

# Caught in the Crossfire

Rising above election-fueled unrest as geopolitical risk moves up the boardroom agenda

MAY 2024 | PART 2



## Key insights

- 1 Nearly half of the global population will participate in elections worldwide during 2024.
- 2 There are several flashpoints in the upcoming elections, which are taking place against a backdrop of widening social inequality, AI-fueled disinformation, and growing polarization.
- 3 Businesses face a number of threats to their people, property, and wider operations where tensions boil over into civil unrest.
- 4 Companies should have tried and tested crisis management plans and contingencies in place to minimize disruption.
- 5 As geopolitical risk rises up the boardroom agenda, demand for intelligence is set to grow.

## Introduction

Over four billion people, nearly half of the global population, are set to go to the polls in more than 60 countries around the world over the course of 2024. This bumper era of elections is set against a backdrop of an increasingly multilateral world, where shifting geopolitics, the rise of populism, ongoing conflicts, and social inequality are among some of the factors threatening societal cohesion.

It is a tinderbox for political uprisings. Even those countries and regions that have enjoyed long periods of political stability cannot take the status quo for granted. Events over the past few years — including uprisings in Chile, South Africa, France, and Hong Kong — have shown how quickly situations can change, even in seemingly stable regions.

“Any situation can escalate quickly, and people can behave unpredictably,” warns Charles Howard, Head of Terrorism at Gallagher. “While there are some trends, it is difficult for a business to pinpoint the implication of every event with accuracy.”

In its annual survey of global risk professionals, Allianz Risk Barometer saw political risk and violence rise to rank in eighth position, up from #10 a year ago. Political violence, it notes, is “an increasingly relevant source of risk for supply chains and international trade.”<sup>1</sup> As tensions simmer, bitterly fought elections and disinformation are set to supercharge public angst against a backdrop of growing inequality.

Businesses must be prepared for disruption, both directly and indirectly. “We think there could be several hot spots for civil unrest going forward, and there are a number of potential drivers that could lead toward violence or severe unrest in these countries and others,” says Paul Bassett, Managing Director, Crisis Management at Gallagher.

“Populist nationalism and multilateralism are all contributing to geopolitical instability. You’ve got rising inequality and political elitism — the ‘haves’ and the ‘have-nots’, the left and right — radicalism, high levels of dissatisfaction, and then also the disinformation piece, which further drives polarization.”

“In their desire to get heard, voters look to the election, and if the results do not align with their expectations, the implications could be dire, fueling further unrest.”



In Part 1 of the Caught in the Crossfire series,<sup>2</sup> we considered how the threat landscape is likely to prompt an increase in disinformation campaigns and state-sponsored cyber attacks. In Part 2, we look at some of the more tangible threats, such as civil unrest and other forms of political violence, and the impact this may have on people, property, and company operations.

Against an increasingly tumultuous backdrop, demand for intelligence is growing, according to Jake Hernandez, CEO of AnotherDay.\* “Companies don’t necessarily have a good framework for thinking about geopolitical risk, and we are likely to see that change over the next couple of years.”

“Certainly, within the big companies, there’s now a huge demand for intelligence, and you are starting to see some of the larger firms create their own geopolitical risk teams,” he continues. “There’s a coming of age around how companies, on an ongoing basis, normalize and manage this, a bit like they did with cyber.”

\*AnotherDay, a Gallagher company, is a specialist consultancy firm working with insurers on strategic risk advisory encompassing cyberthreats, geopolitical intricacies, and climate change implications. The AnotherDay team works in conjunction with Gallagher’s core insurance broking businesses as a complementary risk management and consulting service for clients.

**An increasingly tense and uncertain geopolitical risk stage is set**

Disinformation campaigns over the next couple of years may undermine the legitimacy of governments, according to the World Economic Forum. It warns that “resulting unrest could range from violent protests and hate crimes to civil confrontation and terrorism.”<sup>3</sup>

As we have already seen so far in 2024, there are several flashpoints for political violence, with tensions likely to boil over during election time. How governments react before, during, and after an election may also present a threat to business activities, for instance via internet blackouts and even asset expropriation.

Elections in India, the US, Mexico, Bangladesh, Iran, Venezuela, the UK, and South Africa are just some of those that will be pivotal in shaping the course of the global geopolitical landscape. The first quarter has witnessed violence and allegations of vote rigging in Pakistan in February,<sup>4</sup> and politically motivated assassinations in the run-up to the June elections in Mexico.<sup>5</sup>

The outcomes of upcoming elections are likely to influence the direction of international relations, ongoing conflicts, and the global business environment. The contests come against the backdrop of persisting economic uncertainty and growing divides, resulting in widespread insecurity, distrust, and polarization among and within nations.<sup>6</sup>

Social inequality is a major driver of instability, with ongoing clashes and anarchy in Haiti testament to the role of poverty in fueling violence.<sup>7</sup> The cost of commodities — including food and fuel — has been subject to significant price inflation since Russia’s invasion of Ukraine in February 2022. Sources of supply chain disruption, including attacks in the Red Sea, are doing little to alleviate current pressures.

