

## **IMPACT OF UKRAINE-RUSSIA WAR ON MARINE CARGO AND MARINE INSURANCE**

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### **ABSTRACT**

Marine insurance has developed in tandem with maritime trade and it is in-line with the Gross Development Product worldwide. There are several factors that altered their trends and among them war is one of the important contributor that changed their course of growth. There is a lot of disruption to the supply chain, crew crises and port congestion and to the global shipping activity due to the War and adding to the Covid-19 Pandemic Crisis. The insurance market is a major part of the financial sector that can impact the global economic environment and can change the dynamics of the domestic market of nation. Insurance can be a stabilizing factor to the markets that takes the risk in the market. Now-a-days the supply chain model is so interconnected that a crisis is able to impact not only different financial sectors but also who the nations react due to the raising concept of global village. Despite several actions by the international organizations still some crisis is alarming. One such crisis was War Crisis that erupted between Ukraine-Russia in 2014 and again triggered in 2022 in the form of “Special Military Operation” by Russia on Ukraine. This papers studies the insurance market in Ukraine and also world at large in 2014 and 2022. This paper analyses the impact of War on Maritime Industry and to the stakeholders in the market. This paper tries to understand whether War Insurance and Marine Insurance industry and promises better prospects by bringing the stability to the market or in-turn became the victims of this ongoing Conflict. The major emphasis is on identifying the role of time of war and its impact on the

Global Financial Sector and other factors such as force-majeure, blockade, Gross Development Production etc impacting the marine insurance industry.

**Key Words:** Marine insurance, Ukraine-Russian War, Marine Cargo, time of war.

## FULL PAPER

### Introduction:

Every need learnt how to procure, every threat had made us to understand how to protect, and every crisis had made us how to overcome. This process of improving and civilizing us and sharing the problems and to evolve became institutionalized over period of time. Insurance is such kind of institutionalized risk sharing and transferring mechanism and at present it became an integral function of every nation and necessary sector for the process of nation's development. Every state is also established local regulators to make a proper legal frame work and assure the customers who are policyholders are properly protected at the time of crisis and to overcome the risk. Insurance as a sector had brought several portfolios both in the Life and General Insurance to cater the requirements of policyholders/Insured and even it is acting creating financial relationship across different markets.

Role of the Insurance sector is acting slightly different based on the status of its economic development and threats it faces such as natural, climatic or external or internal war and rebellions or political instability etc. Every insurance regulator keeps eye on the major key threats and even allows the multinational insurance companies to work upon with certain conditions either directly or through Financial Direct Investments (FDI's). Re-insurers who are insures of the insurance companies wary about all the factors and accordingly and keeps changing their strategies and making necessary changes to their premium to accept the risk at a particular period. One such risk that makes insurers and reinsurers make substantial changes to their strategies is the WAR Risk.

The war risks are present day was well and its impact is there in the marine insurance industry that includes planes, goods, ships etc. There are specialized entities such are war risk consortiums are available in the market (Malagon, 2022).

World had not witnessed major wars after 2000 and Ukraine-Russia War in 2014 is the major war and it showed the world how the concept of globalization had brought us so

interconnected in many issues and how one war, so far from where we live can impact life of an individual and nation at large. The present panic creates a little doubt on whether experts had perceived the impacts and future risks associated on a particular risk or not. Present War had really brought huge losses to the maritime shipping industry and to the insurance industry. As per S&P, the rating agency the losses predicted in present Ukraine-Russia conflict may amount to \$ 36 bn for the insurance industry.

In the supply chain global maritime industry is the single largest contributor it is seriously impacted. UNCTAD (United Nations Conference on Trade and Development) estimated that dry bulk and containerized cargos and gas cargos are pushing the international maritime trade. But due to geo-political tensions, pandemics, cyber-attacks, environmental factors are putting pressure on the maritime transport environment (Mordorintelligence, 2002).

Monetary and financial crises can create economic downturns that may fall the GDP and demand and may lead to depressions also. Compared to the other insurance portfolios, the economic fluctuations make the marine insurers more sensitive as huge volume of cargo transport on shipping lines. Marine insurance has developed in tandem with maritime trade. During the period of industrialization the increase in the shipping volume had directly increased the marine insurance premium growth also.

### **1. Structural Determinants of the Maritime Transport Costs:**

There are several factors that are determining the maritime transport costs that include the global market factors and the structural factors. Limited supply, Container shortages and strong shipping demand are linked to the former factors and trade facilitation measures, port infrastructure and liner shipping connectivity are related to the later factors. UNCTAD, World Bank and Equitable Maritime Consulting collaborated to develop the Global Transport Costs Dataset for International Trade (GTCEDIT) to overcome the structural factors which are confined to some area that can be regulated. Generally the transport costs are calculated as the differences between the cost, insurance, and freight (CIF) values and Free on Board (FOB) values (Ocean trade, 2022).

### **2. The relation between maritime trade and marine insurance:**

It is important for a correct understanding of the relation between marine insurance and maritime trade to consider the developments of incomes in both these sectors and both during and before the war period.

To understand better, first look at the range of the Local marine insurers insured domestic ships compared to the foreign ships and cargo. Second it the how much the foreign insurance companies insured compared to the local marine insurance companies. Lastly, the level of inter-connectivity and interdependence with the local maritime trade to the local marine insurance companies as the marine insurance and maritime trade go in tandem. These descriptive statistical analyses can be used of every country to know the impact of any crisis and it helps the regulators to make necessary guidelines to the local and international marine insurers operating in a country. This type of analysis was done after the Swedish war and to know the impact and had created new portfolios in the General Insurance Market.

### **3. War Insurance Act**

To have a better picture of how the War Risk Insurance is functioning, it is important know the origin of it and it is applicable to any discipline. Each event had created one portfolio in the insurance such as the Great Fire of London in 1666 created Fire Insurance, The Great Fire of Hamburg in 1842 created the necessity of Re-insurance Companies etc. Coming to the War insurance, the launch of submarines in 1893 and having equipped with the propelled torpedo's increased the uncertainty on the way the insurance business was carried on that time. The committee of Llyod's received suggestions for separation of the marine insurance policies with War Risk and accordingly a resolution was passed in 1898 for excluding the War Risks unless they are have an agreement for the specific coverage and they was possible with the Free of Capture and Seizure Clause (F. C. & S. clause) introduction.

