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Insurance and the escalating situation in Suez Canal

27 February 2024

With Yemen's Houthis (who have backing from Iran) attacking ships in the Red Sea many shipping companies have left the Suez Canal. They have instead been using the much longer (10 extra days) and more expensive route between Europe and Asia via the Cape of Good Hope to avoid high risk areas.

Houthis claim to be targeting commercial ships in solidarity with Palestinians. Leaders of the group say that they will not attack vessels associated with China or Russia (Iranian allies) as long as they have no links to Israel. They claim only to be targeting vessels with links to Israel, the United States of America and Britain. However, some targeted vessels appear to have tenuous or no clear links to these countries.

In January the United States of America and United Kingdom forces began bombing strikes on Houthis launch sites. There appears to be little prospect of many operators returning to the Suez Canal in the short term. The Houthis are said to be determined to retaliate and there have been warnings that they could sabotage crucial undersea communication cables that run under the Red Sea connecting Asia and Europe. The Houthis claimed a significant strike hitting a Belize-flagged, Lebanese operated and UK registered cargo ship with projectiles on 18 February 2024. A security company has commented: "We are unsure [of the ship's condition]. There is nobody onboard now," "The owners and managers are considering options for towage."

Houthis claim cargo ship is at risk of sinking after Red Sea attack, The Guardian. Maritime authorities investigate reported attack on UK-registered cargo ship near Yemen, The Guardian

However, some Chinese shipping companies, which are confident that close links between China and Houthis Iranian backers will protect them from attack, continue to transit through the Gulf of Aden and the Red Sea. There is said to be an increase in Chinese operators in the region seeking to fill the capacity gap.

The Suez Canal is an important route and issues with it generate impacts around the world. Cargo delay caused by this region are nothing new. In March 2021 Ever Given cargo ship ran aground causing a six-day blockage and disarray to global supply claims.

What does this mean for insurers?

The recent issues have led to significant increases in marine war premiums. However, many vessels remain uninsured for this type of risk.

There is significant political concern regarding the inflationary and supply claim impacts the situation is causing – including insurance premium rises. The attacks have slowed down international trade and caused fears of supply bottlenecks.

Should the situation escalate there is a risk of significant losses and reductions in the capacity to underwrite these risks. Difficult conversations are occurring between insurers and some shipping companies, especially those approaching renewal.

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