The Insurance Institute of London
Chartered Insurance Institute

Political Risk Management

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Learning Objectives

In an increasingly complex and volatile world, **political events** can swiftly turn into **significant risks for insurance companies**.

This webinar explores **effective risk management strategies** *(e.g., early warning signals, assessment of potential impacts)* for **navigating political risks** and strengthening business resilience.

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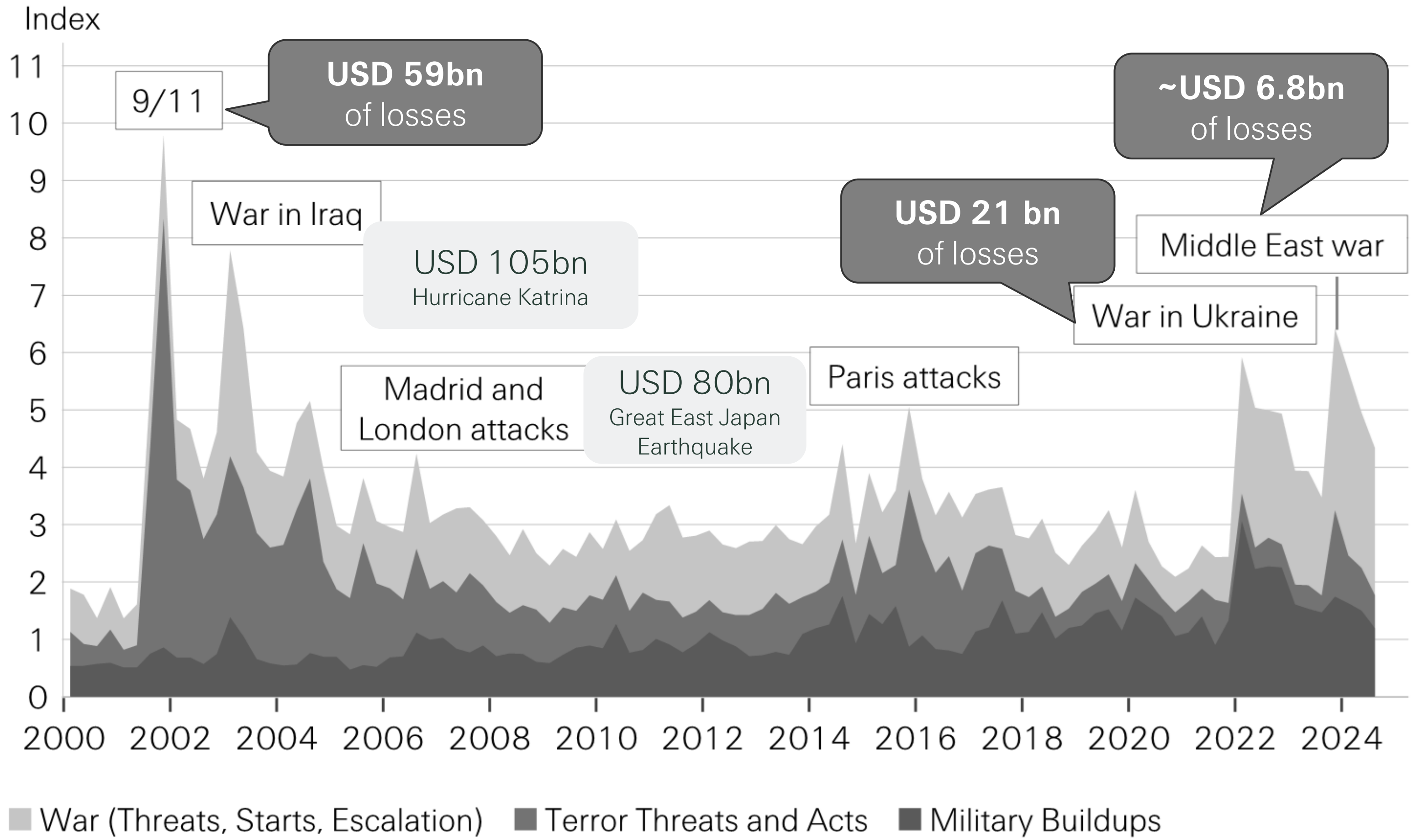
Political risks - impact on the insurance industry



1 Source: Iacoviello et al. "Measuring Geopolitical Risk" (2022), Swiss Re
2 Source: sigma No. 1/2025 "Natural Catastrophes"

Political events have become more frequent, more severe, and more destabilizing than in the recent past.

Political risk challenges for insurers

	Direct/Immediate	Indirect/Longer term
Claims	Claims stemming from **insured political perils** (e.g., expropriation, contract frustration, or political violence).	A single political event (e.g., civil unrest or sanctions) can **trigger losses across many geographies, and business lines**.
Market Volatility	Political crises can destabilize markets, currencies, and sovereign credit, causing **losses in investment portfolios**.	Sovereign defaults, asset price swings, and currency devaluations can impact insurer **solvency.**
Reputational Risk	Involvement in politically sensitive claims or investments **can damage trust with clients, regulators, and governments**.	Negative publicity or regulatory scrutiny may **harm the franchise value**.
Strategic Planning	Political shifts (e.g., new regulations, sanctions, or nationalizations) **alter risk-return profiles** for underwriting and capital allocation.	Insurers must **adapt strategies** to manage evolving political risks.