This clause allowed to insurance operators to create another policy on war risks. The said clause modified number of times and reached standardization after the decision of the Coxwold in 1942 and brought distinction between the war risk and marine risk.

Under the traditional insurance, war risk was no covered and to ensure the shipping vessels are duly protected USA during the WWI had passed legislation in 1914 War Risk Insurance Act (Title 46 of the U.S. Code, Chapter 539) making the insurers to provide the insurance. War Risk Insurance is intended to cover the events like war, strikes, invasions, riots, insurrections and terrorism.

Analysis on the definition of War is important and key for the marine insurance policies either to cover or exclude depending on the coverage agreed between the parties and without that there will be ambiguity and several interpretations for the word "WAR LIKE

OPERATIONS". The term "WAR" should be understood and practically interpreted on the commonsense and natural meaning and not on the international or technical manner. The "War" peril is standoff among the governments either de facto or de jure, who have committed them to warfare and conducting either full scale war operations or only conducting military operation in a limited area and also no specific need to declaration of the war by confronting countries.

Land mark cases such as the Panamanian case of *Mendriefal, S.A. y otras v. The Continental Insurance Company, Almacen El Chocho, S.A., Benji Incorporated* and others have given more elaborated illustrations for the meaning of the word "War". The main characteristic feature of the War is violence as State uses the act of force to ensure the enemy State to act according to the will of the Aggressing State and the dominating State should disarm the opponent State and put the other in a position to accept its terms.

There are landmark Cases and decision that are relevant to understand on the present context of war whether the insurance claims can be paid or not. For example in the case of *Leyland Shipping Co. Ltd Vs Norwich Union Fire Insurance Company*, where court held that, the Proximate cause need not be the one closest in time to the incident but the one which is proximate in efficiency. In the said case the vessel was hit by Torpedo in the Great War and it stationed far away with fear of sinking but while shifting to another place got sank. House of Lords construed it as War Peril.

As can be inferred from the above commented cases, the task of defining whether there is a war in a given situation is not an easy one. As was said before, it will depend upon the facts of the particular case.

#### **The difference between marine hull, cargo and war insurance:**

Vessel's physical damage including the collision liabilities but excluding the piracy, acts of war or the seizure of vessels are the characteristics of the marine hull insurance policy and to cover them a separate standalone policy needs to be taken. But for the cargo, there is a cover for all risks of goods damage and physical loss while in transit.

#### **4. Impact of War on Maritime Industry:**

Global maritime trade grew at a slower pace in 2018 compared to previous years due to global economic uncertainty, the ongoing tariff tensions between the US and China and stricter climate change regulation, the United Nations Conference on Trade and Development

(UNCTAD) has revealed. There are different types of impacts due to war on maritime industry.

**a. Supply chain disruption**

Russia had blocked the Ukrainian Ships as a protest against the sanctions. As per The United Nations World Food Programme (WFP), there is a serious supply chain disruption of grain to Africa and the Middle East. As per the WFP 50 % of the grain is purchased from Ukraine, which is the top five global exporter of agricultural products. Ukraine had formally closed The Azov Sea ports of Mariupol, Berdiansk, and Skadovsk and the Black Sea port of Kherson were closed, which Russian forces had captured. As per the reports of Ukraine, its grain exports had reached 45.709 million tonnes in the 2021/22, July-June season. Now Ukraine, is exporting by train and also Danube River ports (MarineLink, 2022).

The Ukraine-Russia War had reached its impact of food supply chain in the far of regions due to several reasons. For example, India also has imposed a ban on export of Wheat from other countries (Jadhav, 2022).

The Supply Chains are networks on which the production industries dependent on sending their goods and providing the services to the end users. Disturbance to these supply chains will create price inflation, shortages, hoardings, loss of value to the goods at one place and steep prices in another places etc. The ongoing conflict had already prompted the skyrocketing of the energy prices and others. Re-shaping of the shipping routes and supply chains far from the conflict region can mitigate the present risk to some extent and it far better compared to the Covid-19 pandemic(Dai, 2022).

**b. Aggravating crew shortage**

The Ukraine-Russia War will add more problems the global maritime workforce shortage due to the covid-19 pandemic. As per the latest information, more than 2000 seafarers are trapped in the vessels that are blocked in the Ukrainian Ports due to the ongoing War. Crew is facing several risks such as less access to the medical and food supplies and also the threat of attacks. According to the International Chamber of Shipping, out of the total shipping workforce, 10 % are from Russia and 4 % are from Ukraine and it is a considerable number (ICS, 2022).

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With tapped ships and cancellation of the direct flights to Russia, many seafarers are struggling to return to home and even the ship owners are forced to pay without the business also.

There is a need for the flow of seafarers to be maintained around the world and for that crew needs to be changed on regular basis. There is serious shortage of the seafarers around the world already. According to the Report of BIMCO and ICS, by 2026 there is a need for 89510 officers and in 2021 itself there is a shortfall of 26,240 certified officers. Without satisfactory and promising steps by the international organizations and ship owners then new generation will not take interest in becoming seafarers.

**c. Evolving sanctions regime increases compliance burden**

Russia is facing lot of sanctions due to the Ukraine War introduced by the countries worldwide. EU, US and Australia have stopped importing Russian Gas, Oil and Coal and also imposed sanctions on the luxury goods, timber, Iron etc. Similar steps were taken by Japan by in stopping export of luxury cars and Singapore implemented export controls.

But some ships will violate the sanctions and will continue and the same was evident after the annexation of Crimea.



Fig 1: Table showing flags and real origin of the ship owners of those ships entered Crimea.

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The past experiences should be considered while giving sanctions and how far the purpose is achieved. After the annexation of Crimea despite many international sanctions and Ukrainian legislations, still as many as 260 ships were docking at the ports of Stevntol in between March 2014- August 2016. Many of the ships changed their flags to avoid sanctions. These ships were using “flags of convenience” which not represent specific country. Finding to stop these practices is also tedious process. The ships were re-registered under fictitious owner names and often change flags.

**d. RMRS and IACS - Survey Certification**

Russian Maritime Register of Shipping (RMRS) was removed from the register of IACS after the inception of the Special Military Operation of Russia on Ukraine. This may not have immediate effect but will have during the renewal of the vessels. There will be issues regarding the coverage continuation during the renewals for the insurance companies (IMA,2022).

