Strike, Riot and Civil Commotion (SRCC) Risks in Engineering Insurance

Fire rages through a building following riots in Tottenham on Aug. 7, 2011 (Lewis Whyld from www.boston.com)

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**Disclaimer**

The present paper is based on the experience of the working group’s members in the insurance industry. The opinions expressed hereunder are solely those of the authors for the respective chapters each member has composed and do not in any way reflect the views of any insurance company or any other legal entity involved in the insurance industry.

The paper is not meant to be exhaustive and other aspects may exist, presumably affecting the profitability of an insurance policy, which may not be described in this paper.

All the authors are serving in their personal capacities.

Should the reader have alternative views on the opinions perceived by the authors, any opportunity for further discussion / views' exchange will be welcomed.
Executive Summary

During day to day business, engineering underwriters are being asked to include additional clauses in a policy, which are sometimes presented/considered as not increasing the actual exposure of the project and the possibility of receiving a claim. One of these commonly requested “innocent” coverages required by the end clients and/or brokers is the Strike, Riot and Civil Commotion (SRCC) one.

Within this paper, the matter of SRCC coverage in connection with engineering insurance is addressed. It should be mentioned, that the group’s efforts focused primarily on project insurance and not on annually renewed policies, traditionally also belonging to an engineering portfolio (e.g. MB, EEI, CECR, etc.), mainly due to the facts that in an annually renewed policy:

(a) the insured items are per se unchangeable and

(b) the SRCC peril can be easier assessed/predicted due to the shorter timeframe of the agreement.

The aim of this paper is to promote common understanding and best practice when including SRCC coverage in an Engineering Insurance Policy. The ultimate target is to raise awareness of contractors, brokers and underwriters against the emerging and in particularly continuously changing SRCC peril and provide the interested parties with a basic guidance on necessary information expected to be included in an underwriting submission, so as for all parties’ interests to be taken into consideration in the final coverage solution.
1. **Introduction**

In the modern construction world most of the projects are power-driven by their investors, which in most cases are large bank institutes holding the capital needed to fund the realization of any small or large development plan. Investment return/security/safety and risk transfer are the key words playing a significant role in the realization of a construction/erection project. The request of this so-called “Bankability” of a given investment-plan is driving the risk to the insurance market which is itself striving for appropriate and reasonable answers in an increasingly rapid changing political environment. In order to achieve this, the Engineering Insurance industry is often facing the additional challenge of providing types of covers which initially were intended for broader insurance cover concepts. SRCC cover falls within this category.

In a global economy striving for financial stability and with the increase of investments in high-risk regions one could expect that the major exposure of insurers against SRCC lies in the least developed countries of the world. But the examples of riots having found place in high developed regions such as USA and the EU countries hasn’t been getting any shorter in the last decades. Surprisingly or not the yearly number of riots listed in the aforementioned source is exceeding a few dozens for each of the past few years.

Since it is not uncommon for large engineering projects to trigger controversial opinions within the public and rioters can find useful material from a construction site, one can easily understand the particular relevance of the increasing frequency of riots to engineering projects.

This fact combined with the inherent uncertainties concerning the exposure assessment of projects located worldwide and the limited reaction potential against such events creates a “combustive mixture” in terms of insurance coverage.

To put it in a nutshell, there are many parameters to be considered from an engineering insurance point of view:

- The long time that an engineering project is expected to last.
- Socio-economic aspects affecting the crowd’s psychology.
- The long time that an engineering project is expected to last.
- Socio-economic aspects affecting the crowd’s psychology.
- Local mentality affecting the potential of a SRCC event happening.
- Local law and legislation as well as the applicable law in the policy.
- The easiness of organizing a protest - which could easily evolve into a riot - through the use of social media.
- How can one deal with / be prepared for an SRCC loss?
- How can one (both insurer and insured) manage such a risk?
- Wording definitions/peculiarities.
- ...

In an effort to sort out the various questions/issues coming into an underwriter's mind when hearing SRCC cover, the framework of this publication has been created in order to:

a. Provide a definition of what is understood worldwide as SRCC.

b. Investigate the different legal and wording aspects of SRCC.

c. Present the special features of SRCC for various regions-countries; the countries are indicatively chosen, based on the available information from the group’s members.

d. Present the principal considerations which are expected to be thought of when including such cover in an engineering policy.

e. Analyze the peculiarities of SRCC coverage in connection with engineering insurance compared with non-engineering policies.

f. Define/propose “early indicators” of SRCC potential.

g. Outline options as to how monitor / manage the SRCC risk in a policy.
2. **Legal Aspects & Definitions**

Before going any further it is necessary to consider what exactly is meant by the terms "strike", "riot" and "civil commotion". In an insurance context one of the key issues is to determine where SRCC cover starts and where it stops. For example when an act of malicious damage becomes damage caused by a riot, and when civil commotion develops into civil war.

In broad terms the concepts can be represented in the form of a Venn diagram, as follows:

![Venn Diagram](image)

However, it is obvious that common "daily" understanding does not really suit when it comes to actual scenarios potentially involving indemnities which can easily be double digit figures in millions of e.g. USD. Although prior to any legal discussion one should have a view to the common meaning of these words (see below).

Ultimately, in order to avoid any ambiguity and misalignment of interest it is advisable to consciously run the "classic battle" between definitions in policy wordings and governing law of policy / reinsurance policy in an early stage with all stakeholders, in particular (Re-)Insured(s). Placements of these policies are sometimes even in more than one marketplace, i.e. different understandings of the relevant parties bases on the “home” jurisdictions are increasing complexity of that discussion. Nevertheless, any ambiguity which can be spotted any corrected when designing policy gives both parties (Insurance / Insured) the requested / intended clarity of cover.

Many policy wordings do indeed include specific definitions of these words. For example the widely used Munich Re wording (Endorsement No. 1 – Cover for Loss or Damage due to Strike, Riot and Civil Commotion) contains a detailed description of the intended cover, which includes damage caused by "the act of any person taking part together with others in any disturbance of the public peace". Not all policy wordings, however, define the words and most SRCC exclusions are extremely brief. In this situation it will be necessary to look to the law of the policy to determine their meaning. Some brief comments about the relevant law of the policy are included at paragraphs§2.1 and §2.2 below.

With the exception perhaps of "civil commotion", the words are in common usage and would be familiar a member of the public.
Common dictionary definitions of the words are as follows:

i) Strike – "A concerted cessation of work on the part of a body of workers, for the purpose of obtaining some concession from the employer or employers."\(^1\)

ii) Riot - "A violent disturbance of the peace by a crowd; an outbreak of violent disorder or lawlessness."\(^2\)

iii) Civil Commotion – "A riot or similar disturbance."\(^3\)

In many jurisdictions these ordinary meanings have been supplemented or replaced by more precise (and complex) legal definitions. The differences can often be quite marked; for example under English law a group of people acting in a disorderly fashion would not be classed as a riot unless there were 12 or more people involved. This means that the precise definitions of these terms will vary depending on the governing law of the policy in question.

Where a jurisdiction has developed legal definitions of strike, riot and civil commotion this can help considerably in defining the boundaries of SRCC cover.

Taking the above into consideration, it becomes obvious that applicable law has significant impact into the discussion of subject of SRCC. In order to illustrate the different local factors which influence the meaning of the words "strike", "riot" and "civil commotion" we shall consider first how these terms are interpreted as a matter of English law and then compare this with their treatment in a number of other jurisdictions.

2.1. SRCC Under English Law

2.1.1. Strike

There is no definitive definition of "strike" as a matter of English law, but the term is defined in two pieces of legislation, (i) the Employment Rights Act ("ERA") 1996 and the Trade Union and Labour Relations (Consolidation) Act ("TULR(C)A") 1992. Although they would always look to the intention of the parties, these statutes may assist an English Court in interpreting "strike" in an insurance context.

Section 235(5) ERA 1996 states that a strike is:

"(a) the cessation of work by a body of employed persons acting in combination, or

(b) a concerted refusal, or a refusal under a common understanding, of any number of employed persons to continue work for an employer in consequence of a dispute, done as a means of compelling their employer or any employed person or body of employed persons, or to aid other employees in compelling their employer or any employed person or body of employed persons, to accept or not accept terms or conditions of or affecting employment."

Section 246 TULR(C)A 1992 states that a strike is: "any concerted stoppage of work".

It has been clarified in case law that strikes are confined to employment-related activities. It was held that a concerted stoppage of work constituting a strike is one that is carried out by workers to improve employment conditions, achieve a rise in wages, support other workers
or achieve political change. It is said that these actions are "distinct from a stoppage which is brought about by an external event such as a bomb scare or by apprehension of danger".  

2.1.2. Riot

Rioting has long been a criminal offence in England, and has a very specific definition which is more precise than that employed in common parlance.