Against a supercharged geopolitical and economic backdrop, it is not difficult to see how the run-up to elections and/or disappointment with election results could spill over into civil unrest and other forms of political violence.



Cape Town, South Africa

## Case study: South Africa

In 2021, South Africa’s President Jacob Zuma was charged with corruption and summoned to the country’s highest court. Zuma was arrested for his refusal to appear before a corruption inquiry. This led to widespread protests and violence across the country.

The demonstrations not only posed a threat to public safety but also resulted in significant economic losses. Businesses were forced to close their doors, supply chains were disrupted, and investor confidence plummeted.

“Political violence is a human peril and how humans will react to certain situations is quite difficult to pinpoint with any accuracy,” says Charles Howard, Head of Terrorism, Crisis Management at Gallagher. “Yes we can see trends and we can see a dynamic move and a shift, but to call it exactly is quite difficult.”

“South Africa is a good example. The President was arrested and then that effectively set off a chain reaction which caused over one billion dollars’ worth of damage in a 48-hour period.”

### The role of social media in an era of “leaderless rebellions”

Political communication has become reoriented through the rise of social media platforms, where debate is increasingly polarized and powerful algorithms create “echo chambers,” fueling belief systems and feelings of anger and discontent. The volatility and strength of online discourse and hate speech are further influenced by deliberate manipulation in the form of disinformation.

As discussed in Part 1, the rise of generative AI is a new tool for propagandists. AI makes it much easier for malicious actors to create convincing content through which to influence and spread misinformation.<sup>8</sup> One study, which describes GenAI as a “misinformation superspreader,” found that an open-source AI chatbot delivered “eloquent, false and misleading claims” about topics in the news 80% of the time, when tempted.

There are real-life examples of how disinformation has been used to inflame already heated situations, spilling over into physical unrest and violence, including the US Capitol riots of 2021. Given how prolific AI-fueled campaigns have become, we should expect more tipping points moving forward, particularly as election fever takes hold. Research shows how tweets, images, and videos that generate outrage are amplified through AI and algorithms, spreading messages quicker than ever before.<sup>9</sup>

Social media plays another significant role in fueling civil unrest, offering a tool for society to communicate and coordinate mass protests.

The rallying power of social media is not a new phenomenon, but it has become a key characteristic of today’s “leaderless rebellions,”<sup>10</sup> where a smartphone, hashtag, and Quick Share or AirDrop are all that is needed to kick start social unrest.

Since the Arab Spring, governments have become more aware of the role of social media in political movements,<sup>11</sup> with some regimes clamping down by restricting access when there are threats to public order and security.<sup>12</sup> Among the 64 countries where elections are taking place over the coming year, 24 have imposed internet shutdowns in the past, impacting a population of 2.8 billion people, or a third of the world’s population.<sup>13</sup>

In February, the Interior Ministry of Pakistan suspended mobile phone and internet services on election day due to what it described as a “deteriorating security situation.” Internet blackouts were in place across multiple regions, causing disruption to daily life amid concern the move would impact election transparency.<sup>14</sup>

There is a growing consensus that such internet shutdowns are undemocratic and efforts are underway to circumvent such restrictions. The pivotal use of SpaceX’s Starlink satellites in Ukraine following Russia’s invasion is one high-profile example. It helped the country maintain internet access at a time when its communication infrastructure was being targeted,<sup>15</sup> and longer term, has proved a key tool in the ongoing war.<sup>16</sup>

### Risks to business from election-fueled unrest

As voters take center stage worldwide, observing how the elections unfold amidst lingering potential flashpoints will be essential. The extreme scale and diversity of these elections — occurring across economies with a combined value of almost half the world GDP — will create uncertainty for many organizations.

Moreover, the outcomes will shape the future geopolitical landscape and may force a reevaluation of key business decisions. Uncertainty surrounding political stability may discourage foreign direct investment, impede entrepreneurship, and dampen investor confidence.

A change in regime can make it more challenging for businesses to operate in certain regions. “In election years you are perhaps more likely to get exposure on the asset side, because you might find that more assets are nationalized,” explains Gallagher’s Paul Bassett. “You may also get what we call ‘creeping expropriation’ where, over a period of time as a government has changed, they start to revoke licenses of foreign companies.”

Despite their desire to remain apolitical, businesses face the risk of being caught in the crossfire. This includes risks to people and property. Business properties and personnel are almost certain to be impacted by social unrest at some point. In many cases, the risks posed by social unrest are incidental, simply by being in the wrong place at the wrong time, but this is not always the case, and losses can be substantial.

