

Commentary

Baltimore Bridge's Losses Within Absorption Capacity of the Insurance Industry but Will Add Pressure to the Marine Market

Morningstar DBRS

March 27, 2024

Key Highlights

- The collapse of the Francis Scott Key Bridge and the subsequent blockage of the Port of Baltimore will trigger a large number of insurance policies, including marine liability and hull, property, cargo, and business interruption.
- Depending on the length of the blockage and the nature of the business interruption coverage for the Port of Baltimore, insured losses could total between \$2 billion and \$4 billion, surpassing the record insured losses of the Costa Concordia catastrophe.
- Despite the hefty insured losses, we expect they will remain manageable for the insurance industry as they will involve a large and diversified pool of well capitalized insurers and reinsurers.

Marcos Alvarez
 Managing Director
 Global Insurance Ratings
 +34 919 03 65 29
 marcos.alvarez@morningstar.com

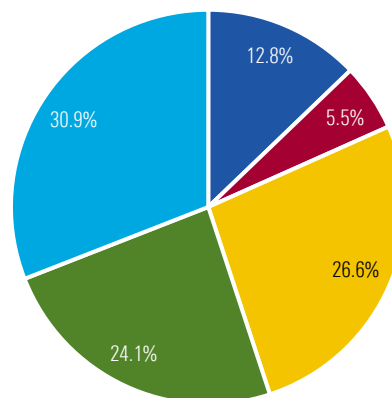
Elisabeth Rudman
 Managing Director
 Global Financial Institutions Ratings
 +44 20 7855 6655
 elisabeth.rudman@morningstar.com

Overview

On March 26, 2024, the container ship Dali struck the Francis Scott Key Bridge in Baltimore. A large section of the bridge, first opened in 1977, collapsed shortly after, resulting in the tragic loss of lives. Additionally, debris are now blocking the access to the Port of Baltimore, which is one of the busiest ports on the east coast of the United States. According to the U.S. Bureau of Transportation Statistics, the Port of Baltimore was the 17th busiest port in the United States and the third busiest on the East Coast in 2021. In 2023, the Port of Baltimore handled over \$80 billion in cargo and more than 140,000 jobs depend on this natural harbour. The Port of Baltimore is also the busiest U.S. port for car shipments, handling at least 750,000 vehicles in 2023. Not surprisingly, Exhibit 1 shows that roll-on/roll-off (Ro-Ro) cargo ships accounted for the largest proportion of vessels using the Port of Baltimore in the past five years.

Exhibit 1 Annual Vessel Composition (% Total Number of Ships 2019–23)

■ General Cargo ■ Tanker ■ Container ■ Dry Bulk ■ Ro-Ro



Sources: IMF Port Watch and Morningstar DBRS.

Preliminary report assessments point to insured losses of several billions of dollars, possibly surpassing the catastrophe of Cost Concordia that incurred in a record marine insured loss of approximately \$1.5 billion in 2012. If the Port of Baltimore has contracted business interruption insurance, we estimate that total insured losses will be in the \$2 billion to \$4 billion range. Despite the potential outsized insured losses, we expect that they remain well within the absorption capacity of the global insurance industry as claims will be ultimately paid by a large and diversified pool of insurers and reinsurers. However, in our view, these losses will add to the woes of marine

insurers who have been facing recent challenges due to the Houthi rebels' attacks in the Red Sea. We also anticipate that the losses linked to the collapse of the Baltimore bridge will add upward pressure to the pricing of marine insurance coverages globally.

Insurance Implications of the Baltimore Bridge Collapse

The collapse of the Baltimore bridge could affect multiple insurance policies given the complexities of marine insurance and the number of parties involved. Coverage under property insurance policies is also likely to be triggered as we understand the bridge itself was insured. In addition, the property insurance policy of the Port of Baltimore could include a coverage for business interruption that would protect the owner against financial losses derived from the decrease in shipping traffic. In any case, we anticipate that litigation will immediately ensue to determine legal responsibility for the involved parties and their insurers. Subrogation among insurers is likely to follow as courts assign legal responsibility. This means that if courts determine that the ship owner is liable for the accident, then the insurers of the bridge and the port can recover insured losses from the liability insurers of the ship.

In terms of marine insurance, the first consideration is whether the ship itself sustained damage when it hit the bridge or during future salvage operations required to clear the debris. Typically, the ship's hull and machinery (H&M) insurance policy would cover such damages. Initial reports suggest that the Dali sustained very limited damage. However, the ship will be further inspected following the clearing of the debris. Container ships of the Dali's size would usually have H&M insurance limits in the \$100 million to \$150 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 for the ship.