Historically, the definition of 'riot' was laid down in case law but the common law offence has recently been replaced by a new statutory offence, set out in the Public Order Act 1986 ("POA"). Section 1 reads as follows:

"(1) Where twelve or more persons who are present together use or threaten unlawful violence for a common purpose and the conduct of them (taken together) is such as would cause a person of reasonable firmness present at the scene to fear for his personal safety, each of the persons using unlawful violence for the common purpose is guilty of riot.

(2) It is immaterial whether or not the twelve or more use or threaten unlawful violence simultaneously.

(3) The common purpose may be inferred from conduct.

(4) No person of reasonable firmness need actually be, or be likely to be, present at the scene.

(5) Riot may be committed in private as well as in public places."

Section 6 of the POA 1986 states that "A person is guilty of riot only if he intends to use violence or is aware that his conduct may be violent." Consequently, the subjective intent or awareness of the rioters in question at the time (from an objective perspective) will be taken into consideration when determining whether a riot has occurred. In practice it is not always easy to determine whether a protest has developed into a riot, but the threat of violence will be a key factor.

The POA 1986 says that the new definition of riot is to be applied to marine insurances, but is silent about non-marine policies. It may therefore be possible to argue in non-marine situations that the word "riot" has a different meaning to that given under the POA 1986, but in practice given the clear legal definition this is likely to be taken as the starting point both for marine and non-marine policies.

2.1.3. Civil Commotion

The most widely accepted description of "civil commotion" from case law is as follows:

"The phrase is used to indicate a stage between a riot and a civil war. It has been defined to mean an insurrection of the people for general purposes, though not amounting to rebellion; but it is probably not capable of any precise definition. The element of turbulence or tumult is essential; an organised conspiracy to commit civil acts, where there is no tumult or disturbance until after the acts, does not amount to civil commotion. It is not, however, necessary to show the existence of any outside organisation at whose investigation the acts were done."

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4 See Tramp Shipping Corp v Greenwich Marine Inc (The New Horizon)[1975] 1 W.L.R
This legal definition is considerably different from the ordinary meaning of the words as shown by the dictionary definition, which suggests that riot and civil commotion are synonymous. As a matter of English law, civil commotion is something more than a riot but less than a civil war.

In determining whether an incident should be categorised not as civil commotion but as civil war, the English courts will consider three broad questions:

a. Could it be said that the conflict was between "opposing sides"? There may be more than two sides, but there must be some substantial community of aim which the allies have banded together to promote by the use of force.

b. What were the objectives of the "sides" and how did they set about pursuing them? The objective need not be to seize complete political power – for example seeking to change the manner in which power was exercised would likely be sufficient.

c. What was the scale of the conflict, and its effect on public order and on the life of the inhabitants? Relevant factors would include the number of combatants, the number of casualties, the degree to which the populace as a whole is involved in the conflict and the degree of interruption to public services and private life.

Although there was previously a requirement for civil commotion to involve 'insurrection', that is to say an attempt to overthrow the government, this has been now been rejected. In a decision concerning the events in Lebanon in the 1970s, it was held that an event could be classified as a civil commotion despite no intention to overthrow the government as long as there was considerable turbulence and tumult.

As noted in the description above, turbulence and tumult (referred to elsewhere as disorder and disturbance) are an essential characteristic of civil commotion. For example, at the turn of the 20th Century a large number of women, acting individually, simultaneously broke windows with hammers as part of a campaign to extend votes to women. The women were arrested without resistance. Crucially, no street disturbances preceded or followed their actions. The English Court of Appeal rejected the argument that the actions amounted to civil commotion since there had been a lack of tumult/ disturbance.

2.1.4. Terrorism

An increasingly important consideration is how SRCC cover interacts with terrorism (which is typically an excluded peril). There is potentially a significant overlap between the two concepts, and it is not uncommon for those involved in a riot or civil commotion to be labeled as terrorists by their government, particularly if their aim is to influence or overthrow that government.

There are currently two main statutory definitions of terrorism under English law: (i) The Reinsurance (Acts of Terrorism) Act (the "RATA") 1993; and (ii) The Terrorism Act (the "TA") 2000.

RATA 1993 states that "acts of terrorism" means "acts of persons acting on behalf of, or in connection with, any organisation which carried out activities directed towards the overthrowing or influencing, by force or violence, of Her Majesty's government in the United Kingdom or any other government de jure or de facto".

The TA 2000 defines terrorism as follows:

"(1) In this Act 'terrorism' means the use or threat of action where:

(a) the action falls within subsection (2),"
(b) the use or threat is designed to influence the government or to intimidate the public or a section of the public, and
(c) the use or threat is made for the purpose of advancing a political, religious or ideological cause.

(2) Action falls within this subsection if it:
(a) involves serious violence against a person,
(b) involves serious damage to property,
(c) endangers a person's life, other than that of the person committing the action,
(d) creates a serious risk to the health or safety of the public or a section of the public, or
(e) is designed seriously to interfere with or seriously to disrupt an electronic system.

(3) The use or threat of action falling within subsection (2) which involves the use of firearms or explosives is terrorism whether or not subsection (1) (b) is satisfied.

These definitions may be relevant if terrorism is excluded but not defined in the policy, but it is common practice to include a precise definition of what is meant by the term. The most widely used terrorist exclusions, NMA 2918, 2919, 2920 and 2921, include the following definition:

"an act of terrorism means an act, including but not limited to the use of force or violence and/ or the threat thereof, of any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organisation(s) or government(s), committed for political, religious, ideological or similar purposes including the intention to influence any government and/ or to put the public or any section of the public, in fear."

This definition is (intentionally) very broad, and it is easy to see how it could overlap with SRCC cover. For example, if a group of anti-government protestors were to set fire to the offices of a government TV station during a protest then this may well fulfil the requirements of a riot or civil commotion whilst also being classed as a terrorist act per the NMA exclusions since it involved the use of force for political ends.

The scope for overlap will often be reduced by a careful analysis of the causes of the damage in question. For instance, in the example above it is clear to see how destruction of a government TV station may have a political end, but if commercial premises are looted during the same protest then it would be difficult to demonstrate that the looting itself was carried out for political reasons.

2.2. SRCC in other Jurisdictions

2.2.1. Republic of Azerbaijan

The terms "strike", "riot" and "civil commotion" are not defined as a matter of Azerbaijani law, so the courts would be likely to look to the closest equivalent definitions in the Criminal Code of the Republic of Azerbaijan, as follows.

**Strike**

The equivalent of "strike" is set out in Article 233 ("Organization of actions promoting infringement of a social order or active participation in such actions"):

"Organization by a group of persons of actions, roughly breaking a social order or connected to insubordination to legal requirements of the authority representative, or entailed on
infringement of normal activity of transport, enterprise, establishment and organization, as well as active participation in such actions."

Unlike many other jurisdictions, this definition does not limit strike actions to employment-related activities.

**Riot**

There is no direct equivalent of "riot" in the Criminal Code, so it may be labelled either as Mass disorder or as Armed rebellion.

Mass disorder is defined at Article 220, as follows:

"220.1. The organization of mass disorders accompanied with violence, breaking, arsons, destruction of property, application of fire-arms, explosives, and also rendering of armed resistance to representative of authority, or participation in such disorders.

220.2. Appeals to active insubordination to legal requirements of representatives of authority and to mass disorders, as well as appeals to violence above citizens."

Armed rebellion is defined at Article 280, as follows:

"Organization of armed rebellion or active participation in it with a view of violent change of constitutional power of the Republic of Azerbaijan or infringement of territorial integrity of the Republic of Azerbaijan".

We note that in order for the riot to fall within the definition of Armed rebellion the action must seek to overthrow the government or infringe on the territorial integrity of the country.

**Civil Commotion**

Again, there is no direct equivalent of "civil commotion" in the Criminal Code so, as with riot, it is likely to be labelled either as Mass disorder or as Armed rebellion.

**Terrorism**

Terrorism is defined in Article 214 of the Criminal Code:

"Terrorism, that is commitment of explosion, arson or other actions creating danger to destruction of people, causing harm to their health, significant property damage or approaches other socially dangerous consequences committed with a view of infringement of public safety, intimidation of population or rendering of influence to acceptance of decisions by the state authorities or international organizations, and also threat of commitment of a specified actions in a same purposes".

2.2.2. India

The terms "strike", "riot" and "civil commotion" are defined in Indian statutes, and these would be of assistance to a court in defining how the terms should be defined within the parameters of an insurance cover.

**Strike**

Strike is defined in the Indian Industrial Disputes Act 1947 as:

"a simultaneous cessation of work on the part of workmen, a body of persons employed in a trade or industry acting in combination, or a concerted refusal or a refusal under a common understanding of any number of persons who are or who have been so employed, to continue to work or to accept employment."
This wording is similar to that used in the English Employment Rights Act 1996 and, as in English law, there is no requirement of force, violence or tumult.