During periods of social unrest, there is an increased risk of theft, vandalism, and damage to property. In Chile, the retail sector became a “soft target,” with vandalism and looting widespread between October and December 2019.<sup>17</sup> Meanwhile, protests following the death of George Floyd in the US were the first civil disorder event to cause insured property damage losses in excess of \$1 billion.<sup>18</sup>

Popular forms of social unrest, such as protest marches, can cause widespread transportation disruption, impacting employees’ ability to commute safely. And they can delay response times for emergency personnel, putting everyone in danger.

In addition to the direct business disruption caused by active forms of social unrest, operational disruption may occur due to curfews, exclusion zones or internet shutdowns. This can result in business interruption and/or contingent business interruption losses, which may not be covered by insurance if the disruption is not triggered by property damage.

Social unrest can lead to road closures, blockades, shutdowns, and disruptions in public transportation. These events can impact the smooth functioning of supply chains, potentially leading to shortages of critical components and inventory losses, and ultimately hampering business operations.<sup>19</sup> The grassroots “gilets jaunes” (yellow vests) demonstrations in France in 2019 were triggered by a rise in fuel prices, and caused widespread economic disruption.<sup>20</sup>

“Geopolitical risks have far-reaching consequences, impacting individuals, reputation, physical infrastructure, and not to forget, disruption to the company balance sheet,” says Justin Priestly, Director, Crisis Management at Gallagher. “Organizations need to understand the geopolitical landscape across their portfolio of operations and filter that information for risk mitigation into the right parts of their business.”

During periods of civil turmoil, employees may face difficulty reaching business facilities, resulting in reduced staffing levels and potential disruptions in production fulfillment. In their drive to maintain continuity during periods of upheaval, companies cannot sideline the health and safety of people in their business and wider value chain.



### Risks management and insurance considerations

Regular monitoring of geopolitical flashpoints can help organizations assess and respond to threats as and where they arise. Intelligence reports can offer some warning that tensions may be bubbling up, allowing risk and crisis managers to plan accordingly, forewarn staff, improve security, and put contingencies in place.

Civil unrest and other forms of political violence are dynamic, human perils, and events can be difficult to predict. However, there are often red flags. Working with specialist consultants can help identify these so an organization can take action and respond proactively before situations deteriorate. Diversifying operations across multiple jurisdictions is one way of spreading the risk, giving firms more options and potential contingencies, thus mitigating the impact of any single political event.

Faced with a rising tide of losses relating to civil unrest, insurance coverage has become more constrained. In a more turbulent world, insurance underwriters have begun to reassess their exposure to political violence. As a result, the broad coverages for strikes, riots, and civil commotion (SRCC) are no longer a given in property-all-risks policies.

The specialist political violence market can help to plug any gaps in coverage, but policies come at a price and capacity is limited for certain perils.<sup>21</sup> While expensive, an important benefit of stand-alone political violence covers is that claims disputes are unlikely to occur. Such coverages will respond based on the definitions as agreed in the policy rather than local government’s description of an event, which could otherwise leave ambiguity for firms relying on property and/or terrorism policies.

There is growing interest from risk managers in specialist political violence covers, as property and casualty insurers move to restrict their exposure to SRCC loss events and as claims costs rise. The impact of claims relating to social unrest is prompting insurance buyers to reassess their limits and coverage needs.

It may seem obvious, but the best time to secure coverage is before an event occurs. Taking a proactive approach to insurance buying will pay dividends if and where losses occur. Working within the tripartite relationship, clients can stress test how their insurance programs would likely respond to particular scenarios.



## Conclusion: From uncertainty to success in a politically unpredictable climate

The next two years are likely to be transformative for global politics, with the many elections taking place an opportunity to showcase democracy in action. However, in many countries a change in regime could see underlying economic, societal, and geopolitical tensions bubble up in the form of social unrest.

Risk professionals should use the latest intelligence to inform their approach. Even businesses located a long way from events can be impacted, if their supply chains are constrained or they are unable to access facilities. Such risks are best mitigated through well-thought-out contingency plans.

Faced with a likely turbulent and uncertain landscape, it is essential to plan ahead, be aware of where elections are taking place, and anticipate how that could impact the business. Business continuity planning, crisis management, and health and safety all have an important role to play. And if losses do arise, it pays to have broad coverage in place that will respond as expected.

A sophisticated approach to risk and crisis management in the ongoing bumper election year starts with horizon scanning. To plan effectively, businesses must gain a comprehensive understanding of the local and global landscape. By staying informed and being proactive, companies will be in the best position to respond to unrest and navigate charged political environments.

While property policies may offer some coverage for civil unrest, specialist political violence will ensure companies have complete coverage in place for losses caused as a result of civil unrest, including claims relating to war or civil war, rebellion, and coup d'état. This is crucial as insurance industry losses from political unrest increasingly rival those of terrorism,<sup>21</sup> and as socioeconomic and geopolitical pressures continue to build around key election dates.



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