When the model breaks

Australian insurers are better placed to manage cascading geopolitical risks than you may think

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The Israeli and US strikes on Iran's nuclear facilities in mid-2025 were a warning. Ship traffic through the Strait of Hormuz fell briefly, oil markets repriced and the situation settled within weeks. The current crisis in the region is operating at a different scale entirely.

For Australian general insurers, the figures that matter most are arriving several supply chain steps later. Forecasts now point to material cost increases of 30%-50% for bitumen and asphalt, 30%-40% for plastic pipe products and 9%-10% for glazing, alongside smaller but still meaningful rises in structural steel, aluminium cladding and laminated timber.

Rawlinson's, the Australian construction cost handbook, has forecast a 1%-2% increase in 2026 construction costs in the event of short-lived disruption, rising to 6%-9% in a prolonged crisis. Each of those inputs sits inside someone's claim file.

In a short-lived shock, property and motor claim severity rises through higher energy costs and parts with petrochemical inputs, while domestic motor and compulsory third party frequency may fall as motorists cut driving. The expected shift to electric vehicles, which are 20%-30% more expensive to repair, also puts pressure on motor claim costs. In a prolonged shock, casualty classes face medical and wage inflation pressures, workers' compensation claim duration extends in downturns, and insolvencies rise, affecting builders' warranty and financial lines.

The current crisis has flowed through to repair and rebuild costs for Australian homes, other buildings and infrastructure within a single underwriting cycle. Multiply that across the eight or nine compounding shocks now active in the global system at once – referred to as a polycrisis – and the picture for the next few years comes into view. The question is not whether Australian general insurers are exposed to geopolitical risk, but what they do with a category of risk that does not fit neatly inside the data and models the industry was built on.

The environment has changed in ways the models were not built for

The world Australian insurers underwrite in today has departed from the norms of the past several decades in ways that are visible across almost every line of business.

Global institutions and trading frameworks are weakening. Supply chains are more interdependent than ever, even as deglobalisation pressures pull in the other direction.

Sanctions and trade restrictions are being used as routine policy tools, with the Global Sanctions Index up more than 400% since the start of 2017. Cyberattacks on critical infrastructure are increasingly linked to nation state actors. Alliances are shifting, climate-related disasters are adding strain, and historically high debt levels

A sailor checks a Super Hornet warplane on aircraft carrier the USS Gerald R Ford as it supports the Operation Epic Fury attacks on Iran in the eastern Mediterranean Sea in March. Credit: US Navy

across governments, businesses and households amplify sensitivity to further shocks. This is not a forecast but a description of conditions that prudential regulators, industry bodies and major reinsurers have named.

The Australian Prudential Regulation Authority established a dedicated geopolitical risk team in late 2024 and has identified geopolitical tensions, cyberattacks, supply chain disruption and the possibility of regulatory fragmentation as channels through which financial shocks could affect Australian insurers. The Australian Securities and Investments Commission has named geopolitical tensions among the contributors to volatility it is monitoring in 2026. Aon's most recent Global Insurance Market Insights report describes a narrowing window in which a soft market may give way as geopolitical, legal and claims volatility reprices risk.

The technical problem this creates for insurers is easy to describe but difficult to solve. Catastrophe models, pricing models, capital models and reserving assumptions were built on decades of data drawn from periods that may not represent the conditions ahead. When the underlying system changes, the patterns in the historical data become a less reliable guide to what comes next.

Decarbonisation is now a geopolitical question

One of the clearest illustrations of how geopolitical risk is changing the underwriting picture sits inside the global energy transition.

The Geneva Association, in an April 2026 paper on sectoral decarbonisation for the insurance industry, observed that recent geopolitical disruptions have underscored a fundamental reality: energy security and the energy transition are inseparable. Governments are recalibrating transition strategies to prioritise resilience and industrial competitiveness, and to secure access to critical materials, alongside emissions reduction.

