Commentary

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

Morningstar DBRS
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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.

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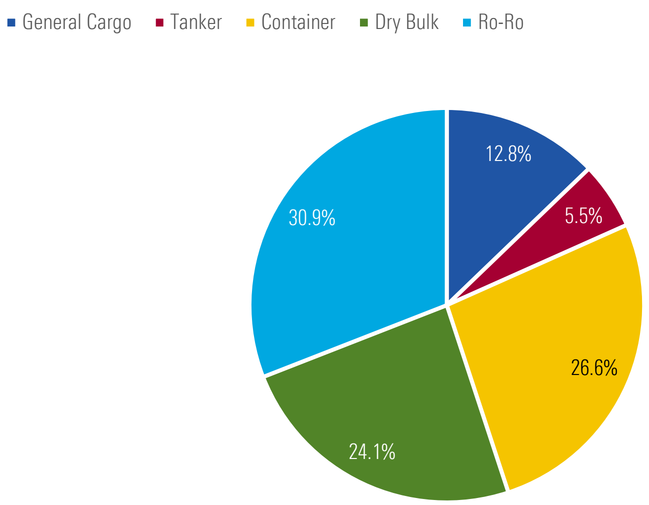
Overview

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)



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 Brittania 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 Brittania, 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.

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- *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.