Riot

Riot is defined in the Indian Penal Code as:

"An assembly of five or more persons, where the common object of the persons is as follows:
(a) To overawe by criminal force, or show of criminal force, any public servant in the exercise of the lawful power of such servant; or
(b) to resist the execution of any law, or of any legal process; or
(c) To commit any mischief or criminal trespass or other offence; or
(d) By means of criminal force, or show of criminal force, to any person to take or obtain possession of any property, or to deprive any person of the enjoyment of a right of way, or of the use of water or other incorporeal right of which he is in possession or enjoyment, or to enforce any right or supposed right; or
(e) By means of criminal force, or show of criminal force, to compel any person to do what he is not legally bound to do, or to omit to do what he is legally entitled to do."

It should be noted that not all of the objects above require the use of violence, as is necessary in many other jurisdictions. Fewer people are required to constitute a riot in India than in England.

Civil Commotion

There is no statutory definition of civil commotion under Indian law.

Case law provides two definitions:

(i) “an insurrection of the people for general purpose, though it may not amount to a rebellion”; and (ii) “a phrase used to indicate a stage between riot and civil war, the element of turbulence or tumult is essential.”

The second definition is very similar to the most commonly accepted definition under English law, albeit that under English law there is no requirement for civil commotion to involve "insurrection".

Terrorism

The definition of "terrorism" under Indian anti-terrorism law is distinct from other SRCC events:

"Whoever with intent to overawe the Government as by law established or to strike terror in the people or any section of the people or to alienate any section of the people or to adversely affect the harmony amongst different sections of the people does any act or thing by using bombs, dynamite or other explosive substances or inflammable substances or lethal weapons or poisons or noxious gases or other chemicals or by any other substances (whether biological or otherwise) of a hazardous nature in such a manner as to cause, or as is likely to cause, death of, or injuries to, any person or persons or loss of, or damage to, or destruction of, property or disruption of any supplies or services essential to the life of the community, or detains any person and threatens to kill or injure such person in order to compel the Government or any other person to do or abstain from doing any act, commits a terrorist act."
2.2.3. Turkey

As Turkish law was derived from many different legal systems, the definitions of strike, riot and civil commotion are similar to those seen in many jurisdictions in the EU.

**Strike**

The Law of Trade Unions and Collective Bargaining Agreements defines strike (grev) as follows:

(1) "The expression "strike" means any concerted cessation by workers of their work with the object of halting the activities of a given establishment or of paralysing such activities to a considerable extent, or any abandonment by workers of their work in accordance with a decision taken to that effect by an organisation.

(2) Lawful strike means any strike called by workers in accordance with this law with the object of safeguarding or improving their economic and social position and working conditions, in the event of a dispute during negotiations to conclude a collective labour agreement.

(3) Unlawful strike means any strike called without fulfilling the conditions for a lawful strike"

**Riot**

There is no specific definition for riot (kargaşalık) under Turkish law. The Turkish Language Institute defines riot as "Rebellion or revolting against something not to do or to do". Riot could be likened to "Armed Uprising against the Government of the Turkish Republic" which is defined in Article 313 of the Turkish Criminal Law, but as this requires intention to overthrow the government it is questionable whether this narrow definition would be adopted by a Turkish court considering the meaning of riot in the context of a SRCC clause. Article 313 reads as follows:

(1) "Anyone who incites the people to an armed uprising against the government of the Turkish Republic shall be sentenced to imprisonment of from fifteen to twenty years. If the uprising occurs, the inciting person shall be sentenced to imprisonment of from twenty to twenty five years.

(2) Whoever directs an armed uprising against the government of the Turkish Republic shall be sentenced to life imprisonment. Any other participants shall be sentenced to imprisonment of from six to ten years.

(3) If the offences described in paragraph one and two are committed by taking advantage of opportunities provided by the state being in a state of war, strict life imprisonment shall be imposed.

(4) If other offences are committed during the commission of the offences described in paragraph one and two, they shall be punished separately."

**Civil Commotion**

There is also no specific definition for civil commotion (halk hareketleri) in Turkish law. The Turkish Language Institute defines civil commotion as "Like riot…people may come together for a common goal".

**Terrorism**

Terrorism is defined in Article 1 of the Anti-Terrorism Law as:
"Terrorism is any kind of act done by one or more persons belonging to an organization with the aim of changing the characteristics of the Republic as specified in the Constitution, its political, legal, social, secular and economic system, damaging the indivisible unity of the State with its territory and nation, endangering the existence of the Turkish State and Republic, weakening or destroying or seizing the authority of the State, eliminating fundamental rights and freedoms, or damaging the internal and external security of the State, public order or general health by means of pressure, force and violence, terror, intimidation, oppression or threat.

An organization for the purposes of this Law is constituted by two or more persons coming together for a common purpose. The term "organization" also includes formations, associations, armed associations, gangs or armed gangs as described in the Turkish Penal Code and in the provisions of special laws."

2.3. Relevant Law of the Policy

It is clear from the above that the meaning of the words strike, riot and civil commotion varies depending on the law of the policy. As many SRCC policies are written as facultative reinsurances it may be helpful to include some comments about which law and jurisdiction should be taken into consideration.

Under English law, the terms in a facultative reinsurance contract, particularly those relating to coverage, will in general be construed as to be consistent with the terms of the underlying insurance contract, i.e. 'back to back'. In simple terms, the position under English law is that the coverage status is determined by the law of the primary insurance. Thus, where the insurance contract and the reinsurance contract are subject to different choices of law, the locality chosen in the insurance contract will most likely prevail in relation to the consideration of risk.

By way of example, if a SRCC insurance is subject to Brazilian law and the reinsurance is subject to English law, with the rest of the terms identical, then the Brazilian law interpretation of the SRCC clause will determine coverage under both the insurance and the reinsurance.

With this in mind, if possible, it is best to stipulate the same law and jurisdiction (i.e. English or German Law for example) in both the insurance and reinsurance contracts.

In some jurisdictions, for example in Mexico, it is mandatory that insurance policies for risks located in that jurisdiction are governed by local law. In this case, it is recommended that research is conducted on the local law in advance of placement to understand its effect on the meaning of terms. If possible, express definitions should be included of any key terms and underwriters may also wish to set out the consequences of breach.

2.4. Right of Cancellation

Many SRCC clauses, including the Munich Re clause mentioned above, contain a provision giving underwriters the option of terminating the cover prior to expiry of the policy. This is useful if the political situation of a country is deteriorating.

Clauses such as this are valid as a matter of English law, however other jurisdictions may limit this right of cancellation.
Under Australian law for example, Section 60(1) of the Insurance Contracts Act permits the insurer to cancel a contract of general insurance only where the insured has failed to comply with a provision of the contract or with the duties of utmost good faith/disclosure. If such a breach has not occurred, a purported cancellation is deemed to be of no effect.

In the United States, many States regulate cancellation or non-renewal of an insurance policy, by:

a. requiring that insureds receive timely notice of cancellation or non-renewal (to allow them sufficient time to obtain a new policy); or

b. prohibiting cancellation in the absence of certain triggering events (for example, non-payment of premium, fraud or misrepresentation in procurement of the policy, and material change in risk).

Thus, where the law of the original policy is not familiar, research should be done on the legal formalities in relation to the right of cancellation in order to ensure that any purported cancellation is effective.

Last but not least, the main reason for the cancellation of an engineering policy is when a material change of risk applies. But the problem of measuring this kind of risk change when talking about SRCC still remains open.

3. Risk evaluation process

Engineering insurance underwriters evaluate the risk and exposures of a construction or erection project in order to decide if to accept the risk and determine the exact scope of cover and define applicable exclusions.

The evaluation of SRCC exposure can be very difficult as this not a “hard facts” exposure like fire or cat exposure but proves to be rather subjective and follows its own momentum.

Example: an apparently standard civil project like a train station can be subject to severe objection and protests (e.g. Stuttgart 21, Germany).

This chapter aims to provide basic guidance on characteristics which can be used in order to identify projects with potentially increased SRCC exposure ultimately assisting the underwriter in determining:

- If a SRCC potential does exist
- What the main triggering factors can be
- The potential data sources which can be used during underwriting of the risk.

3.1. Specific and General Characteristics

The characteristics leading to a SRCC exposure can be categorized by a number of specific and general characteristics:

1. Project type characteristics – Objective and subjective characteristics relating to the project’s nature, if the activity of the project itself is seen as a threat, such as hydro power projects, mining projects, chemical plant, “NIMBy” (Not In My Backyard) and others. Some sites are extremely difficult or impossible to secure, such as a hydro-electric project site, that typically covers several square kilometers. Spatially distributed projects such as pipeline laying, transmission lines etc., will have probably site stretching for several hundred kilometers making them impossible to secure. However a single
plant site can be much better secured. A secured single site will likely have better risk exposure from a SRCC perspective compared to sites that are far flung with no security infrastructure. The co-ordination of site security with local law enforcement agencies is another important consideration.