**e. Rising Cost:**

Looking beyond the logistical problems there is immediate impact on the prices worldwide even to the nations that are far from the region of conflict. As per the Vienna Institute of International Economic Studies report, in Ukraine Conflict in 2014, Great Britain lost around £0.67bn. The present conflict being big may have more severe impact. Diesel is now at 154.72p per litre and grocery prices had risen by 4.3% in February 2022 and these are early trends of rising costs (Rigby, 2022).

**f. Effect on delivery Services:**

The conflict had created severe transport and travel restrictions due to the sanctions on Belarus and Russia by multiple nations and due to that bulk carriers and tankers that are hundreds in number is stranded in several ports without scope of moving out and it is impacting on global trade movements. Due to that there is every chance of the services being delayed.

**g. Force-Majeure Clause:**

Force- Majeure Clause will have undesired impact on some and forced safety on some. BIMCO Force Majeure Clause 2022 is developed keeping in mind various contracts that are commonly used in the voyage charter parties and time charter parties. Force majeure Major Events include the “actual, threatened or reported war, act of war” and “warlike



operations". If the parties have agreed to the option and there is no cargo on board, force majeure clause allows for the termination of the charter-party. This clause exactly suits the situation of the Ukraine War.

On 13.05.2022, Indian Government had banned the wheat exports due to the reason that, scorching heat wave curtailed output and domestic prices hit a record high. In some places the wheat prices had risen to record high of Rs. 25,000/- (\$320) per ton. Indian Government want is prices to be regulated and to avoid hoarding as well (Prusty et al., 2022). Following the ban by the world's second largest producer, the wheat prices saw huge rise to 435 euros (\$453) per tonne in European Market. India in the ministerial meeting on Global Food Security Call to Action', had justified its ban and also said it is committed in allowing the exports that already having letter of credit and to some countries to maintain minimum food security needs on cases to case basis based on the request from the concerned governments.

Indian Government wheat ban could force Indian Export companies to declare force majeure on shipments to overseas customers. Generally these export companies collect the wheat from the traders and keep them in the ports. The intention is to full fill the commitments, but with no alternative left with the government's policy decision, there is no option other than to declare force majeure.

As per the information, in May 2022 are about 1.4 million tonnes of wheat presently in the ports of Kandla and Mundra and 800,000 tonnes in east coast ports of Visahapatnam, Tuticorin and Kakinada. Even the trucks are also stranded outside to unload as the vessel loading is stopped in many ports.

## **5. Impact of Wars on Marine Insurance**

Marine Insurers need to understand the impact of war on its business line during the interwar period and brace them to handle this. History had provided several examples and also learnt several lessons to handle the same. During the war period due to the vulnerability of marine insurance due to the high degree of economic fluctuations and adjusting to the risk environments is very difficult.

The war in Ukraine has directly impacted shipping in the area as well as the safety and welfare of many seafarers. In this podcast Lars Lange, IUMI Secretary General, discusses the impact of the crisis and international sanctions on global shipping and marine insurance, the current situation for war risk insurers, what challenges underwriters of Russian related risks

are experiencing, what IUMI is doing to help its members during this crisis, plus much more (IUMI, 2022).

**a. Potential marine claims and coverage issues**

Losses to the marine insurance business in Ukraine War are limited as of now despite that there is lot of uncertainty and also raised several legal questions affecting the cargo and hull policies due to the ongoing conflict.

Several claims are expected arising out of the War Insurance Policies where the goods and vessels are lost or damaged due to the rocket attacks, sea mines and bombings in the Sea of Azov and Black Sea which is the present zone of conflict. Not only due to the bombings but also due to the Russian blockade, the claims may arise from cargo and vessels trapped in Ukrainian Ports.

Generally most of the marine insurance policies will have an exclusion of the seizure of ships or physical damage arising from the attacks on vessels or sea mines or war. Understanding insurance coverage and exclusions the owners of ships will take the War Insurance additional covers with additional premium for limited time.

There is a bigger challenge involved in the Black Sea to bring out the shipping either blocked or trapped. International organizations pressure may force the conflicting countries in the War zone to provide safe passage from the zone of conflict, still the vessels are not confident of running the due the sea mines risk even in the maritime safe corridors. Even continuing in the conflict zone due to the fear of sea mines also will not help as it will be difficult for the maintenance and crew welfare.

Unlike the other industries, the insurance companies whether like to continue the business at present or not, is not possible as the existing contract of validity continue until the next renewals and they are forced to honor their risk. The claims arising out the policies can be decided based on the terms and conditions of the existing policy and some claims can be denied based on the war clauses and the sanctions.

If the vessels are trapped in the port, the cargo in transit or storage will be abandoned or damaged. There are chances of the damage or machinery breakdown due to the collision, fire or grounding to the trapped ships or vessels that are affected due to the sanctions.

Unlike the claims arising out the War, the non-war claims of the cargo and hull policies will take time and hard to settle due the policy interpretations and also complex legal issues and

questions involved. In general, the war insurance or hull insurance covers the claims of the trapped vessels. Some portion of the claims will be rejected due to the sanction but insurers cannot reject the claims in-toto.

Coming to the issue of insurance renewals, it will be difficult to the ship owners in that region due to the ongoing conflict. Even to the ships that are already trapped, who renewal need to pay and take the additional premium for the war insurance and other covers and it will be not economical for the ship owners.

Bangladesh Shipping Corporation (BSC) had intimated a claim of \$22.4 million as a total loss claim and abandoning the ship, from the insurance company and it is the major claim after the conflict had initiated in Ukraine. The Bangladesh-flagged Banglar Samriddhi vessel was hit by a missile on 24.02.2022 near Oliva. The vessel is having the third party liability cover, P&I Insurance, separate Hull and Machinery cover and also additionally the war risk cover. This is the first war risk triggered after one year where one Liberian-flagged ship was hit drone attack of omen. As per the Allianz Global Corporate & Specialty statistics from 1980-2020, 10 ships with the capabilities of more than 100 gross tons were lost due to the attacks(Daily Star, 2022).

**b. Machinery Breakdown claims:**

Russian Oil ban will push the ship owners to go for the alternative fuel which may be substandard quality and use of that fuel may lead to the machinery breakdown claims in near future.

Recently the London marine insurance market had added Russian Waters as to the list of the high risk waters and due to that the ship owners sending their ships in that region need to be informed to the insurance companies and also need to pay additional premium to the insurance companies.

