubt as a result of the embargo on the importation of Russian oil by USA and its allied; and the destruction of Ukraine oil installations by Russia. The effect is even felt here in Nigeria where a little of diesel jumped from N230 to over N760, which is over 300% increase.

On the impact on the insurance industry, this industry does not work in isolation with what happens outside its environment. The impact is real especially in Ukraine and Europe where insurers and reinsurers are payout claims associated with destructions caused by the war.

In a qualitative analysis on insurance practitioners in Nigeria using the interview method, this study found that about 25% of the country's practitioners do not believe that the Ukraine war could have a spillover effect on their industry while the remaining majorities do. The results from response from the practitioners show that only 38% of the practitioners agreed that the industry have started having negative impact on the financials as a result of the war while 62% think otherwise. Well, it is too early to judge by now. More so, that most of the companies have carried out their first quarter renewals before the outbreak of the conflict

### **Findings**

The findings from the above investigations either from the reviewed literature and the interviews have shown that the Russia Ukraine war would not only impact negatively on global economy and the insurance industry but would do same to that of the Nigerian insurance industry in particular and that of Africa in general.

The payouts of claims consequent to the war has challenged our professional belief here that once there is war most of the insurance policies goes off cover except those that are covered in the war market. This practice is no longer tenable as war could also be seen as being fortuitous. This should be a great lesson to be learnt by both the African and the Nigerian insurance industries respectively.

### **Conclusion**

Since the global economy is not immune to the negative effects of the Russia Ukraine war so also is that of Africa and Nigerian economies. The same is applicable to the insurance industry in Africa and Nigeria, and even the least developed countries. This entails that these economies should put in place machineries that would help them to cushion the effects of the war on their citizenry and their financial institutions too.

### **Recommendations**

In view of the above findings and conclusion, the following conclusions are hereby proposed:

- (i) The need for a general review of the insurance policies being sold in the African market in line with global development.

- (ii) There should be clauses which should be attached automatically to cover war risks among the special or allied perils covered in the market.
- (iii) Awareness should be created among the practitioners on the likely impact of this war on the industry.
- (iv) There is need to set up an industry research committee to study the likely impact of this war on the market.
- (v) Finally, there is need for an upward slight review of premium rate in line with global realities as a result of this war.

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