2 Environmental characteristics – Objective and subjective characteristics such as project induced pollution, (air, water, soil, nuclear), change of landscape and parks (oceans, rivers, soil, wilderness, deforestation, fauna, flora), fish and wildlife endangerment or loss of habitat.

3 Economical, social, government and political characteristics – Mostly subjective characteristics which relate to economic, social, government or political environment at the location where the project will be carried out. Examples may be corruption, lack of transparency, disputes over land rights, displacement of communities, repression of workers’ unions and others.

4 Location characteristics – the location of the project in proximity to rural or populated areas, borders or other structures.

The underwriting process is proposed to follow a path of three principal questions:

1) Is the project’s type amongst the ones “traditionally” exposed to SRCC?

2) Will the project have any negative environmental impact?

3) Is the location/country subject to economic, social, government/political or other specific location exposures?

4) Has the owner of the project considered the SRCC potential/planned adequate security measures?

The following table presents examples of possible specific and general characteristics that may lead to a SRCC event.
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### Characteristics

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<td>Distance to other buildings and their natures (governmental, religious, production, others)</td>
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</table>

### 3.2. Data sources

Finding applicable underwriting information data on SRCC exposures can be the most difficult part of assessing the risk correctly.

The process of acquiring and assessing reliable information involves multiple steps such as (a) finding the data, (b) sorting it out, (c) bringing it in the right format, and (d) assessing the exposures.

Following, a list of useful sources and public websites used by students, faculty, researchers, business people, journalists, and other around the world can be found, which can assist in the exposure assessment process.

Obviously, needs vary from one project to another; however, this serves as a best practice advice to start with.

### 3.2.1. In-house data

The first place to look for data is in-house. In many cases, SRCC is not a new exposure and information may be found in the company's own data sources, such as claims and market managers.

The claim manager should be in a position to provide useful data on the market claims experience, exposures, loss adjusting and claims handling.

The regional market manager should be in a position to provide similar information, as well as common market practices, wordings and exclusions.
3.2.2. Underwriting information

The project’s description and underwriting information provided with the insurance request can be another useful source of information. Should the survey not include necessary information (inter alia description of the nature of the risk and prevailing exposures), additional information is expected to be requested from the underwriter.

3.2.3. Project’s type

As already indicated in the table of §3.1, the nature of the project might be an early indicator of SRCC exposure.

For instance, uprooting of forests through logging or burning in order to enable building in the area etc. might arouse the objection of institutions and organizations that could even lead to the cancellation of a project or to future damages.

Wikipedia provides a list of environmental organizations by organization type (inter-governmental, governmental or non-governmental) and further subdivided by country.


3.2.4. Location

The location of a project may have a great influence and can be an additional early indicator of SRCC exposure.

The project’s proximity to natural reserves, plants, third party properties or religious sites or politically related buildings and institutes is a significant factor, potentially increasing the exposure. A "safe" distance from the above sites should be considered, depending on the extent and type of the construction, be it 500 meters or 5 kilometers or 50 kilometers.

A common place to start with are the various free satellite imagery providers (such as Google earth, Bing maps, MapQuest, openstreetmap, marble or other local country maps).

In order to easily spot residential areas a useful option is to view the construction site’s area by night at google-earth-night or night earth.

It is worth mentioning that Google also offers various topic maps at http://maps.google.com/gallery?hl=en including maps regarding (search function on top of the page has to be used):

- 2011 unrest (protests, riots, etc.)
- 2012 world riots
- UNRP Environmental change hotspots
- Natural earth deltas
- Natural earth deserts
- Chemical weapons munitions dumped at sea
- Rivers and lakes centerlines
- North America Forests
- Global rocket launch sites
3.2.5. Government and political environment

Political instability increases the likelihood of having demonstrations, human rights violations, police brutality, other forms of violence, workers' strikes, and can also be measured in terms by the expectancy/probability of the government collapsing or not.

Political stability depends on the government's legitimate use of physical force. If the government cannot ensure the basic services it should provide to its' people, such as security and the possibility of procuring food and shelter, it loses the power to enforce laws and political instability ensues. Political instability is associated with the concept of a failed state, thus at some point of time, social unrest & terrorism should be predicted and considered.

Risk Advisory - Provides a map that measures political violence and terrorism risks in 200 countries and territories, to help companies assess their risk exposure. The overall country risk scores are weighted to accommodate a range of violent political risks, indicated as peril icons on the map: Risk Advisory - 2013 Terrorism and Political Violence Map
Data.gov - is a resource for government-related data. It claims to have up to 400,000 data sets, both raw data and geo spatial, in a variety of formats.

Socrata is another place to explore government-related data, with some visualization tools that make exploring the data easier.

The UN and UN-related sites like UNICEF and the World Health Organization are rich with many types of data, from mortality rates to world hunger statistics.

The U.S. Census Bureau logs and provides statistical data concerning income, race, education, population and business in the USA. Similar public entities providing such data can be found in a lot of countries around the globe.

The International Trade Union Confederation (ITUC) keeps a data base of violation of workers’ rights and updates regularly a so-called Global Rights Index. By their own words the index “…provides information on violations of the rights to freedom of association, collectivebargaining and strike…It assesses compliance of national legislation with international standards and exposes practices by giving specific case examples of trade union rights violations which have occurred in a particular country…”.
3.2.6. Economic environment

Economic instability refers to a community or nation experiencing financial struggles, due to inflation, consumer confidence issues, unemployment rates and rising prices. Economic instability affects businesses' ability to thrive, the cost of living and the physical, emotional and financial well-being of consumers and families, hence should be considered as a crucial factor when assessing SRCC exposures.

The Organisation for Economic Co-operation and Development (OECD) provides a forum in which governments can work together to share experiences and seek solutions to common problems. The organisation works together with governments to understand what drives economic, social and environmental change. It measures productivity and global flows of trade and investment, analyses and compares data to predict future trends, sets international standards on a wide range of things, from agriculture and tax to chemical safety.

The International Monetary Fund (IMF) is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty around the world. Significant information regarding economic well-being and stability of various countries around the globe can be found on the IMF’s site.

The World Bank is a vital source of financial and technical assistance to developing countries around the world. Obviously, this is not a bank in the ordinary sense, but a unique partnership aimed at reducing poverty and supporting development. The World Bank Group comprises five institutions managed by their member countries.

3.2.7. Social environment

Social unrest, can lead to outbursts of violence, strikes and riots. This, of course, is mostly an outcome of the current situation in the area, as well as the level of education of the locals, unemployment rates, inflation, corruption and of the way organized forms of collective behavior develop. In general, the incapacity of traditional political representation to deal with the new and unheard of demands of a changing society is the underlying factor creating most forms social unrest.

In order to evaluate the exposure regarding the social environment, we suggest the examination of educational level, investment of the government in human development, health insurance, crime percentages which can be found available on the internet. Plosone provides a wide range of data with regards to social instability and social unrest. Please see the model below, marking the number of incidents in several lands.

The Global Economy enables the comparison between countries by endless criteria. Below is a comparison of investment in human development.

Last but not least, the World Bank provides graphs, maps and compares more than 1,000 time series indicators from the World Development Indicators and more than 5,000 indicators from other collections such as Gender Statistics, African Development Indicators, and Education Statistics.
4. **Coverage / UW considerations**

4.1. **Wording definition**

As the general principle of a modern “All Risks” policy is that all perils are covered unless specifically excluded, it should be considered that SRCC is automatically covered on a full value basis with an unlimited number of reinstatements unless otherwise excluded. In specified perils policies the coverage will need to be extended to include SRCC.

A common example of an SRCC extension is Munich Re Endorsement 001 (See Annex 1). Essentially, the aim of the endorsement is to cover:

- Riot damage
- Damage caused by the action of strikers.
- Damage arising out of Civil Commotion. This is rarely defined in the policy wording (See 3.2.3)
- Damage incurred by any legally constituted branch of the government in attempting to end or suppress a strike, riot or civil commotion.

However, it is not the intention to cover:

- DSU. If it is the intention to specifically exclude DSU from SRCC cover this should be referenced under the DSU section as well.
- War, invasion, insurrection etc.
- Temporary dispossession.
- All non-physical damage related issues arising from socio economic phenomena.

4.2. **Limits - Section 1 only (section limit vs policy/event limit)**

**Basic Principle:** As a general guidance the structure of the policy must be in a way that it is clear to all parties what the underwriting and coverage intent of the policy is.

**Limit on policy or on sections:** Is the coverage limited to: Section 1 (works) only or does the limit apply to all sections of the policy (TPL, ALOP/DSU, contractors’ plant and machinery, existing property)?