**c. Insurance Premium Rates:**

Actuaries in the insurance department will take lot of parameters in fixing the insurance premium and also in line with the re-insurance premiums. Unlike the life and other non-life portfolio of insurance, it is difficult to use the statistical models while fixing the insurance premium rates. Due to this marine insurance companies have to depend on the individual judgment and experiences only. Generally Insurance companies takes the parameters of the routes and they will inherently have to see the period of voyage, length of the journey as for

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the same journey the different season can make difference etc. Further need to see the ports which they reach, whether it is war zone, whether there is scope of political instability and others making it hard to calculate the risk probability and accordingly the insurance premium rates. Apart from the above mentioned, need to know about the vessel in case of the hull insurance and for the cargo insurance, which type of material is being transported have to be seen.

For example, during the World War I, there is increase in the Swedish marine insurance prices not only due to the use of the modernized fleet for the maritime warfare but also due to the increased prices of goods used in the Swedish trade.

If the ship owners avoid the Government Warnings they are likely accept the increase in the insurance rates. Based on the Warnings and also increase in the higher insurance rates have not totally stopped the movement of the ships in entirety. In the month of May 2022, there are about 120 vessels of all sizes in the port of Novorossiysk. These vessels are not only with Russian Flags, but also 20 tankers are with the NATO member flagged.

Among the worst hit industries due to ongoing war, Insurance industry is also one among them. There is large scale disruption in the marine and aviation portfolios. Due the ongoing conflict and uncertainty on many other affiliated issued, the Reinsurance companies are increasing their premium. There is an increase of 0.05 % on the rates of marine insurance, which looks less but it is actually very significant to the market. The raise in the aviation insurance is due to increase of the war and no flying zones. Even several Reinsurance companies are cancelling their existing contracts at the time of renewal due to the several war-related conditions in them.

The present conflict not limits its impact the maritime route and even it influence is on the inland routes as well. There are several apprehensions on the further increase of the insurance premia for the ships that are planned to reach the berths in the region of Black sea and this is another compounding factor the to the already elevated costs of maritime transportation(FAO, 2022).

#### **d. Cyber Attacks:**

Maritime industry is upgrading its technology and in the maritime transport it includes the automated systems and online systems. The technology also the brought the risk of the cyber security attacks in the digital commercial transactions, port operations, and shipping and

offshore infrastructure operation also. (British Ports Association, 2020). IMO has taken initiative in adopting the tools for cyber security assessment and also in strengthening the resilience of vital systems of the maritime operations including, the ports, ships and shipping companies(UNCTAD,2022). In line with IMO, BIMCO issued ‘Guidelines on Cyber Security on board Ships – fourth version’ (BIMCO et al., 2021).

If proper precautions are not taken on the cybersecurity in maritime industry, it may result in the loss or misappropriation of cargos, cause damage to the cargos and also need to face issues related to liability in the context of contracts which are drafted in-line with the carriage of goods by sea legislations. It is the obligation on part of the ship owners to keeps his vessels seaworthy and even should address the safety management systems including the cyber security risk assessments (Art. III, r. 1 and IV, r. 1, Hague-Visby Rules ).

NotPetya Cyber-attack in 2017, effected many industries and maritime sector also was effected and due to that for so many days the shipping industry was crippled. Maersk is a container shipping company that had lost \$300 million revenue due to the Cyber-attack. For the company it took two days to allow the customers book again. Leading insurance brokers were also thinking of the having broad exclusions for Ukraine and Russia ((Cohn & Hussain, 2022).

The potential damage of the cyber-attacks can impact states financial situation and also individual companies and even the production companies and its impact may touch upon the individual farmers also and that can create a panic on the global economy (Townsend, 2022).

## **6. Validity of Notice of Cancellation**

Recently the reinsures have given similar notification for cancellation effecting from Feb 11, 2022 to the region of Ukraine. Insurance is a promise to take the risk and when the risk is imminent and insured is also not having any other option, the can insurers or the re-insurers to their insured can submit notification on cancellation of insurance for a particular place from particular period is justified or not is a burning question. Who have to bear the loss for the cancellation of voyage and whether there are any other insurance covers that can cover the same?

Insurance companies enter into a contract and settlement is based on the terms and conditions of the insurance contract. Generally in the all insurance contracts the insurance companies will incorporate the Right of Notice of cancellation and generally it period depends from 48

hours to 7 days. As per the Institute War Cancellation clause (CL 271), 7 days' notice is required.

Based on the location of the insurer to the location of conflict the period will be decided. This will be dependent more on the notification of the re-insurers to their insurance companies.

Sr.No	Re-insurers place	Declared date	NOC Time period
1.	Ukraine	11.02.2022	48 Hours
2.	India (GIC-Re)	11.03.2022	7 days

**Table 1:** Location based NOC Time period (IMA,2022).

There are several means and approaches available in the market to issue Notices of Cancellation (NoC's) for SRCC/War risks. General Underwriters Agreement (GUA) Marine Cargo Schedule contains clarity on the role of all the market participants and the information about the notices of cancellation and it is agreed by all the participants (IMA,2022).

The Joint War Committee (JWC) changed the NOC time from 7 days to 48 hours in view of the Ukraine War. In general, when the areas are listed under high-risk, 7 days cancellation notification is given on the existing policies by the underwriters. Recently JWC has decided to change that 7 days notification is too long and need to fix it to 48 hours (Corbett, 2022).

### **7. Impact of Ukraine-Russia War in 2014 on Marine Insurance:**

According to "2015 Global Insurance Market Report" stability of financial markets, rates of inflation, economic growth and others are the common global economic factors which impact the development of insurance market.

As on 31.12.2015, the total number of insurance companies was 361, including "life" – 49 companies, "non-life" – 312 companies. It should be noted that as a result of an increased competition on the insurance services market, reduction in the solvency of the population and economic entities in Ukraine, increasing riskiness of business operations (in connection with military operations), the number of insurance companies has decreased in the recent years (in the end of 2013 in Ukraine there were 407 insurance companies, 345 of which carried out "nonlife" insurance).

