Henderson Brothers, Inc. White Paper

Do You Know How Severe Your Marine Loss Could Be?

The news recently broke that the vessel, the *Ever Given*, blocking the Suez Canal for nearly a week has been freed and that the canal should be open again soon.

This raises important questions for blue water and brown water insurance claims. When determining what the proper limits should be to insure our marine exposures many times we do not have the foresight to think of what costs would be in a major loss. Now, a major loss for a brown water vessel would not amount to the magnitude of the losses at the Suez Canal but it is a good exercise to review major events and examine loss scenarios (or run simulations) to benchmark your operations.

First, let's just review some of the estimates being calculated for this loss and the domino effect it could have for the supply chain. It is estimated that hundreds of vessels have been backed up, delayed or rerouted due to this blockage. It took five days to get the salvage vessels to the Suez Canal. The canal itself is estimated to be the conduit to approximately 12% of the world trade and one million barrels of oil a day. This blockage caused some of the following domino effects:

1. Rerouting of ships around the southern tip of Africa which could add two weeks to a journey between Europe and Asia.
2. Daily interruption of trade estimated at 10 billion dollars a day.
3. Delay of ships which will ensure cargo delays for weeks if not months.
4. Could spur shortages on chemical, lumber and problems due to labor shortages at ports to unload all the extra cargo that will arrive.
5. Consumer goods, industrial components, commodities from oil to coffee will be delayed and may face pricing issues.
6. Asian and European markets were hit the hardest.

Some early estimates from Lloyd's is that loss trade costs of $400 million an hour could be realized. Westbound traffic to Europe is worth $5.1 billion day and Eastbound is worth $4.5 billion a day.

Now as previously stated these costs would not be near what we would experience in a loss within our territorial waters, but it highlights a lot of issues that we should consider when trying to calculate the proper limits for coverages in your marine program. Let's take for example, some of the following possible loss scenarios that we may experience in this region:

1. The sinking of a vessel at a port or landing.
2. The rising water scenario that results in a break-a-way and many vessels become lodged in one or more of our locks/dams.
3. Major rupture of a vessel or tank by the river that causes a major pollution loss.

These are just three examples and I am sure you could think of many other catastrophes that could happen. Once you consider what type of a major incident could occur it is recommended that you review your coverages and limits with your broker to determine if they are accurate. This is not an arbitrary or back-of-the-napkin exercise. Many direct and indirect costs need to be analyzed.

Has your organization applied any framework and analytics to your marine risk management? These costs include value of vessels, demurrage costs, salvage costs to recover or move a vessel that is blocking a terminal, waterway or lock/dam, and pollution damages caused by the fuel or cargo being carried just to name a few.

When you are ready to do a table top review of the effects of a major loss and discuss coverage and or contractual remedies please do not hesitate to call Henderson Brothers. Henderson brothers began in 1893 specializing in writing marine exposures. We would love the opportunity to make sure you are properly covered in the event of a severe loss scenario.