**Monetary limit?** Does the limit comprise the sum insured of the completed works, the sum of all section limits or is there a sublimit (per section of per policy?) in place? In the case of a linear risk where a section’s clause is applied (e.g. Roads, Pipelines) it should also be clear if the SRCC limit applies to full contract value or whether the sections clause applies.

**Reinstatement of the limit:** Does the limit apply per event, in the aggregate, per year, per section or per claim? In case of reinstatement is there a reinstatement premium?

4.3. **Time and area clauses (72 / 168 hrs?)**

If coverage is defined “per event” there must be a definition of “event” incorporated in order to clarify the underwriting intent.

**Area clause:** While on a single project policy the area of coverage is mostly straightforward (e.g. the construction site) there might be cases where an area limit makes sense (e.g. for
open covers of contractors or of large area construction schemes) to limit the scope of coverage area wise (e.g. one district, within 20km radius, within one municipality, etc.).

**Time clauses:** Similar to the coverage of natural perils there must be a time limit if there is a “per event” coverage for SRCC in order to avoid coverage for a “never ending” event. This provides at least in theory a cut (although there are issues with the practicality of the hours clause when it comes to loss adjusting).

4.4. **Special Considerations if SRCC is extended beyond Section 1 (works) cover:**
First find out what the intent of SRCC coverage is: Do not rely on the assumption that SRCC only applies to Section 1 coverage!

4.5. **CPM / Camps & Stores**
It seems that particularly construction machinery is often affected when it comes to SRCC type claims. There are a number of possible explanations to this observation: Machinery is needed for the site preparation at the very outset of nearly any (controversial) project. Machinery can easily be associated with construction. Machinery burns relatively well and once it burns makes impressive footage for whatever form of publicity. For these reasons consider additional SRCC cover for machinery as more exposed to damage than the pure works’ portion. Camps and stores are particularly at SRCC-Risk at big sites in remote locations. Depending on working conditions, remuneration, safety, culture and social (in-)competence of the contractor handling the site labor, related disputes might get out of hands easily and the mostly temporary housings and camps are usually built with flammable materials.

4.6. **SRCC for Motor vehicles with number plate but (primarily) used on site**
Special case of CPM cover. Make sure at underwriting if these vehicles are included as machinery in the coverage (e.g. buses used to transport workforce from camp to site) and if SRCC is extended to these vehicles. As meeting point for large groups of workers labor related conflicts might start right in or next to transport buses.

4.7. **DSU**
DSU coverage as such is already complex (see e.g. IMIA WGP34 2013) to assess and information available at underwriting is often very limited. If SRCC coverage is extended to cover DSU (will say an SRCC event might trigger DSU) there are some additional complications: The business plan for any project bases on some socio-economic assumptions. It may well be that those assumptions change significantly during project construction and have a big impact on the business plan and the gross profit calculations (as a basis for DSU). On what basis should the adjustment be done? The basis for Delays out of SRCC events arise usually out of two sources: Time lapse until SRCC is over and site can be safely accessed again and works may be resumed and secondly the actual repair/replacement time for the caused damage. What about the potential DSU claim in the case a project will be abandoned due to SRCC? How does the cancellation of project interact with a DSU claim due to SRCC? Above considerations hint that DSU in connection with SRCC relates much more to uncertainty and less to risk (see IMIA WGP 77(12)).

Travel clause – In certain circumstances governments recommend that their nationals do not travel to an area. This could be especially relevant in the event of a DSU loss – where loss mitigation works might be impossible due to travel impediments.
4.8. TPL
TPL coverage triggered due to a SRCC event: Scenario: SRCC on site trigger consequential damage. A precondition of a TPL loss is the existence of adjacent property. A scenario which may produce a TPL loss is tenuous but still exists; e.g. construction machinery is set on fire and fire sparks drift on to a neighboring building.

Alternatively it could be argued that bodily injury could occur where the Insured has been negligent in handling strikers or allowing rioters access to the site. Again, this is quite a tenuous scenario.

4.9. SRCC & Political Risks / Political Violence Insurance
When offering SRCC underwriters should also consider the possibility that the perils covered under the Engineering policy may be covered elsewhere. A common example of this is Political Risks / Political Violence which will cover expropriation, nationalization and, in some circumstances, terrorism and SRCC.

As such, where underwriters perceive that there is a high risk of SRCC exposure they should ask:

- Is SRCC covered elsewhere?
- If so, do the respective policies contain contribution clauses?

Does the policy that the underwriter intends to offer contain a Primary Insurance clause? If this is the case it may override any principle of contribution and push the entire risk back on to the Engineering policy.

A Political Violence wording example (Beazley):

Physical loss or physical damage…in respect of which the Insured has purchased cover as specified…:

1. Act of Terrorism;
2. Sabotage;
3. Riots, Strikes and/or Civil Commotion;
4. Malicious Damage;
5. Insurrection, Revolution or Rebellion;
6. Mutiny and/or Coup d'Etat;
7. War and/or Civil War.

Which goes on to say that in circumstances where more than one insurance policy exists:

“This Policy does not indemnify any loss or damage which at the time of the occurrence of such loss is insured or would, but for the existence of this Policy be insured by any other policy or policies”

In the event of a loss, where the Insured was covered under both an Engineering and Political Violence policy such as the above, there will be inevitable conflicts as to which policy responds.
4.10. Use of Cancellation Clauses

**Aim of the Cancellation Clause:** The cancellation clause gives insurers the chance to react against social changes during the course of a (multi-year) construction/erection policy. More recent examples show that SRCC exposure might change rapidly, for example the escalation of the 2011 Arab Spring. This means that the level of SRCC exposure at the underwriting phase was assessed and priced on the basis of a different exposure. Moreover a cancellation clause aims to limit the number of SRCC claims and the extent of SRCC coverage in the case of long duration and widespread SRCC events (note that if nothing else is stated in the policy there are unlimited reinstatements of coverage provided e.g. an aggregate SRCC limit, non-reinstatement clause).

**Definition of Cancellation:** A clause in an insurance contract which permits an insurer and/or an insured to cancel the contract before it is due to expire. The clause may provide for a return of premium in respect of the unused portion of the policy.

**Possible cancellation wording:** Where there is no specific SRCC cancellation clause underwriters may consider using a specific one for SRCC. An example is the Institute Marine Cargo cancellation clause (CL271) which can be amended to state “SRCC” rather than “War” as the subject:

“The cover against SRCC may be cancelled by either the Underwriters or the Assured...Such cancellation however shall only become effective on the expiry of 7 days from midnight of the day on which notice of cancellation is issued by or to the Underwriters.”

However, it should be noted that there are some possible issues with taking this approach, namely:

- Where a client has paid for cover and is relying on it in the case of an SRCC event is it fair for insurers to have the power of cancellation? Alternatively, where SRCC events are ongoing does this make a loss foreseeable and therefore not the true subject of an insurance policy?

- Where a Return Premium is payable how much should be returned? The example from Munich Re (above) states that this should be a “rateable proportion for the unexpired period”. Traditionally, and unlike terrorism insurance, the premium for SRCC is included in the overall Contract Works premium.

- As such, should insurers be making clear what the SRCC premium is so that, in the event of cancellation, an appropriate amount is paid back to the insured?

4.11. SRCC in Annuals

Due to the practice of EPC contractors operating on a global level, often turnover or declaration based policies on global basis are signed (global programs). How SRCC exposure can be addressed in such programs under the master policy is a matter to be considered on a per-case basis. An option would be to cover it but not on an automatic cover basis (at least not worldwide) or to apply limits (annual aggregate, per occurrence).
4.12. SRCC Underwriting Considerations’ Workflow

SRCC Underwriting Cheat Sheet

All Risk Policy?

SRCC Clause?

Yes

SRCC Clause?

No

Event Definition?

Limit Provisions (per event, aggregate limits)?

Cancellation Clause?

Yes

SRCC Premium Split out?

Yes

Clear Return Premium

No

Lack of Clarity

Concurrence with other policies defined?

Covered Sections defined?

Yes

*Standard* Section 1 cover only

No

Assume your policy will respond first!

Additional Sections covered (DGU, CPM, TPL...). Additional exposure analysis? Refine wording?

No

Coverage not clearly defined!

Yes
5. Risk monitoring – Risk surveys

As works progress throughout the lifetime of a project’s construction, it is not uncommon for changes to the design, schedule, way of execution and/or value to find place. Therefore, it is considered beneficial for the Underwriters to have regular updates concerning these changes in the form of risk engineering reports.

Most usually, such risk engineering reports are elaborating on technical issues, inter alia: on the project’s progress / completion rate, quality management procedures, security measures and changes in the design/schedule.