The main indicators of the insurance market of Ukraine from 2013 to 2015 are presented in Table 2. The statistics show that in 2014, there was a sharp reduction in the number of concluded contracts (with the exception of contracts of compulsory insurance against

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transport accidents), namely from 87.3 million to 35.9 million. However, this was not reflected in the volumes of gross insurance premiums, which during the same period declined by about 2 billion UAH. In the next year, there was a sharp increase in the number of contracts, which again provided a small change (positive) in the volume of gross insurance premiums

Indicator	2013	2014	2015
Number of contracts concluded other than contracts of compulsory insurance against the transport accidents	87328	35975	109106

**Table 2:** Year wise insurance contracts concluded from 2013 to 2015 other than the compulsory insurance against the transport accidents.

As per the Lloyd's List Intelligence Statistics, there are 2,773 casualties and among them 10 regions accounts for 75 % and among them East Mediterranean & Black Sea account for 490 incidents. Out of these 490, only in 7 cases there were total losses that are only less than 2 % (Allianz Global Corporate, 2015).

Region	Total Losses 2005-2014	Total Losses 2014	Total Losses 2013	Year-on-year Change
East Mediterranean & Black Sea	163	7	12	5↓
World wide	1271	75	110	35↓

**Table 3:** Total losses with year-on-year change region wise as per Lloyd's List Intelligence Statistics (Allianz Global Corporate, 2015).

#### a. Individual Companies Grievances:

Ukraine's largest steelmaker Metinvest, accused Russia of Piracy and claimed that Russia had looted its vessel carrying 2,700 tonnes of metal and also feared of doing the same to its

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steel and smuggle its metallurgical products using the shipping vessels stranded in the Port of Mariupol (Trevelyan, 2022).

### b. Presence of Insurance Companies:

At the beginning of September 2021, 153 non-life insurers (previously 160) and 17 life insurers were working in the Ukrainian insurance market (forinsurer, no date).

### c. Nations investments:

Insurance companies keep their investments in financial markets and sometime a bad choice of investment may create tension. For example Tiawan, had invested its life-insurance sectors allocations in the form of bonds in Russia. However the risk exposure is manageable but till it is a volatile market to invest upon due the ongoing conflict (Singh, 2022).

The London marine insurance market Joint War Committee (JWC) which generally updates its regular list of high-risk waters had added the present region of conflict under its vide Circular JWLA -30. JWC has not listed the Ukraine Region under high-risk waters in 2014 even during the Ukraine Conflict. The list was updated in 2013 and further in 2015 (Nepia, 2015). The Joint War Committee will be changing the list of areas and due to that the rates are also changing as per the level of risk and evolving situations.

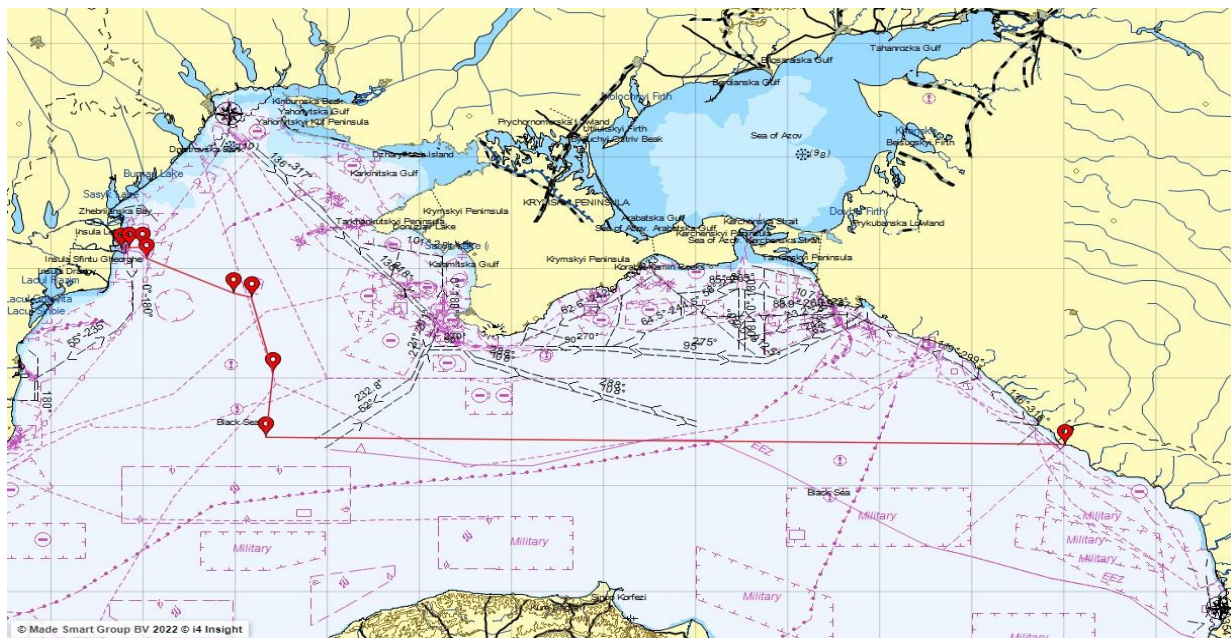


Fig 2: Black Sea and Sea of Azov Listed Area. (Nepia, 2015).



Sr.No	Mainland	Places
1	Africa	Benin, Cabo Delgado, Eritrea, Gulf of Gunea, Libiya, Nigeria, Somalia and Tago
2	Europe	Sea of Azov and Black Sea Waters plus inland waters
3	Indian Ocean, Gulf of Aden and Southern Rea Sea	Waters as defined
4	Asia	Pakistan
5	Middle East	Iran, Iraq, Israel, Lebanon, Oman, Persian or Arabian Gulf, Saudi Arabia, Syria, UAE, Yemen
6	Russia	
7	South America	Venezuela

**Table 3:** JWC Listed Area for Hull War, Piracy, Terrorism and Related Perils as per JWC Circular No. JWLA-030 issued on 4 th April 2022 with list of (LMA, 2022) .

d. **Spillovers impact:** The war sanctions on Russia and Ukraine huge losses will have negative consequences on the global economy. Effect of the war will directly hit Russia and Ukraine. But it is not limited to them and the spillovers will impact the trade, labor supply, supply chains and commodity prices globally.

#### 8. Comparison of Ukraine –Russia Conflict 2014 to 2022:

There are few differences between the conflict in 2014 to that of 2022 and this table provides a comparative view of the same.

