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Russia/Ukraine Conflict: Updated Guidance for Lockton Associates, Producers and Clients

March 17, 2022

As the conflict involving Ukraine, Russia and Belarus progresses, a number of questions regarding its insurance, risk, regulatory, socioeconomic and geopolitical implications continue to arise for our clients. Lockton is closely monitoring this evolving situation and engaging with our business leaders globally to ensure we are providing clients with the best advice and guidance.

Russian legislation

Under a new law passed by Russia's legislature and signed by President Vladimir Putin on Monday, March 14, effective immediately, "Russian insurers are prohibited from entering into transactions with insurers, reinsurers, and insurance brokers that are persons of 'unfriendly states,' as well as with insurers, reinsurers, and insurance brokers controlled by persons of 'unfriendly states.'"

The list of "unfriendly states," as outlined in the Decree of Russian Government dd.05.03.2022 No.430-p includes Australia, Albania, Andorra, the United Kingdom. all EU states, Iceland, Canada, Liechtenstein, Micronesia, Monaco, New Zealand, Norway, South Korea, San Marino, North Macedonia, Singapore, the United States, Taiwan, Ukraine, Montenegro, Switzerland and Japan.

This change, which is set to be in effect through at least the end of 2022, limits the ability to place business with any Russian insurers or reinsurers, or through cover under any global master programs. The law impacts in-force policies as well as any upcoming new or renewal placements.

Due to this change, Lockton clients continuing to operate in the region may be best advised to secure coverage solutions locally in lieu of controlled master programs or global policies.

Sanctions/compliance

Initially, broad sanctions announced by the U.S., U.K., and European Union included a prohibition of banking activity, including correspondent or "payable-through" account transfers, involving Sberbank and other key Russian financial institutions, including VTB Bank, Bank Otkritie, Sovcombank OJSC and Novikombank, along with named subsidiaries of these entities.

On February 28, the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) further constrained the Russian financial sector through Directive 4, imposing a near-total prohibition on U.S. person transactions with Russia's Central Bank, National Wealth Fund, and Ministry of Finance. Numerous Russian individuals have also been added to the U.S. Treasury's specially designated and blocked persons (SDN) list.

These actions — including the removal of Russia from SWIFT and the freezing of assets held by entities/persons on the SDN list, with whom U.S. persons are prohibited from working — are intended to effectively cut Russia off from the global financial system.

Sanctions could complicate the payment of insurance premiums, fees and commissions in Russia, in Ukraine and, more broadly, across global financial institutions. Clients that have operations dependent upon sanctioned entities, individuals or financial institutions may see an impact to their financing or operations and should review their exposure to those individuals and organizations.

Perhaps most significant are far-reaching export controls. Heightened export administration regulations (EAR) administered by the U.S. Department of Commerce's Bureau of Industry and Security are intended to deny the ability of the Russian defense, aviation and maritime sectors to import advanced technologies. These broad controls apply to a range of items, including semiconductors, telecommunications, encryption security, lasers, sensors, and navigation, avionics and maritime technologies.

In addition, due to a significant expansion of the foreign direct product rule as applied to Russia, many more items manufactured outside the United States will be subject to the EAR when exported to Russia.

Limited license exceptions, only through stringent license requirements and licensing policies, may be available.

Operations

Russia is one of the world's largest exporters of energy and the leading foreign supplier to Europe. In the first half of 2021, Russia accounted for nearly half of the E.U.'s natural gas imports and a quarter of its petroleum imports, according to the European Commission. Restrictions on Russia's ability to export energy to Europe and elsewhere could materially affect businesses.

An escalation of the current crisis could give rise to several political and economic risks for multinational businesses, including expropriation, nationalization, contract frustration, and currency inconvertibility and devaluation. Clients that produce goods in Ukraine, Russia, and Belarus may need to be prepared to shift production if they have not already done so.

Currency devaluation

Combined with the effects of recent inflation, exposures and policy limits may need to be reviewed for adequacy in light of the current conflict. If the value of local currency deteriorates significantly and unexpectedly, premium payment may become a challenge, and local limits may no longer be adequate to address risks if expressed in local currency.

The impact of foreign currency fluctuations will not be limited to Ukraine, Russia, and Belarus. Policy wordings should be reviewed for clarification on currency and premium payment warranties. Nonpayment of premium in a single country can, on occasion, affect an entire global program.

Lockton's affiliations in Russia

Lockton does not do business with the Russian government or affiliated entities. Lockton does not and has never had a shared or owned interest in any broker intermediary in Russia.

As a client-focused firm, we are abiding by all sanctions and assisting our clients in a very difficult situation.

If you have any questions regarding your specific exposures stemming from this ongoing conflict, please contact a Lockton Associate to discuss the potential risk solutions available to you.