

Sanctions



Governments and regulators are increasingly targeting the financial services industries, including insurance, as a route to more effective enforcement of sanctions legislation. Recent sanctions legislation – targeted at Iran, the Ivory Coast, Libya and Syria – has created problems for shipowners and their Clubs by impacting insurance arrangements.

In some cases there has been a prohibition on the provision of insurance to designated shipowners or companies, the insurance of certain trading activity, or payments by insurers to designated individuals or entities. The ‘extra-territoriality’ of some sanctions – particularly those emanating from the US – have also created significant problems for shipowners, Clubs and the International Group.

A lack of clarity

Much of the regulation and legislation deliberately lacks clarity to provide flexibility in interpretation and enforcement by the relevant authorities, which in turn has created difficulties for all insurers, including the Clubs. For example, in response to the US and EU sanctions against Iran, all Clubs have had to introduce general sanctions rules to protect their members from exposure to sanctionable activities, and the effect of these rules are mirrored in the Group pooling arrangements.

The International Group has engaged extensively with the US, the EU and national regulators on the interpretation of their various pieces of sanctions legislation. In relation to the EU sanctions against Iran, we have had some successful input into the final drafting process to achieve greater clarity in the proposed measures. However, given the underlying political objectives of the sanctions, there is not a great deal that can be done to steer or influence the drafting processes.

Widespread impact

The impact of sanctions has been felt not only on the underlying shipping and trading activity, but also on insurance and reinsurance arrangements. The International Group and Clubs have had to focus on the potential impact on the policies they provide to their members, and also on the risk to their individual and collective reinsurance arrangements. US regulators have already sanctioned US-domiciled reinsurers in relation to individual Club reinsurance arrangements. The risk of a similar action in the context of the International Group’s reinsurance programme cannot be ignored, and could have a significant impact on recoveries under our annually-renewed general excess of loss reinsurance programme.

It is clear that targeting the insurance industry is perceived to be an effective way of enforcing sanctions, and the burden of such measures on insurers is likely to increase in the future. Therefore, both at the Group and Club level, there will be ongoing extensive engagement with national and international regulators to ensure compliance with current and future sanctions legislation and regulations.