Sr.No	Point of Comparison	2014	2022
1	Aggressor	Russia	Russia
	President of Russia	Vladimir Putin	Vladimir Putin
	President of Ukraine	(Pro-West)	Volodymyr Zelenskyy (Pro-West)
2	Type of Conflict	Special Military Operation	Special Military Operation

3	Purpose	Annexation of Crimea	De Militarization and to stop joining NATO
4	Date of Starting	20 February 2014	24 February 2022
5	Date of Ending	18 March 2014	Ongoing
	Total Period	36 days	Crossed 100 days
6	Outcome	Annexation of Crimea	20 % of Ukraine Occupied as on 8.6.2022.
7	Losses to Shipping Industry	3 % less compared to 2013	
8	Losses to the Marine Insurance	3.2 % decrease in marine insurance premium compared to 2013 Losses: 32 % decrease in the reported claim compared to 2013	US\$5 billion a working estimate (PCS)
9	NOC given on	NIL	From 4.4.2022 to till date
10	Listed under High Water for number of days ( JWC)	NIL	From 4.4.2022 to till date
11	Joint War Committee High Risk Water list	Entire Europe was not listed	Sea of Azov and Black Sea under Europe Region
12	Re-insures apprehensions	Less	More
13	Sanctions	Russia Removed from G8	Several intensified sanctions
14	Total casualties during conflict	6 Deaths	5,000 civilians Deaths

**Table 4: Comparison of Ukraine –Russia Conflict 2014 to 2022 PSC Data (Johansmeyer, 2022):**

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If different parameters such as Marine Cargo Premiums, Marine Cargo Loss Ratios, Marine Hull Claims e.t.c, even though the Same conflict was between the Russian and Ukraine in the same place for similar regions, the impact of it in the global market was not seem much compared to the present day ongoing war. After comparing different issues it gives an understanding that support from the other countries (NATO Group) is prolonging the war. Due to duration of the war and the conflict zone being blocked for much more period and use of more fire power there the losses are expected to the marine insurance business and also the maritime insurance business. Effects of war are more if the war is prolonged and that can disturb the supply channels. If the zone of war is in the place that is a major route for the trade it will really impact the global economy (Thies & Baum, 2020).

UNCTAD had made a rapid assessment of the impact of the Ukraine’s war that is resulting the increase in the fuel, food and fertilizer prices and it is effecting at an alarming rate on the least developed countries in the African Continent.

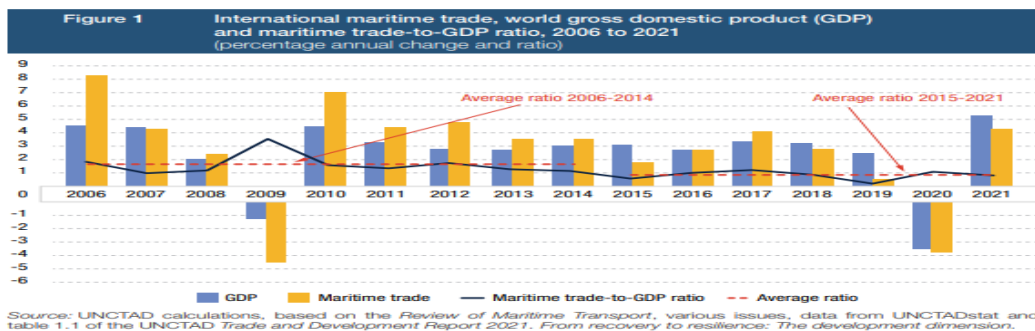


Fig 3:



Fig 4: GDP VS Trade volume (Iwamoto, 2016)

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The above charts show that the GDP and the Maritime trade will be in the same way. Only in the few occasions the maritime trade had went down compared to the GDP growth. According a research conducted and published as “Transportation Research Interdisciplinary Perspectives” concluded that the volume of the goods shipped on maritime routes is influenced by the growth of GDP around the world. This also sum up with the fact that demand side of the shipping also need to be considered which can impact the freight rates as well (Michail, 2020).

**Table 5: Emerging Market and Developing Economies: Real GDP (Annual Percentage Change) (IMF, 2020)**

		2004–13	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1	India	7.7	7.4	8.0	8.3	6.8	6.5	3.7	-6.6	9	8.2	6.9
2	Russia	4.2	0.7	-2.0	0.2	1.8	2.8	2.2	-2.7	4.7	-8.5	-2.3
3	Ukraine	2.5	-6.6	-9.8	2.4	2.4	3.5	3.2	-3.8	3.4	-35	--
	World										3.6	-0.8

**Table 6: Summary of World Trade Volumes (Annual percent change)**

		2004–13	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1	World Trade Volume	5.3	3.0	2.3	2.1	5.6	3.8	0.2	-4.9	10.9	4.4	3.8

The above said data on the Annual Percent Changes GDP and World Trade volume given a clear understanding that the Ukraine War 2014 had impact and the present Ukraine-Russia War 2022 is contributing and giving very shocking predictions on the GDP and the trade volumes and they are going to decrease very sharply.

**War slows down the Recovery:**

The growth worldwide is slow in 2022 majorly due to the ongoing war and there will severe impact on Ukraine and Russia. The effect of war spillovers is also likely to impact trade,

commodity market and also the financial linkages to some extent. No need specific mention of how the vulnerable poor countries are effecting due to the food and fuel prices. Already the world is suffering from the pandemic and new variants and lockdowns and war will further amply the pressure and creates inflation.

Geopolitical tensions are challenging the economic relations internationally built for years. The present sanctions can be having far-reaching repercussions and international community is not much worried about it. Even the global polarizations also have negative impacts and can derail the trade integration, framework of debt resolution, agenda on climate change etc.

According to IMF there are, five principal forces that can shape the near-term global outlook:

- War in Ukraine—
- Monetary tightening and financial market volatility
- Fiscal withdrawal
- China's slowdown
- Pandemic and vaccine access

#### **9. Role of Maritime Trade Warfare:**

In ancient times, maritime trade warfare is one of the naval/military strategies used to neutralize or attack the commercial shipping lines of the opponent and cause damage to the opponent economy and disrupting the supply chains that were used via sea. Even in 20<sup>th</sup> century also the close blockade of enemy's zones and ports are common with a goal to prevent the loading and unloading of the vessels (McMahon, no date)..