What this looks like in practice is two of the world's largest economies pursuing visibly different energy strategies. Chinese companies produced more than 70% of global electric vehicles in 2024, dominate solar and battery manufacturing, and saw clean tech exports surge again in early 2026. EVs accounted for almost half of Chinese car sales in 2024, with the

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International Energy Agency projecting about 60% for 2025. Meanwhile, US crude oil production set a record of 13.6 million barrels per day last year, and US policy has shifted towards expanded domestic fossil fuel production while pulling back from international climate institutions.

For Australian insurers, the implication is that the climate scenarios many insurers have been stress-testing against, often built around a single global transition path, may need to make room for a world in which different regions move in different directions at different speeds. That changes how an insurer thinks about transition risk in its underwriting book, where its reinsurance counterparties have asset exposure and how its investment portfolio is positioned.

APRA’s Insurance Climate Vulnerability Assessment models exactly this kind of divergent path. One of its two scenarios – the delayed transition scenario – is dominated by construction cost inflation arising from a rapid global policy shift after 2030, rather than primarily by physical weather losses. Transition risk, in other words, is already being modelled as a driver of Australian insurance affordability by the prudential regulator.

Electrification does not remove geopolitical risk. It relocates it

A reasonable response to all this is that electrification will eventually reduce exposure to fuel shocks of the kind we are now seeing in the Middle East. An electrified economy is structurally more resilient to disruption of oil and gas supply chains, but may be vulnerable in other ways.

Critical minerals supply chains are highly concentrated. China is estimated to produce about 82% of the world’s rare earths, 69% of natural graphite and 79% of tungsten.

About 74% of cobalt mine production occurs in the Democratic Republic of Congo, while nickel production is concentrated in Indonesia. Lithium supply runs through China, Australia and Chile, and copper through Chile, the Democratic Republic of Congo and Peru. Australia is a significant producer of several of these inputs, which is a strategic position, but it does not insulate Australian insurers from the volatility these markets generate. Tungsten prices are up about 107% since 2023, copper is up 53% and cobalt is up 25%, while lithium, nickel and graphite have moved in the other direction, with lithium down 77%.

For an insurer with exposure to renewable energy projects, electric vehicles, advanced manufacturing, semiconductors or any line of business downstream of these supply chains, geopolitical risk is already inside the loss cost. It also sits in places that may not be obvious from a traditional risk taxonomy: in the time it takes to source replacement components for an EV claim, in the price of materials for a renewable project under construction, and in the customer promise of being able to rebuild a property within a reasonable repair cycle.

The capability is already in the building

Australian general insurers are better positioned to manage geopolitical risk than the scale of the challenge might imply. The technical problem geopolitical risk presents – how to make decisions when historical data is insufficient and a wider range of futures is more plausible than the central scenario suggests – is similar to what the industry has been working on for the better part of a decade in climate risk.

The capability that has been built through that work is significant. Climate-related financial disclosure has forced insurers to develop muscle in scenario analysis, gap analysis, risk identification under deep uncertainty and the use of qualitative reasoning where quantitative modelling reaches its limits. Insurers have built or hired specialist expertise, developed road maps and learnt to think about transition risk and physical risk as distinct but interacting drivers. That work can be transferred to geopolitical risk.

This does not require a new function, but for existing climate risk and emerging risk functions to widen their lens.

Practical moves include incorporating geopolitical scenarios into catastrophe and capital stress testing. Supply chain exposures can be mapped in the claims process more deliberately than they often are now. Policy wording in lines of business where political violence, sanctions-related losses or cyber war coverage may be ambiguous can be reviewed.

Reinsurance counterparties and capital sources can be diversified to manage the concentration risk that arises when geopolitical and catastrophe events strike at the same time. While such measures are well known, what is changing is the recognition that climate and geopolitical risk are increasingly the same work stream, viewed from two angles.

Where this leaves us

The Iran shock that began as an energy supply question has flowed through to materials inflation in Australian claims, to questions about how the global energy transition unfolds, to renewed scrutiny of critical minerals concentration, and to a sharper view of where political violence and cyber risk sit in policy wording. It has not, in any meaningful sense, been a single category of risk but a polycrisis in miniature, working its way through different parts of the insurance value chain at different speeds.

The most useful thing the Australian general insurance industry can do is to apply the capabilities built through a decade of work on climate risk to a wider category of risk.