However, given the mutable nature of SRCC risk potential and the long construction period of the majority of large engineering projects, it is worth making considerations in respect of changes to the potential of an SRCC loss as well. One point to be considered during a risk inspection is if the project owner and/or the constructor are implementing a Corporate Social Responsibility program (CRS-p). In brief (according to the European Union’s CRS 2011-14 strategy; COM(2011) 681 final) CRS is defined as “the responsibility of enterprises for their impacts on society”. Further on, it is defined that major prerequisites for meeting the standards of CSR are (a) respecting legislation, and (b) collective agreements between social partners to be achieved.

When thinking of the insurance aspect of large construction projects, it is important to ensure that a CRS-p does not get exhausted prior to the commencement of construction and that it is updated according to the changes (a) applied to the project’s scope of works & schedule and (b) in the socio-economic environment.

Principally, the two aforementioned main factors may contribute individually or cumulatively to elevated potential of an SRCC event. Both are hereinafter analyzed.

5.1. Consideration of changes to the project itself

Material changes and/or prolongation of a project and/or changes in the working conditions within the project may affect the workers’ or the public opinion against it and -potentially- give rise to strikes or even riots.

Therefore, the risk engineer’s and the underwriter’s experience is very important in order to identify which changes to the project may lead to social/public unrest. This can only be achieved when the risk engineer and UW are closely monitoring the project and have also the chance to speak with the workers and native population/locals during their risk inspections.

Following 5 fictional case examples are indicatively mentioned:

5.1.1. Dam redesign

Project: HEPP & Dam

Short description: In year 2008 the discussion for the construction of a dam in a mountainous region has started. The water of the nearby river would be diverted for some kilometers through a tunnel and a large area was planned to get flooded by the dam’s reservoir.

Prior to the construction’s commencement, the government and the construction company set a corporate social responsibility program into force in order to inform the public about the advantages of the dam to
the local community as well as about the expropriations and relocations that would be needed. Tensions arose, but finally, after a lot of local previously unemployed personnel were hired as workers, the project started in 2010.

In 2011 and after conclusion of the detailed geotechnical investigation, the dam had to be redesigned, thereby leading to the enlargement of the area to get flooded and -consequently- to longer diversion roads/travelling times for local inhabitants.

Potential SRCC causes:
- Local inhabitants protesting against the new expropriations/constantly changing design of the dam.
- Local inhabitants protesting against relocation
- Local inhabitants protesting against longer travelling times to reach their homes/enterprises.
- Unemployed people finding a new motive to protest / request for getting a job.
- Environmentalists protesting against unexpected increase in the project’s environmental impact.

5.1.2. Port facility redesign

Project: Port facility

Short description: In 2008 it was decided for a small port on a touristic island to be expanded in order for larger cruise ships to become able to dock. After the initial concerns of the opposing minority in the municipality council were overcome, the construction started in 2009. It was expected that the construction would last from October 2009 to June 2011, thereby affecting only one tourist season.

In 2010 and following the new elections, the once opposing minority gained power and became majority in the city council. At the same time, it was discovered that the ground consolidation for the breakwater’s extension would last 14 months longer than expected (thereby affecting 2 additional tourist seasons than expected) and that the morphology of the nearby located sandy beach (touristic area) started to change due to the breakwater’s extension.

Potential SRCC causes:
- Local inhabitants protesting due to income reduction caused by the extended period of construction.
- Local inhabitants/Environmentalist protesting against the environmental impact of the nearby sandy beach.

5.1.3. Cessation of Metro construction prior to final delivery

Project: City Metro construction

Short description: In 2000 the construction of a much awaited metropolitan city metro started and according to the initial planning should be completed by 2006. The project has been substantially delayed by land expropriation
problems, significant archeological discoveries which have been responsible for delaying the project for up to six years or more.

In many occasions, and due to restrictions in the areas available, the impermeable fences for the construction sites for the stations were located not more than 3 meters away from the stores and building entrances of the city’s center.

In the course of the construction several claims were made due to cracks to buildings located in the vicinity of the works, as well as due to flood issues attributed to the existence of various worksites throughout the city center. These claims, however, did not affect the CAR part of the policy which was running almost claims-free.

Additionally, due to problems in the financing of the project, a lot of employees got fired and finally the Construction Joint Venture stopped all construction activities in 2012.

Potential SRCC causes:
- Local shop owners protesting due to income reduction caused by the extended period of construction.
- Local inhabitants protesting for the damages caused to their homes due to the prolongation of the construction period (restrictions in accessing their properties).
- Workers protesting/going on strike.

5.1.4. Highway

Project: Highway/Toll road construction

Short description: In 2006 a new highway was decided to be constructed in order to connect two major metropolitan areas (A + B) located several hundreds of km away from each other. Approx. at the middle of the project a mountainous region exists and two options are available: either to bypass the mountains from the northern side, where a small city of 50,000 inhabitants is existing (C) or from the south where a similar city is located (D).

Due to the expected positive financial effect from the new highway’s construction, cities C and D are “fighting” against each other in order for the road to pass close to their region. However, when the locals
discover that access to the highway is going to be achieved only after paying a high toll price, controversial opinions are formed within the population.

Potential SRCC causes:
- Local inhabitants protesting against alignment of the road.
- Local inhabitants protesting due to the fact that workers are hired mostly from one municipality. Unemployed people request for getting a job.
- Local inhabitants protesting against high price of tolls.

5.1.5. Building complex

Project: Building complex

Short description: In 2010 an investment company decided to build a new building complex intended to be used as a shopping center (or school or community center, etc.). After construction has begun and due to the drop in lease prices because of the financial crisis, the financial model changed and the owner of the project sought for alternative candidates to lease the building to.

Finally, a big oil company (or hospital, or Inter-governmental organization, etc.) decides to lease the building on a long term basis. The space which was initially intended to be used as a theme park, free and green area is now going to be used by the new lessee as a parking lot.

Potential SRCC causes:
- The building is now becoming a landmark/target for protesters / activists demonstrating against the financial crisis.
- Local inhabitants protesting against the new use of the building.
- Environmentalists protesting against the increase in the project’s environmental impact.

5.2. Government (political), financial and social changes.

With the worldwide financial and political environment being nowadays quite fragile, even minor economic / social changes and/or political decisions my lead to an outburst of public outrage.

Following factors and possible abrupt changes in their rating are proposed to be considered by the risk engineers and UWs. Ranking of these factors is expected to be considered for the premium rating of SRCC, whereas risk engineers could search for and identify significant changes to the ranking within a project’s lifetime.

5.2.1. Governance indicators

According to the World Bank (see also www.govindicators.org) the following factors fall within this category:
Voice and Accountability:
Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

Political Stability and Absence of Violence
Reflects perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.

Government Effectiveness:
Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

Regulatory Quality
Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

Rule of Law
Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

Control of Corruption
Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.


5.2.2. Financial Indicators
The complete academic analysis of financial indicators delineating the economic stability of a country/region goes beyond the scope of the present paper; however, abrupt or constant
negative changes to the following factors are understood as indicating potential increase of social unrest, thereby also increasing the risk of a SRCC event.

- **Gross Domestic Product (GDP) + GDP per capita,**
  is defined by the Organisation for Economic Co-operation and Development (OECD, [https://stats.oecd.org/glossary/detail.asp?ID=1163](https://stats.oecd.org/glossary/detail.asp?ID=1163)) as "an aggregate measure of production equal to the sum of the gross values added of all resident, institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs)".

  Negative or low positive values are indicating a slowdown whereas high positive ones may be showing unsustainable growth.

- **Inflation (Rate of increase of various price indices)**
- **Household Income**
- **Household Debt**
- **Household Consumption**

### 5.2.3. Social Indicators

Undoubtedly, one can argue about the boundaries between social, financial and governance indicators as being indistinctive. Indeed, several attempts have been made in terms of distinguishing the limits and defining what should be understood by the term "social indicators".

Two following major systems are described:

- **The Human Development Index (HDI, published by the United Nations Development Programme, see also:** [http://ec.europa.eu/environment/beyond_gdp/indicators_social_en.html](http://ec.europa.eu/environment/beyond_gdp/indicators_social_en.html)), which is a composite statistic of life expectancy, education, and income indices used to rank countries into four tiers of human development.

  - **Poverty prevention; including rating of:**
    - total population/children/seniors living at risk of poverty or social exclusion
    - Population Living in Quasi-Jobless Households
    - Severe Material Deprivation (total population / children / seniors)
    - Income Poverty (total population / children / seniors)
  - **Equitable education; including rating of:**
    - Education Policy(Qualitative)
    - Socioeconomic Background and Student Performance
    - Pre-primary Education
    - Early School Leavers
  - **Labor market access; including rating of:**
    - Employment Rate
    - Older Employment
- Foreign-born To Native Employment
- Employment Rates Women / Men
- Unemployment
- Long-term Unemployment
- Youth Unemployment
- Low-skilled Unemployment
- Temporary Contracts
- In-work Poverty
- Low Pay Incidence
- Social cohesion and non-discrimination; including rating of:
  - Social Inclusion Policy
  - Gini Coefficient (representing the income distribution of a nation's residents)
  - Non-discrimination Policy
  - Seats in Parliament held by Women/Men
  - Integration Policy
  - NEET Rate (Not in Education, Employment or Training)
- Health; including rating of:
  - Health Policy
  - Self-reported Unmet Needs for Medical Help
  - Healthy Life Expectancy
  - Health Systems’ Outcomes
  - Accessibility and Range
- Intergenerational justice; including rating of:
  - Family Policy
  - Pension Policy
  - Environmental Policy
  - Greenhouse Gas Emissions
  - Renewable Energy
  - Research and Development Spending
  - Government Debt Level
  - Old Age Dependency Ratio.