#### **Maritime Trade Warfare:**

Nations in the war are resorting to the maritime trade warfare campaigns to execute their plans in offensive and defensive perspectives. They exercise different scenarios and try to influence the international organisations as well. Present ongoing Ukraine War 2022, is a classic example of the same, where the Russia is ready to allow the maritime trade continue smoothly subject to removal of sanctions. Upon the request by United Nations to provide the safe passage, Russia, had kept a rider saying that to consider the opening access, sanctions against Russia also needs to be considered. United Nations Secretary General Antonio Guterres has also warned that the food crisis may create malnutrition, mass hunger and famine and its impact will be for years across the world (MSN, 2020).

## Maritime Trade Warfare Does Not Curtail Shipping

Many will have an impression that wars will impact the shipping the worst and ship-owners will not send their ships to the nonbelligerent counties and try to avoid reaching the hostile waters. This is correct and it will continue for a period of the beginning of the war and immediately after the Notice of Cancellations are issued by insurance companies and high alerts are issued by countries. But after substantial period of time there will be imbalance in the supply chain model and will tempt the ship-owners to outweigh the safety of their vessels with the profit motives. This is evident and proved in the world wars as well. Even in the initial days of the Iraq-Iran War there was a decrease in shipping traffic by 25 percent but soon the profits for ship-owners soared. Off-course the insurance companies also offered the coverage with high premiums and the war nations had substantially decreased the prices of the oil to match the cost of the increased marine insurance premiums. This gives an understanding the modern commerce warfare at a particular region cannot put a devastating impact on the entire global economy.

### 10. Role of Blockade on maritime industry:

Prolonged blockade can create impact on the supply chains and will create the disruption of services. Similarly the blockade created by the Suez Canal had made the market to surge prices. The incident had exposed the dependency on few supply chain and this had created the surge in the prices such as the gas and oil and it also had shown the world accept that the present way of supply channels are not enough and it is time for review of the global trade patterns. It is not easy for the shipping vessels to change the routes and it takes extra 10 days and additional fuel expenses as it have to travel more than 6500 Kilometers (3500 nautical miles).



Fig 5: Picture showing the alternative routes for shipping while Suez Canal blocked (Winton, 2017).

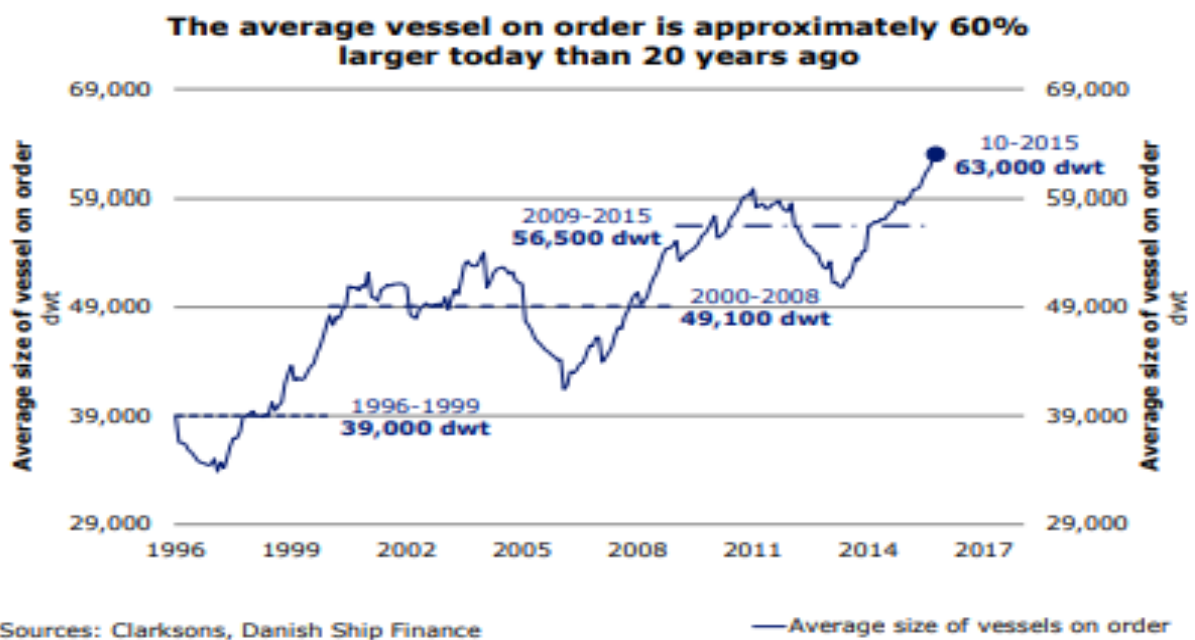
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Suez Canal witnessed several blockades due to the vessel struck but the time period was very less and the routes were recovered quickly and so the impact was less.

The Suez Canal was closed twice due to War in 1956 until March 1957 and again in 1967 until 5 June 1975.

Immediately after the Suez Canal closure the Marine Cargo Insurance rates and the operating costs are increased and this forced the shipping companies to surge their freight rates. Due to this route in which the crude was transported had changed which is a long term effect.



**Fig 6: The average vessel on order is approximately 60 % larger today than 20 years ago (Rex, 2015).**

The Suez Canals disruption resulted in looking at the other alternatives such as routes, big tankers and better planned voyages. In 1967 the maritime transport through Suez Canal was 15 % and on present day it is 8 %. Even the bigger tankers has adopted has with capacity or 2,00,000 ton ships through Cape town route is profitable than the 75000 ton ship through Suez Canal as the former costs (Winton, 2017).

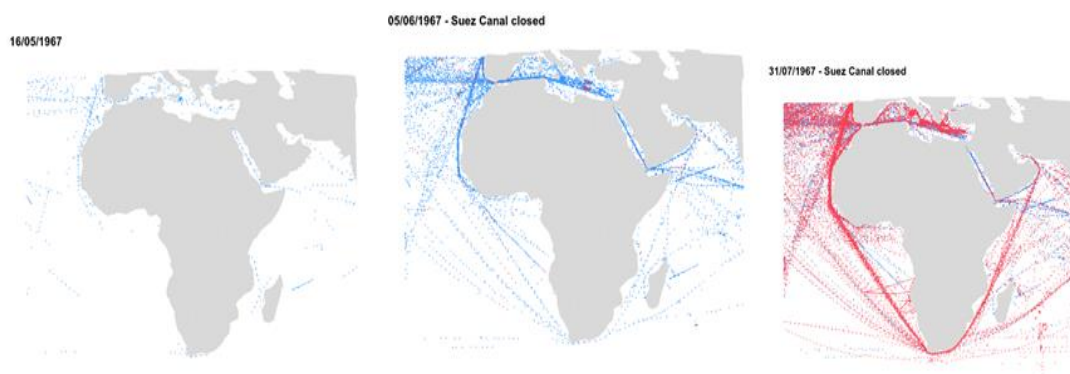


Fig 7: Pictorial representation of the Suez Canal traffic from 16.9.1967 to 2014 (Winton, 2017).

