

## Commentary

# The Suez Canal Blockage Is Likely to Have a Limited Impact on the Global Insurance Industry

**DBRS Morningstar**  
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Marcos Alvarez  
Senior Vice President, Head of Insurance  
Global Financial Institutions Group  
+1 416 597-7553  
marcos.alvarez@dbrsmorningstar.com

Michael Driscoll  
Managing Director, Head of NA FIG  
Global Financial Institutions Group  
+1 212 806-3243  
michael.driscoll@dbrsmorningstar.com

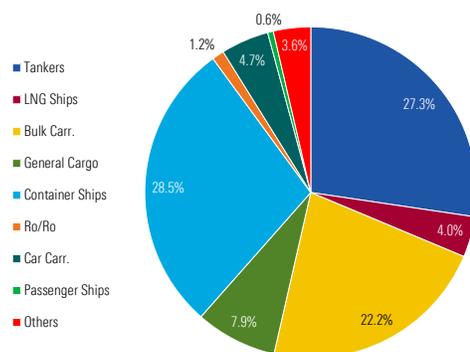
### Key Highlights

- On March 23, 2021, the ultra-large container ship *Ever Given* ran aground sideways and blocked the Suez Canal in both directions. Traffic through the canal resumed on March 29.
- The blockage could affect a number of marine insurance coverages, including hull & machinery (H&M) and protection & indemnity (P&I), among others.
- In DBRS Morningstar's view, insured losses should remain manageable given the relatively short duration of the blockage, the low prevalence of delay cargo insurance, and the frequent use of deductibles in marine policies.

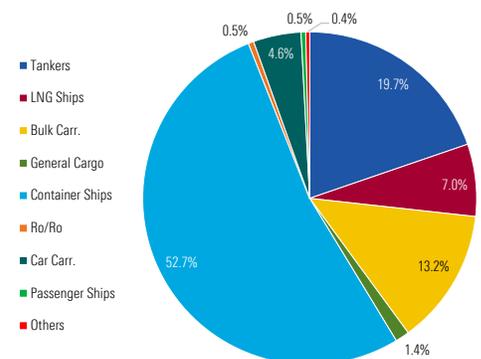
Despite the dramatic images of the ultra-large container ship *Ever Given* blocking the Suez Canal and the worldwide news headlines this event generated, DBRS Morningstar anticipates that total insured losses will remain manageable given the relatively short period of time that the canal was blocked, the limitations and deductibles for certain coverages, and the strong capitalization of most insurers. As such, we do not see a material impact on the credit profile for insurers we rate.

On March 23, 2021, the *Ever Given* ran aground and turned sideways, blocking the Suez Canal in both directions for almost a week. The ship, operated by Evergreen Marine and owned by Shoei Kisen Kaisha, was enroute from Malaysia to the Netherlands with more than 20,000 shipping containers when it ran aground after strong winds reportedly blew it off course. The Suez Canal Authority (SCA) immediately began work to refloat the ship and reopen this strategic waterway, which is used by approximately 50-60 ships daily. On March 29, the *Ever Given* was freed and transit through the canal has resumed. The SCA estimates that it could take a further 10 days to clear the backlog of almost 400 ships waiting for passage. Exhibits 1 and 2 provide details on the number of ships and net tonnage by ship type that used the canal in 2019.

**Exhibit 1** Number of Ships by Ship Type – 2019



**Exhibit 2** Net Tonnage by Ship Type – 2019

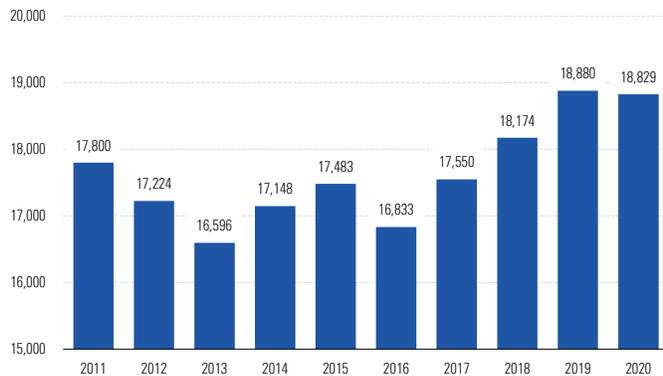


Source: DBRS Morningstar, Suez Canal Authority.