Managing Political Risks: Challenges & Mitigants

	Challenge	Mitigant
⚠️ Uncertainty & Volatility	Political crises can **erupt suddenly and escalate rapidly**. Traditional risk models struggle with low-probability, high-impact shocks.	Maintain early warning indicators, **use forward-looking tools, and build rapid response protocols** for sudden changes.
📊 Measurement & Comparability	Political risks are often **qualitative and hard to benchmark** across countries. Data gaps and bias limit precision.	**Use structured scoring systems** and **complement with** analyst **judgment** for contextual nuance.
🔗 Integration into Risk Management	Political risk is **hard to translate into financial terms**. Stress testing requires **subjective assumptions**.	Integrate political risk scores into dashboards, **run stress scenarios, and link outputs** to risk management actions and capital allocation.
💹 Market Perceptions	Markets often under- or over-price political risk. Insurers **risk being complacent or over-reactive**.	**Identify disconnects** between market pricing and fundamentals. **Use divergence signals** to trigger risk discussions.

The importance of scenarios to model political risk exposure

Scenario selection

- What is the **peril that I want to understand**?
- How could this **materialize** and what would be the **transmission channels**?

Scenario building

- What does the **actual experience** tell us?
- What **data is available**, and how can I collect and analyse?

Why it matters

- **Consistent narrative**
- **Comparability** across portfolio
- Strengthens **business resiliency**

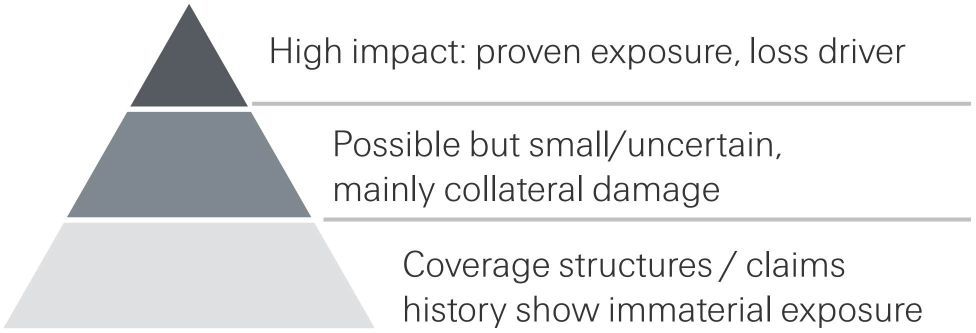
An example of scenario building

Severity and Parameters	Moderate	Severe	Extreme
Duration	Few days	A few weeks	Several weeks or more
Nature of events	Peaceful demonstrations; road blockages; some use of vandalism, arson, looting	Violent demonstrations; road blockages and damage to critical infrastructure	Violent demonstrations; road blockages of roads and development of "no go" areas; damage to critical infrastructure
Scope	Few large cities	Several large cities	Several cities, states/regions
Impacted property	Commercial buildings, vehicles	Commercial & public buildings, vehicles	Commercial & public buildings, select residential areas, vehicles
Deaths	Zero to a few	Some deaths	Large numbers of deaths
Business interruption	Minor	Partial disruption	Full (closure non-essential businesses, transportation)
Insured market loss	In line with experience	Moderately higher than experience	Significantly higher than experience

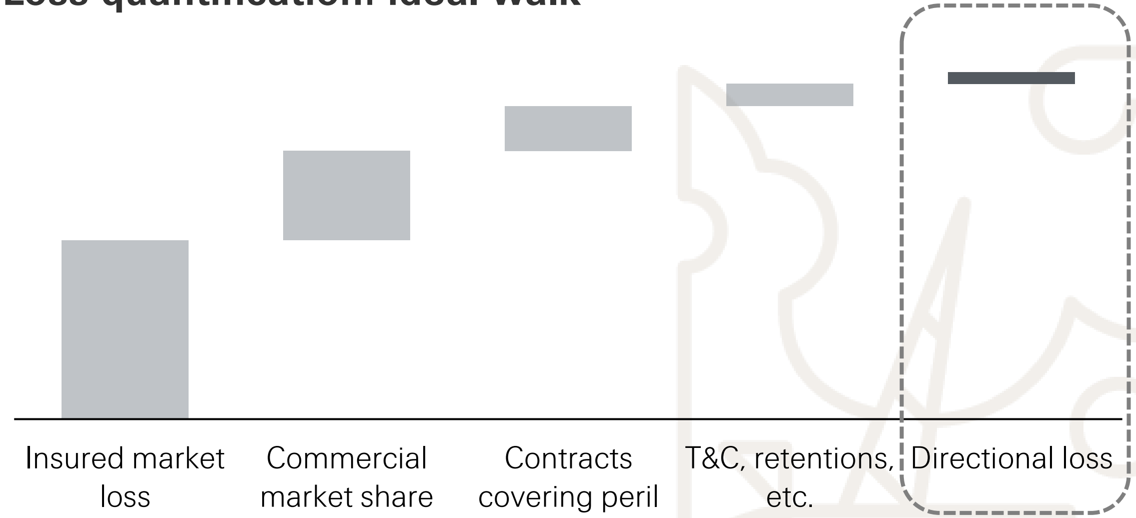
Vetting, quantification and taking action on results

Vetting & scope of quantification

Which lines of **business can be impacted** (and can help to build a from the ground up exposure and calculate directional loss)



Loss quantification: ideal walk



Is this within **risk tolerance**?

What can be done today to prevent that future losses?

What are the risk development **milestones** that can indicate a deterioration in the environment?

What is the **lead time to steer** the portfolio?

What we have covered:

- Intro
- Introduction to political risk management? Why it matters and how to think about it
- Focus on scenario-based thinking and building scenarios for specific political risks
- Q&A

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Q&A

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