6. **Loss management**

6.1. **Preparing for a SRCC Loss**

This section will focus on the management of a SRCC loss. One of the main aspects of the management of any loss is the analysis, as to whether the suffered loss is caused by an event which is covered under the policy. This approach is equally valid for a loss caused by a SRCC event. It is therefore important to commence the loss management section of this Paper with the underwriting process, as the words in the policy set the basis and framework for loss management and mitigation.
6.1.1. SRCC risk considered by underwriter?

As part of the underwriting process the underwriter will consider coverage for SRCC. Dependent on the location and nature of the project the underwriter will categorize the SRCC risk (see Chapters §3 and §4 of present Paper). If the SRCC risk is assessed to be higher than average, special attention should be given to the SRCC section, irrespective of whether one is dealing with an inclusion or exclusion of SRCC, or parts thereof. Consideration of the SRCC risk is the first step in accurately reflecting the underwriting intent in the policy.

6.1.2. Underwriting intent reflected in policy?

The underwriter should ensure that his intent is accurately reflected in the policy wording. What may sound like a relatively easy task can be challenging. The underwriter will know the standard market clauses and can use these to either include or exclude cover for SRCC.

However, an accurate reflection of the underwriting intent becomes more difficult if wordings and clauses are used which do not define SRCC. While an underwriter may understand that a specific set of circumstances amount to a SRCC event, that understanding does not necessarily have to be shared by the insured or broker when the risk is written. If the relevant SRCC terms are not defined in the policy there is potential for conflict after the loss event has occurred.

The potential for conflict is especially prevalent when the underlying policy is subject to local law, which may have a completely different understanding as to what constitutes a SRCC event, compared with e.g. English law. Frequently local legislation or custom require the application of local law in the local policy. Please see Chapter §2 of the Paper for a more detailed explanation of the consequences of agreeing local law in the local policy.

6.1.3. The right policy for the right risk?

During the underwriting process the insured needs to consider what risks his project is exposed to and whether, and if so how, insurance protection against these risks should be purchased. Certain risks, such as SRCC, or parts thereof could form part of the cover of a standard construction policy. However insurers also offer special "political violence" cover, which is usually wider than "standard" SRCC cover. If such policies are taken out the insured should have a clear understanding of the specific cover of each policy and its delineating factors. Double insurance for the same event should be avoided. To deal with potential conflicts between the covers, the policies should contain appropriate wording.

6.2. What measures can/ should be taken once a SRCC event occurs

Usually an insurer is informed of circumstances which may constitute a loss by the insured or broker. This also holds true for a SRCC event. When the insurer is informed of the SRCC event answers to a number of questions such as: (1) What is the loss?, (2) How was it caused?: (3) What are the consequences?: (4) How much will it cost? will be of immediate concern.

6.2.1. Securing of evidence

The basis for answering any of these questions is to obtain an understanding as to what is happening on the ground and to secure the relevant evidence.

The nature of a SRCC event means that getting a clear picture of the situation on the ground can be difficult. In an ideal scenario the insurer will have discussed a potential SRCC event prior to the inception of the policy with the insured and have put in place a claims process, which can then be executed. Unfortunately the reality is frequently different.
The insurer will need to appoint a loss adjuster, who himself or through other service providers, can make sure that access to the site is obtained. It is then his task to collect contemporaneous information which will assist in evaluating the loss. If the relevant information is not gathered at site contemporaneously, it is likely that it is forever lost.

To ensure that relevant information is collected to answer coverage and quantum questions it is critical that the service provider has an understanding of the project and what information the insurer requires. Precise communication between the insurer and the loss adjuster is relevant and his scope of work needs to be clearly defined.

In a SRCC scenario, even more so than during the adjustment of other losses, there is a very strong reliance on the information collected by the service provider. Frequently loss adjusters are named in the policy. Hopefully the insured and the insurer have given appropriate consideration prior to inception of the policy to ensure that the named loss adjuster has the requisite skill set to adjust a SRCC loss.

6.2.2. Lines of communication

As mentioned at the outset of this section, the policy sets the parameters for the analysis and the adjustment of a loss. The terms of the policy may also regulate the lines of communication in an event of the loss. In the majority of cases the policy is not very prescriptive in this respect. However claims protocols, which have become more popular in some markets, may in fact deal with the lines of communication in a loss scenario (see IMIA Working Group Paper 83(13) §6 on claims protocols).

Irrespective of the terms of the policy it is the Working Party's opinion that it is invaluable to open the lines of communication with the insured at the outset of the loss event. All parties concerned must understand the loss management plan and, in particular, the information that is required to determine coverage and quantum. All too often a misunderstanding between the insured and the insurer about the information that is required to determine coverage and quantum creates a potential for conflict.

In order to obtain this information the loss adjuster will depend on the cooperation of the insured. The insured has to understand that his cooperation is imperative in the adjustment process. Only with the assistance of the insured will the loss adjuster have access to the relevant information and be able to evaluate it and pass it on to insurers.

On the basis of the information provided by the loss adjuster the insurer will have to make a determination on coverage. Insurers are ultimately reliant on the flow of information and the cooperation of the insured. If the risk is placed through a broker, the broker has an important role to play in educating (if necessary) the insured as to what is required of him and assisting him in providing the necessary information.

6.3. Loss Mitigation

Loss mitigation should be standard procedure for any loss event. Please see IMIA paper WGP 83(13) on loss mitigation.

6.4. Examination of Coverage

6.4.1. Cause of loss?

To determine the cause of a loss and more importantly, whether it is covered under the policy, the factual circumstances surrounding the loss need to be examined.
The importance of the flow of information has been dealt with above. This information should contain the details of the factual matrix which caused the loss. In a SRCC scenario it can be very difficult to get a clear picture as to what is actually happening on the ground and therefore, the more detailed the information, the better.

It is then the responsibility of the insurer to determine whether the facts which lead to the loss are covered under the policy. Reference will need to be made to the policy which sets out whether SRCC is covered under the policy and which limitations or extensions apply.

The importance of the quality and detail of the information provided becomes apparent when considering a scenario where physical damage and theft of insured property occurs. While simple theft may be insured, this may no longer be the case if the theft is only the consequence of a potentially excluded riot. Reliance will have to be placed on the information provided to determine whether the loss was caused by the theft or the riot, to subsequently determine coverage.

Similarly two policies, a standard construction policy with SRCC cover and a special “political violence” policy may have been taken out. It can mean that an event may be covered under one policy, but not the other, or in fact both.

This analysis leads to the question: "What is the proximate cause of the loss?" English law has substantial case law and commentary on this subject, but it is not within the scope of this paper to examine this here. Suffice to say that in different jurisdictions these words have different meanings and that both the insurer and insured should understand what they mean remembering to apply the law of the policy.

6.4.2. An evolving event?

An event (or even series of events) can be very fluid in nature. Although the initial cause that has triggered a SRCC event may be clear, the actions that follow can change over time. Potentially this has an impact on whether a loss resulting from specific actions are covered under the policy or not.

This type of situation was experienced following the assassination of Benazir Bhutto on 27 December 2007, which acted as the catalyst to widespread rioting. Although the assassination, which was proven to be caused by the bomb blast was an “act of terrorism”, the issue remained whether the subsequent damage caused by her supporters were part of the same cause. In such situations it is important to look at the policy wording to determine whether losses which follow are considered part of the original event and whether the chain of causation has been broken.

The events that followed the assassination of Benazir Bhutto were unique, in that it was relatively easy to distinguish the terrorist bomb blast that caused Ms Bhutto’s death from the widespread damage that followed. However, often in such events where there is a breakdown of law and order, it will be very difficult to identify which damage was caused by a potentially covered civil commotion and which damage was caused by the potentially not covered civil commotion amounting to the proportions of a popular uprising.