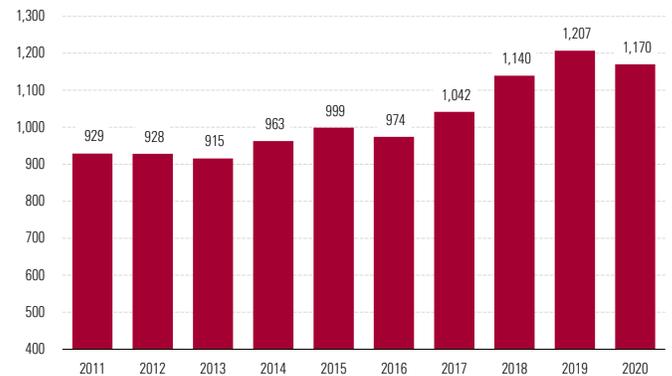
Together with the Panama Canal, the Malaccan strait, and the Gulf of Hormuz, the Suez Canal is a major chokepoint for maritime trade, and any obstruction has major consequences for global supply chains, which are already strained due to the global coronavirus pandemic. In 2020, 18,829 ships with 1.17 billion net tons of cargo crossed the Suez Canal, representing more than 13% of global maritime trade (see Exhibits 3 and 4). In comparison, 12,245 ships with 0.48 billion net tons of cargo used the Panama

Canal in 2020. The Suez Canal is also an important source of revenues for the Egyptian government, which collects between USD 5 and 6 billion in tolls every year through the SCA at an average of roughly \$300,000 per ship. Any significant closure of the Suez Canal requires rerouting maritime traffic through the Cape of Good Hope and incurring additional costs. For instance, without the canal, a voyage from the Arabian Sea to London requires additional travel of almost 9,000 kilometres, which takes about 10 days. The circumnavigation of Africa also exposes ships to potential piracy attacks, which increased in 2020 according to the International Maritime Bureau. So far, only a few ships decided to take this longer route after the *Ever Given* blocked the canal, mitigating the impact of lost revenues to the SCA.

**Exhibit 3** Number of Vessels by Year



**Exhibit 4** Net Ton by Year (Millions)



Source: DBRS Morningstar, Suez Canal Authority.

The Suez Canal blockage could affect multiple insurance policies given the complexities of marine insurance and the number of parties involved. The first consideration is whether the ship itself sustained damage when it ran aground or during salvage operations. Typically, the ship's hull and machinery (H&M) insurance would cover such damages. Initial reports indicate that the *Ever Given* probably sustained very limited damage; however, the ship will be further inspected following refloating and before it can continue to its planned destination. According to marine insurance brokers, container ships of the *Ever Given*'s size would usually have H&M insurance limits in the \$100-\$140 million range, with the upper limit applying to a total loss, which is unlikely in this case. The H&M insurance policy would also cover the cost of salvage operations.

Protection and indemnity (P&I) liability insurance provides a second layer of coverage. P&I insurance covers practically all maritime liability risks associated with the ownership and operation of a ship, including third-party risks for damage to cargo during transit, risks of environmental damage such as oil spills and pollution, and war and political risks. The P&I coverage on the *Ever Given* is likely to be triggered in this case, as the SCA tries to recoup some of the toll revenue lost during the blockage, as well as the costs of any damage to the canal. In DBRS Morningstar's view, litigation is likely to ensue to determine legal responsibility for the *Ever Given* blocking the canal. As of now, indications are that the responsible parties would include the owner of the ship, its operator, and the SCA, which requires local pilots to guide ships through the canal. P&I insurance is often provided by a P&I club, which in essence

is a mutual insurance association that provides risk pooling, information, representation, and risk mitigation for its members. Members of P&I clubs include ship owners, ship operators, and charterers. The UK P&I Club disclosed that it is the indemnity insurer for the *Ever Given*. However, we expect that the international marine insurance market will ultimately reinsure most of these claims.

Finally, owners of cargo onboard the *Ever Given* and other ships waiting to traverse the canal will likely make claims on their own cargo insurance policies and the blocking ship's liability policy for losses to perishable goods and the cost of missing delivery deadlines. Apart from damage to perishable goods, cargo insurance does not customarily provide cover for the cost of delays, which requires additional protection with separate premiums. This was the case for most transportation delays that the global shipping industry suffered in the beginning of the pandemic. Additionally, cargo insurance with embedded delay protections would frequently have deductibles of at least seven days, which could provide an important cushion to potential losses from the Suez Canal blockage. We anticipate that most cargo owners will legally proceed against the owner and the liability insurers of the *Ever Given*. Currently, there is no public information on the limit amount of the liability insurance of the ship, but estimates point to a limit in the \$200 million to \$300 million range.

#### Notes:

All figures are in United States dollars unless otherwise noted.

#### Related Research

- [Covid 19: European Governments Have Moved Swiftly to Protect Availability of Trade Credit Insurance](#), June 11, 2020.

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