

Shifting Sands of Sanctions

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Sanctions – What are they?

Restrictive measures or prohibitions adopted by governments or international bodies, **used as a foreign policy tool** to influence the behaviour of a country or organization.

- Primarily consists of **restrictions to perform economic activities** with targeted countries, individuals, entities, industries or vessels.
- They can be comprehensive or targeted & can differ from one government/body to another and can have extraterritorial reach.
- They aim to induce change in policies or actions, address specific threats, or deter unwanted behaviour.

Types of sanctions

Financial sanctions (including asset freezes)

- Asset freezing restrictions apply
- The re/insurer may not (directly or indirectly) make or receive payments to/from the designated person

Trade sanctions (including arms embargoes)

- Under certain sanctions regimes trade sanctions prohibit the provision of cover and financial services
- The existence of re/insurance coverage itself, as well as the performance of activities under it, are prohibited



Sanctions are not a 21st century invention!

Sanctions have roots going back over **2,000 years**.

Athens -> **trade embargo** on neighboring city-state for violating sacred land.

One of the earliest recorded uses of economic pressure to enforce political goals

Medieval to Early Modern Use

18th-19th c.

The League of Nations - the 1st intergovernmental organization to **formally use sanctions** as part of collective security.

Italy and Ethiopia (1935–1936)
Italy invaded Ethiopia. The League imposed **economic sanctions** on Italy. Failed due to loopholes and lack of enforcement.

Early experiments in collective, non-military pressure → need for better enforcement mechanisms.

United Nations and the Modern Era

(Post-WW II)

United States

- **independent sanctions regimes**, enforced by the **Office of Foreign Assets Control (OFAC)**
- Long-standing unilateral sanctions: **Cuba, Iran, North Korea, Venezuela**.
- Used both primary and secondary sanctions to pressure non-U.S. entities.

European Union

- own sanctions framework in the 1990s.
- Frequently aligns with UN sanctions, but also imposes **autonomous measures**

Thematic and Targeted Sanctions

21st Century

Ancient & Classical origins

Athens' Megarian Decree (432 BCE)

Sanctions were more like **blockades** or embargoes, typically used in wartime

Venetian Republic
Restricted trade with Muslim territories during the Crusades.

British Empire (18th–19th c.): Used naval blockades (e.g., against Napoleonic France) to cut off enemy supplies

The League of Nations Era

(Post-WW I) 1920–1946

UN Charter (1945) gave authority to impose **binding sanctions** under threats to peace

Early Sanctions :

Rhodesia (1966): Sanctions over a white minority regime after its Unilateral Declaration of Independence

South Africa (1977): Arms embargo & later financial and trade sanctions

Shift in Use : Initially aimed at **state behavior**, but later used for non-state actors, including **Terrorist groups** (al-Qaeda, ISIS) & **Warlords and militias** (Liberia, DRC)

Expansion by Major Powers

Cold War and Aftermath

Sanctions have become **more sophisticated and targeted :**

- **Smart sanctions** target individuals, companies, and assets, not whole populations.
- **Cyber sanctions** punish state-backed hacking (e.g., against Russia or China).
- **Human rights sanctions** (e.g., under the Magnitsky Act) target perpetrators of torture, repression, or corruption.

Why Swiss Re takes sanctions seriously



Increased reputational and regulatory risk

Providing cover or making money available (i.e. paying claims) in relation to sanctioned persons or activities could expose Swiss Re to reputational risks as well as civil and criminal penalties.



Circumvention of sanctions

Sanctions circumvention poses a significant challenge to the insurance industry by increasing the risk of inadvertently facilitating illicit activities, exposing firms to legal, financial, and reputational consequences.



It is not just hypothetical

Robust processes are essential to navigating an increasingly complex regulatory environment, as enforcement continues to intensify globally.

Elite London law firm fined £465,000 for Russian sanctions breaches

OFAC \$3.7 million settlement agreement with Swiss bank for sanctions violations

OFAC Settles with British American Tobacco p.l.c. for \$508,612,492 Related to Apparent Violations of the North Korea and Weapons of Mass Destruction Proliferators Sanctions Regulations

**Compliance is no longer optional
Sanctions Compliance can cost Global banks up to \$1B a year**

Swiss Re acts conservatively in a complex and dynamic sanctions environment to mitigate reputational, financial and regulatory risk



Swiss sanctions

- Generally apply to **all individuals** (of whatever nationality) & **companies located or doing business in Switzerland.**
- Foreign branches or subsidiaries of Swiss companies are generally not subject to Swiss sanctions if they operate independently from their Swiss parent.
- Swiss citizens whilst outside of Switzerland are generally not subject to Swiss sanctions.



EU/UK sanctions

- Apply to **any individual and company located in the EU/UK and doing business in the EU/UK**, as well as companies registered in the EU/UK and EU/UK citizens wherever they are located.
- This includes:
 - ✓ Use of EUR and GBP and transactions involving EU and UK Banks
 - ✓ EU/UK carriers/employees (and all their extraterritorial branches)



US sanctions

- US primary sanctions apply to **any individual and company located in the US and doing business in the US**, as well as companies registered in the US and US citizens and Green card holders wherever they are located.
- This includes:
 - ✓ Use of USD, transactions involving US Banks or US origin goods
 - ✓ US carriers/employees (and all their extraterritorial branches)
- US secondary sanctions have extraterritorial reach & apply to non-US Persons

Snapshot of Sanctions Landscape and Trends

Most affected industries:

- Energy
- Defence
- Healthcare
- Technology

Russia

17 sanction packages Sanctions evasion, RU shadow fleet & enforcing existing sanctions.

RU military, energy, transportation, financial sectors & war. **wide-ranging sanctions**

new sanctions (Gazprom) Pressure on RU -> peaceful resolution with UA. Bill introduced in the US Senate targeting RU shadow fleet.

China

↔

Sanctions targeting each other's officials & entities. Reflect geopolitical friction, Iran-related trade and Hong Kong policy enforcement.

Iran

extensive sanctions Human rights violations, nuclear proliferation & military support to RU.

Disrupt revenue streams (illicit trade of the 3rd countries through front companies & sanctioning entities). **comprehensive sanctions**

Syria

Lifting of most sanctions; support humanitarian activities & early recovery efforts.

Relief measures on trade sanctions and certain financial sanctions.

Global trends

- Global enforcement is stepped up
- Focus on combatting evasion of sanctions
- Sanctions moving away from globally consensus-based approach → we may have to deal with conflicting laws

Sanctions by the Numbers: the Rise of Targeted Measures



Russian frozen Assets

\$300 Billion globally
€210 Billion in the EU (more than
€28 Billion in private assets)
£25 Billion in the UK
CHF 7.4 Billion in Switzerland
(increase of CHF1.6 Billion in a
year)



Designations in Russian sanctions regimes

Over 2400 individuals and entities
sanctioned in the EU

Over 4000 individuals and entities
designated by OFAC



Vessels designations

More than 1300 vessels
designated worldwide until Feb
2025 – about 1000 more than in
2020.

More than half of them imposed
since Russia-Ukraine conflict

Impact of Russian sanctions on Credit and Surety

Swiss Re Lessons Learned

What happened



- Business across 6 **Russian clients**
- Estimated total premium **of 3,5M**
- SR quickly withdrew from the Russian market
- Some treaties simply not renewed
- Other treaties were terminated/cancelled, which was challenging given the changing circumstances

Communication



- Sensitive discussions were needed with Russia-based brokers who were not always aware of recent developments
- Because of the rapid developments, there was a lot of communication between different parties involved
- Increased need for swift internal coordination between different involved departments.



Lessons Learned

Treaty wording

- Solid **termination clauses** became more relevant: It can determine if the business will be terminated in cut-off or run-off
- **Sanction exclusion clause** is widely accepted in the market and works efficiently from reinsurance perspective

Organisational response

- Navigating the complexity of working with multiple Swiss Re carriers
- Importance of creating a master plan which helps in coordinating internal and external communication
- Extensive screening exercise conducted



Impact of Russian sanctions on Credit and Surety Broader Considerations

Borrower Creditworthiness

Increase of default due to:

- Reduced access to capital and FX
- Legal/Operational constraints, incl. Sanctioned banks, lost access to rating agencies

However:

- Some sectors (e.g. domestic Russian food) strengthened due to sanctions.
- Increased sourcing of (alternative) goods from suppliers domiciled in countries that are not required to follow Western sanctions

Recovery Challenges

Diligent payment behaviors of Russian buyers, but subject to some challenges:

- Sanctions law and frozen bank accounts
- Difficulty to enforce foreign judgments & Russian courts may side with local companies
- Currency restrictions: Ruble-only payments not accepted

Loss mitigation: Foreign banks offload Russian exposures at a discount to exit risk and avoid lengthy claims.

Industry Specific Impact

Most Affected: Energy, Aviation, Construction, Manufacturing, Agroculture, Finance

Why: Contract frustration, payment blockages, supply chain disruption

Main challenges for complying with sanctions

Sanction activity levels are high

Updates to sanctions are often **swift & unpredictable** and can be from more than one jurisdiction.



Complexity of working in a global context

- Sanctions regimes becoming more **complex**
- different jurisdiction -> different rules
- Global companies must comply with **multiple sanctions regimes**.

Challenges:

- **Differentiation** -comprehensive vs. targeted
- Impacts with **extraterritorial reach**
- Complying with conflict of laws & **blocking statutes**



Access to information as a Reinsurer

The information received for screening & due diligence **depends on the quality of the data shared by our clients.**

The same Line of Business could have to handle sanctions due diligence slightly differently based on the client and the information received from them.



Interpreting sanctions in SR-specific context

The Swiss Re response to sanctions is swift, yet complex because of a **varying impact on Business Units** and SR Legal Entities (even on the same Line of Business).



Increased importance of the sanctions clause

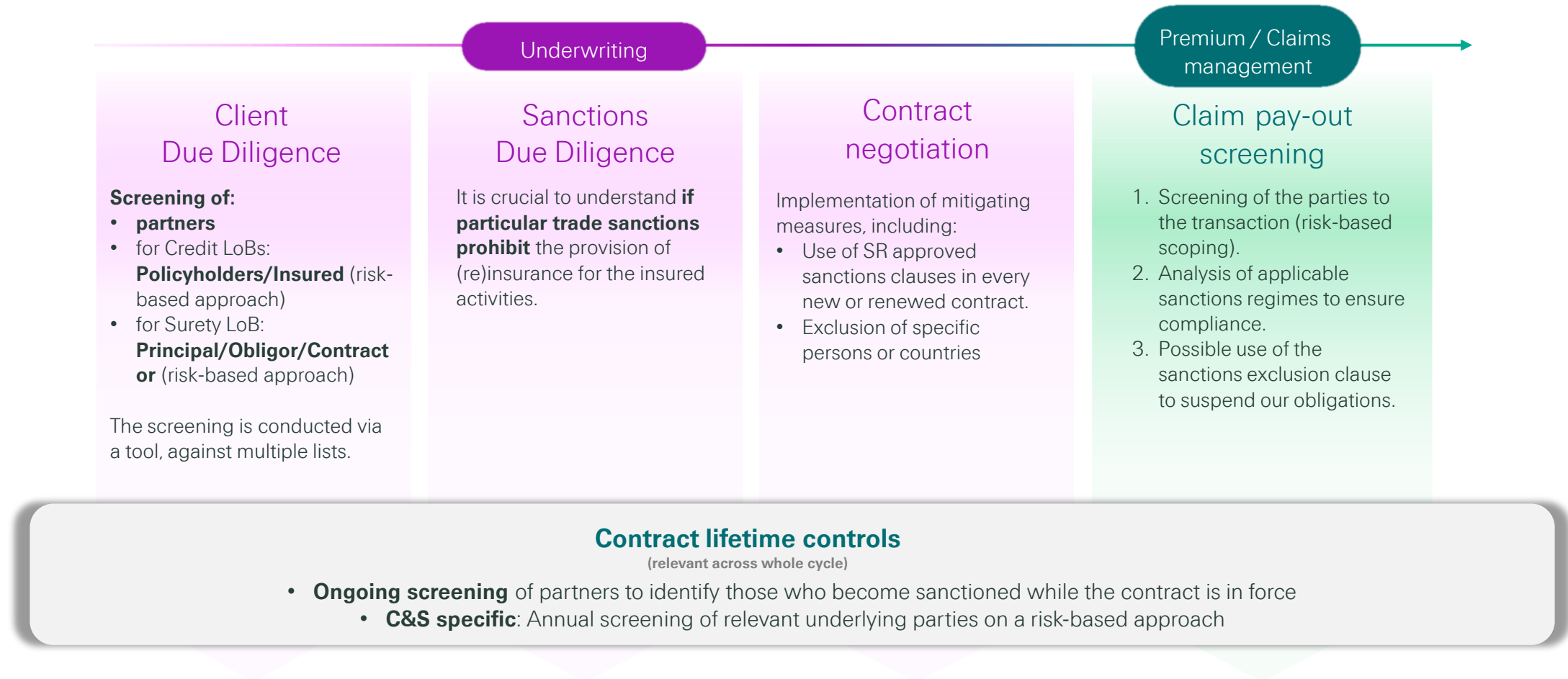
Having a strong sanctions clause in place is no longer optional

Main challenges:

- Push-back on preferred ITC clause
- For Swiss-based carriers, inclusion of "Switzerland" or "applicable law" in the wording
- Clauses that require (re)insurer to seek authorization



Futureproofing along the E2E process



Any
questions?



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