Loss adjusters will frequently not be able to travel to the locations until the danger has abated and in most countries CCTV footage will be few and far between. In this period it is important to constantly monitor local news channels and social media sources. Social media sources proved in the Arab Spring to be an invaluable source of information as to where and when the political demonstrators were meeting, which assisted in the determination of which days and locations would be covered under SRCC and which could be considered as excluded.
6.4.3. The intrusion of the real world?
Although the insurance policy should first be looked to for clarity as to the definition of cause and type of loss covered, SRCC and political violence events by their very nature are politically sensitive and are often played out in a very public manner. For instance, in the case of the assassination of Benazir Bhutto on 27th December 2007, on 17th January 2008 President Pervez Musharraf indicated that many of the damaged businesses had insurance cover and that he fully expected insurers to meet their obligations. These statements were made without consideration of the fact that under the policies the losses could have been seen as caused by a terrorist event.

Statements will be made after such events by political figures, insurance regulators or members of the ministry of finance. These statements are often made to serve their own political agendas or under political influence.

During the Arab Spring in Tunisia the Comité Général des Assurance (a department within the Ministry of Finance) released a statement a month after the event defining the entire event as civil commotion and asking insurers to accelerate their claims procedures. The insurance market was meanwhile debating whether the event was a civil commotion assuming the proportions of a or amounting to a popular uprising, which was excluded under most policies. In Egypt the Insurance Federation released a statement after the January 25 Revolution, where it concluded that the losses are covered where SRCC coverage was provided. It did not consider the war and terrorism exclusion that most policies also contained, which served to again exclude civil commotion assuming the proportions of or amounting to a popular uprising and in addition excluded revolution.

These statements made in the face of public discontent by often political institutions or individuals have to be addressed. Although they are non-binding, if the policy being considered has local law and jurisdiction, the local courts may consider them persuasive. In addition, courts in certain jurisdictions may have politically appointed judges where such statements may play an even greater role. To conclude the specific policy wordings should apply and not a generalised statement but insurance is not written in a vacuum and the reality has to be considered.

6.4.4. What type of loss?
A SRCC event could lead to a physical damage loss, time element loss, or with a bit of imagination a third party liability loss. The insurer will then need to examine the clauses and limits applicable to the triggered section. This type of analysis is no different to any other type of claim made under the policy.

6.4.5. Quantum
Once coverage has been confirmed by insurers, the next stage of the process is the determination of the quantum of the loss. With the assistance of the adjuster and other service providers such as e.g. engineering consultants (for the assessment of physical damage) and forensic accountants (for the calculation of a time element loss) the quantum of the loss will need to be determined. The quantum calculation will be done in the normal manner and there are no specific peculiarities relating to a loss arising out of a SRCC event.

6.5. Settlement and Release
The final stage of the loss management of a SRCC loss is payment of the loss. Depending on the quantum of the loss insurers may have made a number of interim payments, culminating in the final settlement. For any payment to be made insurers will require a
settlement and release agreement form their contracting party, i.e. in a simple insurance policy from the insured. The settlement and release agreement intends to provide contractual certainty for the insurer that in return for a loss payment made by the insurer, the insured agrees not to make any further claims relating to the same loss.

7. Conclusion/Recommendations

7.1. Conclusion

All in all, insurance is just about taking the risk, albeit a well understood and estimated risk; otherwise it’s just gambling. Depending on the underwriter’s risk appetite, the approach as well as the UW result may differ significantly. However, fact remains that -prior to accepting any risk- one has to at first understand it. The more knowledge an UW gains of a risk, the better the pricing exercise can become and the better the needs of the client can be reflected in the policy. The other way around, the more ignorant of the details of a risk an UW is, the more does the risk become a non-attractive or even a non-insurable one.

Engineering insurance mainly refers to tangible assets which are either designed, measured, calculated or set into operation, constructed, etc. In such cases the risk and the exposures are well known. Several tools have been produced in order to estimate the probability of occurrence and possible outcome of loss events, i.e. probabilistic NatCat modelling, experience based models etc.

Contrary to the above, when being asked to provide cover against SRCC, the Underwriter undertakes the difficult task to (a) gain knowledge on the exposure,(b) "predict" possible risk changes for the whole coverage period, and (c) formulate a coverage concept which could presumably bring the risk closer to the attractive/insurable green parts of the above diagram.

But in a world of uncertainty how can one assess the volatility of human nature, estimate the triggering factors which can cause an outburst of social instability; and all this throughout a project’s lifespan which may last for several years?

Some recommendations as to the best practice advice workflow /issues to be considered are included in the following sub-chapter.
7.2. Recommended best practice advice workflow

**Risk Assessment**
- Project Type Characteristics
- Corporate Social Responsibility Program applied & reviewed?
- Environmental Characteristics
- Location Characteristics
- Social, Economic, Political Characteristics

**Coverage Considerations**
- Wording
  - Precise Definitions of Insured Perils must be included, optimally in line with the applicable Law
  - Inclusion of Cancellation Clause or Annual Cover
- Application of Sublimits
  - DSU cover limited exclusively to repair period and not to restriction of access period
- Potential overlapping with other similar covers (Malicious Act, Terror, Vandalism)
- Applicable Law definitions
- Consulting with Political Risks UW
- Comparison with similar Property Covers

**Loss Management / Risk Monitoring Considerations**
- Definition of steps to be taken in case of loss
- Establishment of communication lines in case of loss
- Availability of loss adjusting services providers
- Definition of factors to be considered as indicating material change to the risk

**Pricing Exercise**

**Annual Review / Risk Change / Risk Monitoring**
- Monitoring of changes to the project which can affect SRCC potential
- Annual review of significant changes to the socio-economic environment
8. **Annex**

8.1. **SRCC Munich Re Clause**

**Endorsement 001**

Cover for loss or damage due to strike, riot and civil commotion (SRCC)

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It is agreed and understood that otherwise subject to the terms, exclusions, provisions and conditions contained in the Policy or endorsed thereon, and subject to the Insured having paid the agreed extra premium, this Policy shall be extended to cover loss or damage due to strike, riot and civil commotion which for the purpose of this Endorsement shall mean (subject always to the special conditions hereinafter contained) loss of or damage to the property insured directly caused by

1. the act of any person taking part together with others in any disturbance of the public peace (whether in connection with a strike or lockout or not) not being an occurrence mentioned in item 2 of the special conditions hereof,

2. the action of any lawfully constituted authority in suppressing or attempting to suppress any such disturbance or in minimizing the consequences of any such disturbance,

3. the wilful act of any striker or locked-out worker performed in furtherance of a strike or in resistance to a lockout,

4. the action of any lawfully constituted authority in preventing or attempting to prevent any such act or in minimizing the consequences of any such act,

provided that it is hereby further expressly agreed and declared that

1. all the terms, exclusions, provisions and conditions of the Policy shall apply in all respects to the insurance granted by this extension save in so far as the same are expressly varied by the following special conditions, and any reference to loss or damage in the wording of the Policy shall be deemed to include the perils hereby insured against,

2. the following special conditions shall apply only to the insurance granted by this extension, and the wording of the Policy shall apply in all respects to the insurance granted by the Policy as if this Endorsement had not been made thereon.

**Special conditions**

1. This insurance shall not cover:

   a) loss or damage resulting from total or partial cessation of work or the retarding, interruption or cessation of any process or operation,

   b) loss or damage occasioned by permanent or temporary dispossession resulting from confiscation, commandeering or requisition by any lawfully constituted authority,

   c) loss or damage occasioned by permanent or temporary dispossession of any building resulting from the unlawful occupation by any person of such building,

   d) consequential loss or liability of any kind or description, any payments over and above the indemnity for the material damage as provided herein,
provided nevertheless that the insurers are not relieved under b) or c) above of any liability to the insured in respect of physical damage to the property insured occurring before dispossession or during temporary dispossession.

2. This insurance shall not cover any loss or damage occasioned by or through or in consequence, directly or indirectly, of any of the following occurrences, namely

a) war, invasion, act of foreign enemy, hostilities or warlike operations (whether war be declared or not), civil war;

b) mutiny, civil commotion assuming the proportion of or amounting to a popular rising, military rising, insurrection, rebellion, revolution, military or usurped power;

c) any act of any person acting on behalf of or in connection with any organization with activities directed toward the overthrow by force of the government de jure or de facto or to the influencing of it by terrorism or violence.

In any action, suit or other proceeding, where the Insurers allege that by reason of the provisions of this condition any loss or damage is not covered by this insurance, the burden of proving that such loss or damage is covered shall be upon the Insured.

3. This insurance may at any time be terminated by the Insurers on notice to that effect being given by registered post at the Insured’s last known address, in which case the Insurers shall be liable to repay a rateable proportion of the premium for the unexpired term from the date of termination.

4. The limit of indemnity any one occurrence as stated below shall be understood to limit the indemnity for all loss or damage covered by this Endorsement during a consecutive period of 169 hours.

The aggregate liability of the Insurers during the period of cover of this Policy shall be limited by twice the limit of indemnity any one occurrence.

Limit of indemnity: any one occurrence

Deductible: any one occurrence

Extra premium: