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Insurance News Blog
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Performance Steering under Geopolitical Stress: What recent developments around Iran and the Strait of Hormuz mean for P&C insurers

Steering under geopolitical stress: Why this time is different

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For P&C insurers, geopolitical uncertainty today is less about single shock events and more about sustained pressure on performance and steering. Unlike earlier crises, the combination of claims inflation, supply?chain disruption and a soft market environment puts management targets under delayed but persistent strain – challenging established steering and decision?making approaches.

Introduction

Unlike earlier stress phases, the current environment is characterised not by a single shock, but by the accumulation of indirect effects that unfold over time and across functions. The war in Iran and rising tensions around the Strait of Hormuz are increasingly affecting the management targets of P&C insurers. While direct war losses are typically excluded from insurance coverage, the conflict impacts results indirectly through claims inflation, longer settlement durations and rising operating costs. Disruptions to air and sea cargo routes reduce availability of spare parts, increase transport costs and delay repairs. At the same time, policyholders and markets are affected by the broader economic consequences, influencing demand, growth potential and renewal behaviour.

For management, the challenge is not the lack of analysis, but the lack of a timely, coherent view on how these developments translate into deviations from plan.

Pressure on Combined Ratio and Renewals

Across several lines of business, insurers are experiencing claims costs above plan, even where claims frequency remains stable. Higher fuel prices, strained logistics and delayed components drive repair and replacement costs, while longer claims handling increases loss adjustment expenses and reserve pressure. Pricing actions, however, only take effect with a delay. Importantly, even if the conflict deescalates quickly, energy driven inflation may remain elevated for longer, which can have a disproportionate impact on long tailed lines through sustained claims cost pressure.

This coincides with a comparatively soft market environment. Unlike during Covid 19 or the immediate aftermath of the Ukraine conflict, competitive pressure today limits insurers' ability to quickly reprice portfolios. This pressure is particularly pronounced in the mid-market, where insurers already face declining premium margins alongside a continued increase in attritional losses. As a result, combined ratio and earnings targets set under earlier assumptions are increasingly difficult to achieve, despite disciplined underwriting.

At the same time, geopolitical uncertainty affects growth and renewal stability. Airspace restrictions over Iran and Russia disrupt Europe–Asia travel and aviation. Disruptions around the Strait of Hormuz impact marine, cargo and transport through longer routes, higher costs and project delays. In energy, property and specialty lines, elevated political and infrastructure risk increases volatility. Management is therefore confronted with difficult trade-offs between protecting margins, sustaining growth and stabilising renewals. Additional pressure arises from increasing insolvency risks on the client side, affecting growth prospects, renewals and credit sensitive portfolios.

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Balance-Sheet, Capital and Market Effects

Pressure on performance targets is amplified by developments on the asset side of the balance sheet. Volatile markets and changing interest?rate expectations can reveal hidden or “silent” losses in assets acquired under earlier assumptions. Recent increases in interest rates provide only limited relief and do not fully offset current inflationary pressures on claims and operating expenses.

More generally, rapidly changing macro?economic variables and market sentiment can introduce additional volatility into earnings and solvency ratios, further reducing management flexibility precisely when steering options are most needed.

Why transparency and steering capability matter now

Under IFRS 17 and Solvency II, rising loss expectations, inflation assumptions and changing settlement patterns require timely reassessment and clear management judgement. In practice, however, financial closing cycles are often quarterly, while geopolitical, economic and market developments evolve much faster. In addition, the interconnected mechanics of accounting, capital and performance metrics make results increasingly difficult to interpret and predict.

From a controlling and finance perspective, organisations often appear well under control: reports are consistent, KPIs are monitored, and deviations in individual areas seem manageable. However, this picture is largely driven by backward looking data, periodic closing cycles and isolated effects. In a fast moving and uncertain environment, the interaction between claims inflation, settlement delays, pricing constraints, asset volatility and market behaviour remains difficult to assess in an integrated way.

As a result, KPIs often arrive too late and are hard to explain precisely at the point when management needs to make forward looking decisions. The situation therefore requires earlier management judgement on underwriting, pricing discipline, portfolio steering and capital allocation – often before updated KPIs are formally available. In this environment, pricing time to market becomes a critical steering capability, ensuring that priced risks and portfolio decisions reflect the current outlook rather than lagging indicators.

Delays in recognising and responding to these effects risk locking in unfavourable portfolio, pricing and capital decisions that cannot easily be corrected later in the year.

Effective steering therefore requires not only an internal view, but also a forward looking external market perspective, reflecting competitor behaviour and shifts in policyholder demand. In many organisations, creating such an integrated view exceeds the capacity of individual functions under time pressure and volatile conditions. An external perspective that connects technical, financial and market insights can support management in translating rapidly evolving developments into concrete steering decisions – without disrupting existing responsibilities.

Conclusion

By bringing together technical, financial, capital and market perspectives into one coherent, management-

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oriented view, insurers can explain deviations from plan, prioritize actions and maintain control over combined ratio, profitable growth and capital – even under increasing geopolitical stress.

We are, of course, happy to engage as a trusted partner for discussion and exchange on these topics – particularly where uncertainty is rising and steering decisions need to be taken under time pressure.

Get ongoing updates on the topic via regulatory horizon scanning in our research application, PwC Plus. Read more about the opportunities and offerings **here**.

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Schlagwörter

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