Given the potential legal liability of the Dali's operator in the loss of life, the physical damage to the bridge and the business interruption of the Port of Baltimore for a relatively extended period of time, the protection and indemnity (P&I) liability insurance will play a crucial role in this event. P&I insurance covers practically all maritime liability risks associated with the ownership and operation of a ship, including third-party risks for damage cargo during transit; risk of environmental damage, such as oil spills and pollution; and war and political risks. The P&I coverage on the Dali is likely to be triggered in this case as the owners of the Francis Scott Key Bridge and the Port of Baltimore try to recoup rebuilding costs and business interruption losses.

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, which include ship owners, ship operators, and charterers. The Britannia P&I Club (Brittania) in the UK has disclosed that it is the indemnity insurer for the Dali. Members of the International Group of P&I Clubs (the Group), such as Britannia, would also mutually reinsure each other above \$10 million; however, typically, the Group would buy general excess of loss reinsurance for up to \$3.1 billion above an attachment point of \$100 million. The attachment point represents the dollar amount of insured losses retained by the Group. We expect that the reinsurers participating in the Group's reinsurance pool will bear most of the insured losses of this event.

Owners of cargo onboard the Dali and other ships retained in the Port of Baltimore because of the collapse of the bridge will likely make under their cargo insurance policies and the Dali'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 usually provide cover for the cost of transit delays, which requires separate insurance with additional premiums. Although cargo insurance with embedded delay protection would frequently have deductibles of at least seven to 15 days, we expect that these types of policies will be activated as clearing the access to the port will take several months.

Related Research

- [*Primary Ports of Call Expected to Be Largely Insulated From the Red Sea Attacks*](#), February 5, 2024.
- [*Credit Impact of Red Sea Shipping Disruption Varies by Industry*](#), January 17, 2024.
- [*Red Sea Crisis: War Insurance Rates to Increase Following U.S. and UK Airstrikes on Houthi Targets*](#), January 15, 2024.
- [*Red Sea Attacks Straining Global Supply Chains and Adding Upward Pressure on War Insurance Premiums*](#), December 21, 2023.
- [*ICBC's Ransomware Incident Highlights the Potential Exposure of Financial Institutions to Cyber Risks*](#), November 10, 2023.
- [*No Port in Sight: West Coast Port Strikes Meaningfully Disrupting Certain Diversified Industries*](#), July 13, 2023.
- [*Labour Strikes in the North American Ports — Two Countries, Two Paths*](#), July 12, 2023.
- [*Global Insurers Respond to Higher Reinsurance Costs By Retaining More Risk, Negatively Pressuring Credit Ratings*](#), July 12, 2023.
- [*Port of Vancouver Strike Will Test Post-Pandemic Supply Chain Insurance Coverage, Worsen Claims Inflation*](#), July 6, 2023.
- [*Social Unrest in France Will Add to Ongoing Concerns in the Strike, Riot, and Civil Commotion Insurance Market*](#), July 4, 2023.
- [*Cyber Insurance — A Meaningful Growth Opportunity for Insurers*](#), May 30, 2023.

Note:

All figures are in United States dollars unless otherwise noted.

About Morningstar DBRS

Morningstar DBRS is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

Morningstar DBRS is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why Morningstar DBRS is the next generation of credit ratings.

Learn more at dbrs.morningstar.com.



The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany) (EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies please see: <https://dbrs.morningstar.com/research/highlights.pdf>.

The Morningstar DBRS Group of companies are wholly-owned subsidiaries of Morningstar, Inc.

© 2024 Morningstar DBRS. All Rights Reserved. The information upon which Morningstar DBRS credit ratings and other types of credit opinions and reports are based is obtained by Morningstar DBRS from sources Morningstar DBRS believes to be reliable. Morningstar DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. Morningstar DBRS credit ratings, other types of credit opinions, reports and any other information provided by Morningstar DBRS are provided "as is" and without representation or warranty of any kind and Morningstar DBRS assumes no obligation to update any such credit ratings, opinions, reports or other information. Morningstar DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall Morningstar DBRS or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, Morningstar DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of Morningstar DBRS or any Morningstar DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF MORNINGSTAR DBRS AND THE MORNINGSTAR DBRS REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY MORNINGSTAR DBRS DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. \$100. Morningstar DBRS does not act as a fiduciary or an investment advisor. Morningstar DBRS does not provide investment, financial or other advice.

Credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable.

A report with respect to a Morningstar DBRS credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities.

Morningstar DBRS may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities.

This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Morningstar DBRS. ALL MORNINGSTAR DBRS CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON [HTTPS://DBRS.MORNINGSTAR.COM](https://dbrs.morningstar.com). Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than Morningstar DBRS. Such hyperlinks or other computer links are provided for convenience only. Morningstar DBRS does not endorse the content, the operator or operations of third party websites. Morningstar DBRS is not responsible for the content or operation of such third party websites and Morningstar DBRS shall have no liability to you or any other person or entity for the use of third party websites.