How wars, blockades, ship bombings, and sanctions are changing the insurance landscape

Maritime risk in conflict

by Richard Murray, *Managing Associate, CJC*

The Ukrainian war and attacks on ships transiting the Red Sea opened a new chapter for underwriters and exposed escalating risks brought by the shifting distribution of global power. In his annual Royal United Services Institute address in December 2023, the UK's Chief of Defence Staff, Admiral Sir Tony Radakin, spoke of his concern at the "extraordinarily dangerous times" the world now finds itself in, "putting the international system under intense strain." For war risk insurers, this is not entirely new ground. An estimated 258 distinct armed conflicts have taken place since 1946. So, underwriters must remain permanently on their guard as the threat from warlike acts is, regrettably, ubiquitous.

However, the international security environment looks set to deteriorate in the years ahead through a volatile mix of rising state-on-state competition, the proliferation of non-state armed groups, and civil unrest. If operating in high-risk areas, the shipping industry must be agile with its response.

The war against Ukraine

Within its first year, comparisons were drawn between the war risk claims arising out of the Ukrainian conflict and the Tanker Wars of the 1980s. However, from both the assured and underwriting perspective, the risk environment has been quite different.

Despite the intensity of the Iran-Iraq War, global oil supplies were not significantly impacted due to attacks by one combatant on the others' ships and installations. The high profits available from trading oil & gas justified the operational risk and the high cost of war risk premiums at the time.

The Reagan administration deployed the largest naval convoy system since WWII, re-flagged tankers under the American flag, and placed military assets on board commercial vessels in the Arabian Gulf. These measures had a slight downward effect on war risk premiums and kept a greater volume of trade moving than might otherwise have been possible – albeit under a heightened kinetic threat. The pattern and type of claims arising, as a result, were different and drawn out over a longer period.

However, in Ukraine, the 'drawbridge' came up at relatively short notice, and those vessels unlucky enough to be caught behind Russia's blockade resulted in a unique cluster of total loss/detention claims once the applicable 6- or 12-month policy period elapsed.

Given the risk of escalation and the threat from sea mines, the prospect of a NATO/international convoy system in the Black Sea seems remote unless a political settlement to free up sea routes materialises. In the meantime, no merchant vessel wants to be perceived as a military target by Russia. Insurers have explored diversifying their transport routes and have turned to inland options via Ukraine's river system. Alternatively, those taking advantage of the recent "Black Sea cover" hug the territorial coastlines of Turkey, Romania and Bulgaria to retrieve Ukraine's vital grain exports. Advancements in vessel tracking technology have also buoyed underwriting confidence.

Although an insured's loss of free use and deprivation for a continuous period under a war risk policy will always be fact-specific, the Ukraine situation became more manageable once stakeholders realised Moscow's posture wasn't going to change – and it was likely the blockade would continue for some time. It has meant limited reason to dispute whether the threshold of "continuous period" has been met, even though the welfare of trapped seafarers has remained a constant concern for owners and liability insurers.

Strained insurance capacity

Blockades – which, in military parlance, are usually an operation by a belligerent state to prevent vessels and/or aircraft of all states (enemy and neutral) from entering or exiting specified ports, airfields, or areas under its control – are relatively rare and whether a constructive total loss arises from a blockade should be apparent – most people will know one when they see one.

However, the London Blocking and Trapping Addendum clause is more generous, as it will apply to blockages arising from a "warlike act" or "act of national defence," and there is potential for claims aggregation issues under some policies, where a limit is qualified with words such as "any one occurrence."

We are aware of disputes arising from the underlying contracts regarding charter



Photo: Canva

party or cargo loss disputes arising from some detained vessels. However, a calm and commercial approach has secured several settlements. The Ukraine situation, as well as the collapse of the grain corridor initiative, led to capacity in the war risk market decreasing dramatically, and an increasing number of underwriters understandably felt unable to provide cover for Russia and Ukraine calls.

Those who would sell cover faced plummeting demand. The re-insurance landscape also tightened, with exclusions passed down the line. Those 2022-23 trends are now showing signs of a gradual reversal.

International trade in the wake of conflicts

The proliferation of attacks in the Red Sea and Gulf of Aden in response to the situation in Gaza presents underwriters with a very different risk variant. Here, it is the threat of bombing or ballistic attack, not blockade or detention, taking centre stage.

The availability of sea room and alternative routes/diversions (not physically possible in the Black Sea) should soften the underwriting impact of an otherwise alarming geopolitical situation. Time will tell whether international intervention by Western forces will mitigate the Houthi threat or merely deflect it onto increasingly nervous Gulf allies.

Reducing capacity for the Red Sea/Gulf of Aden cover isn't really an option. However, premiums will increase, notification requirements to transit risk areas will be strictly adhered to, and quotations for cover may have a very short shelf-life (e.g. 24 hours). Unlike the Ukraine conflict, there has been no rush by the West to implement further sanctions against Iran and Yemen. Their effect to date has been negligible and is of little worry to international markets.

However, the sustainability of the international sanction regime against Russia is perhaps of greater concern. Sanctions have motivated so-called 'dark fleet' practices and provided opportunities for states that don't subscribe to such measures to increase their trade with Russian interests. If the Ukraine war lasts another five or ten years, the effect of sanctions in re-orientating the global economy may be irreversible.

The world in 2024

The return of war to Eastern Europe, strategic competition for influence in the Indo-Pacific, and now a deteriorating security situation on the Arabian Peninsula paint a bleak forecast for the year. Over half the world's population will also go to the polls, which will likely steer foreign policies in new and unpredictable directions.

The established international frameworks which promoted democratic government and free market capitalism after WWII are now under considerable strain, creating tensions through competition and conflicting approaches to policy.

Two permanent members of the UN Security Council – Russia and China – now exhibit expansionist ambitions, which deeply concern the US, UK, and France. The result is a global race to court strategically located powers – such as Saudi Arabia, South Africa, Turkey, India, and Indonesia – in a bid to ensure the Western orthodoxy can survive this century.

The future challenge for underwriters will be to effectively decipher this fast-moving, complex environment and identify potential flashpoints. Agility, adaptability, and keeping prices in range will win out. ■

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