The Ever Given was enroute from Malaysia to the Netherlands was struck in Suez Canal on 23 March 2021, due to the strong winds while crossing the canal and it was freed on 29 March 2021. To clear all the backlogs it took upto 3<sup>rd</sup> April 2021 and this incident forced to wait 400 ships from their regular timelines. There was lot of disruption and just for 6 days it is estimated that there was a loss of \$ 54 billion at a rate of \$ 400 million worth of trade per hour.

As per the Fitch Ratings, approximately USD \$ 31 billions of loss was faced by the insurance companies from the policy holders and some may go to the courts and will lead for the further expenses to the marine insurance companies (Lee and Wong, 2021).

## 11. Conclusions:

Role of international organizations: International organizations had kept pressure on the war aggressing countries by imposing sanctions based on the approach of the aggressor and making the sanctions tougher according to the situations.

Steps taken by the Insurance Companies World Wide: For the insurance companies it is possible to predict the War claims in hull and cargo but it much difficult to predict the non-war losses arising out of the Black Sea and Ukrainian Ports where the vessels are trapped. Some few expected losses maybe from the maintenance and salvage of ships, crew and safe navigation etc.



Demand of Safe Maritime Corridor: Several merchant vessels were trapped in Ukrainian ports in the beginning of April 2022, and IMO called for creating a “blue safe maritime corridor” the evacuation of ships and seafarers. The steps proposed to be considered to be taken by the international organizations immediately after the incidents and the delay in decision making will impact and creates a situation more complex.

Vanishing of Small insurance companies: Wars in the regions and experiences forces the foreign insurance companies and reinsurance companies to stay away from the regions of conflict. Even war will create the hyper-inflation also making the companies to operate with less cost due to huge administrative expenses. Even the companies will close the operations during the war and post war impact also puts the several small insurance companies to vanish from the market. Ukraine insurance market after 2014 is a classic example and expected more after major war in 2022.

The exchange-rate fluctuations will push the insurance companies operating in the region of the war under more pressure due to high inflation. This is one of the major factor in the expansion of the foreign insurance companies worldwide.

Adverse legislative measures: Even some countries in the process of boosting the lost business entities will create better legislative measures to the domestic insurers and it will cost the foreign companies a lot more difficult to operate due the kind of price-sensitive business.

Fate of Global Supply chain routes: Ukraine- Russia’s War may end some day or other and the intensity of sanctions may change over period of time but due to this war the global supply chains will never be the same again (Dai and Fukuyama, 2022).

Role of insurance as a stabilizing factor: The need for stronger and insurance market is important for putting the economy in balance mode. If the capacity of the reinsurers and insurance companies dry up due to huge war and catastrophes this will be an additional factor in eventually collapsing the global economy (Theodorou, 2022).

Incidents of Blockade: Blockade and it impact on the supply chains and also the global trade and commercial losses need to consider by the nations and the international organizations. The reasons for the blockade include the wars, accidents, pandemic e.t.c and many are evolving suddenly creating impact on the marine insurance market and the maritime trade.

War Period: Period of the War is also playing the major role in marine insurance and maritime trade and this reflected through the conflict of Ukraine-2014 and Conflict of Ukraine in 2022.

Uncertainty in the Global insurers: Even though there is no huge loss directly from the asset exposure, but the uncertainty due to the Ukraine-Russia War will also create exacerbate earnings volatility in the global insurers.

## **12. Recommendations:**

- I. Risk is eminent to every filed and there is no expectation to the same. Even though insurance concept is risk sharing and finally putting the insured in the same stage in which insured was. Even for the insurance companies, re-insurers are there and sometime even reinsurers may not be in a position to bear the losses. At that time the Government need to support in the manner in which US government had given the support to the insurance industry.
- II. Risk Mitigation Strategies: There are few strategies than can used to mitigate new risks in the marine insurance sector and they include, changing the conditions or premium rates, better cooperation of marine insurance unions, higher cession to the re-insurers, change in accepting the risk selection, and alter the investment policy in the bond, loans and stocks.
- III. Russia and Ukraine should continue the supply chains operational irrespective of the conflict that erupts and more specifically to the important products such as the fertilizers.
- IV. There is need for the diversity in the export and import patterns by Ukraine and Russia.
- V. Need for a Supply Chain Insurance cover policy is the need of the hour. There are several polices that are helping the businessmen in handling their commercial transactions and using wide variety of polices such as Business Interruption polices, Marine cargo insurance, War insurance and others, but still the pandemic covid-19, Suez Canal Crisis and Present Ongoing Ukraine War has shown that there is a gap to the requirement and to the present polices. So, introduction of the Supply Chain Insurance can fill the much required vacuum and can put the commercial transactions far effective.

- VI. Governments have to take steps in bringing market transparency and also take lead in avoiding the uncertainty and disruptions to maximum level to enable the smooth flow of the agricultural products and to maintain balance in the international markets.
- VII. Automation of the maritime sector that posed a new threat of cyber-attacks need to be checked properly with the implementation of the cyber-security measures in-line with the IMO requirements to avoid the derailment of the ships from the route and getting the ships struck for few days which can really impact the transactions of the ship owners and putting them to loss.
- VIII. Formation of the national insurance system takes place amid the development of the legal framework for regulating the insurance market and a full renewal of a system of the state insurance supervision. In this regard, understanding of the development of insurance on the basis of integration processes in the global economic system is becoming increasingly relevant. These changes take place in the conditions of globalization and are analyzed in the works of O. Kozmenko (2011, 2012, 2014, 2015), O. Hamankova (2012), V. Bazylevych (2009) and others.
- IX. All the developing countries also should create other programs and statutes to overcome the risk of war notwithstanding to the dependency of the insurance companies. USA is having such programs such as Price Anderson Act of 1957, National Vaccine Injury Program, Federal deposit Insurance, Pension Benefit Guaranty Corporation Insurance etc (Benzie, 2004).

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