

Financial Warfare at Sea: Maritime Insurance and the Security of Global Shipping

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Global trade is overwhelmingly reliant on maritime transport despite the developments in alternative means of transportation such as air travel. According to the UN Trade and Development organisation (UNCTAD, 2025), 80% of global trade is conducted through maritime transport, reflecting its imperative role in conducting global trade. Safety and the ease of transit is critical for not only conducting maritime trade but also the smooth functioning of global markets, energy security, and military logistics.

However, these shipping lanes have significantly become vulnerable to widespread disruption from piracy, terrorism, and state-backed attacks on commercial vessels, considering the commercial value on board these ships are a major disruption for the global economy. Although naval patrols and military escorts have been critical in responding to these threats, a dimension of maritime security which is often overlooked is the financial systems that support global shipping, and the one to be discussed in this article: maritime insurance (Bueger, 2015, pp. 159–164).

Maritime insurance is overlooked yet plays a critical role in determining the viability of commercial shipping routes. Insurance is necessary for shipping companies considering the risks of travelling at sea, not only piracy but the unpredictability of sea such as storms; hence, to prevent significant financial loss at sea, insurance is key to spreading the risk across insurers and policyholders. Hence, when a certain region is threatened by conflict, insurers are likely to raise insurance premiums considering the increase of attacks to cargo. Thus, the overall pricing of shipping in those certain regions skyrockets. This in effect alters behavior of shipping companies to consider alternative routes, delay shipments till the conflict eases, or in the worst-case scenario withdraw all shipping operations in the area. Hence, this mechanism illustrates that insurance markets can act as a means of indirect security governance by shaping how economic actors react to maritime threats (Stopford, 2009).

However, despite the obvious economic gains from governments coordinating with insurance markets as an economic and security policy, there is a lack of communication between the two parties. This article seeks to argue that maritime insurance could be integrated into the wider economy and security. Essentially, by coordinating with insurers and financial institutions, such as the UK with strong financial sectors, states can shape the cost structures that influence shipping behavior. Hence, states like the UK will be in a more viable position to impose indirect economic pressure on hostile actors responsible for attacks on maritime trade.

However, the use of insurance as a deterrence tool does have its limits. Avoiding busy sea lanes often imposes costs on the states and firms that depend on them. While market incentives often naturally push shipping toward the most profitable routes, maritime insurance should not be viewed as a substitute for naval power but rather a complementary instrument within the broader framework of non-kinetic deterrence.

Maritime Insecurity and the Economics of Risk

Historically, attacks on commercial shipping have had immediate and measurable consequences on insurance markets. This article will seek to explain a few real-case studies to prove that financial institutions already react to security threats in ways that shape global trade patterns.

A prominent example would be one of the most overlooked post-9/11 terrorist attacks, which was the bombing of the oil tanker MV Limburg off the coast of Yemen in 2002. This suicide attack targeted the French-owned oil tanker, causing around 90,000 barrels of crude oil to spill into the Gulf of Aden. The attacks carried out by militants associated with the Al-Qaeda in Yemen subgroup caused a dramatic increase in insurance premiums for vessels operating near the Yemeni coast. According to the Hodeida Shipping and Transport company, they reported a 50% decrease in port activity at Aden, Yemen. This was primarily due to higher insurance premiums, known as War Risk Surcharges, due to the terrorist attack resulting in a cost of \$250 per each 20' cargo container and \$500 per 40' container bound for Yemen. The

higher premiums have altered behavior to favour vessels bypassing Yemen and stopping at ports like Djibouti and Oman. The attack had a negative impact on the state that hosted this terrorist attack, with Yemen expected to lose \$3.8 million U.S. dollars per month, a drastic blow to Yemen's economy (U.S. Department of State, 2002).

A similar pattern occurred during the surge of Somali piracy off the Horn of Africa between 2008 and 2012. The Somali piracy crisis threatened one of the world's most important shipping corridors, which linked the Indian Ocean with the Mediterranean through the Suez Canal. During the height of the crisis, for every \$120 million seized by pirates in Somalia, the cost to the shipping industry and consumers was between \$0.9 and \$3.3 billion. With insurance premiums being hiked due to the frequency and devastation to global shipping, shipping costs increased by 8% on routes exposed to Somali piracy. Premiums changed depending on the season, which correlated with the frequency of piracy raids, considering it was 14% cheaper to charter ships through the Gulf of Aden during the summer monsoon, when piracy was lower, than during periods with higher pirate activity (Royal Economic Society, 2013).

A more recent example would be the attacks on shipping in the Red Sea by the Houthi movement in 2023–2024, which illustrated the extent of reaction of maritime insurance markets to security threats. Missile and drone attacks targeting the Red Sea are critical, as the sea link facilitates 12% of world commerce, including cargo, oil, LNG, and grains. The attacks coincided with the commencement of the war in Gaza, targeting predominantly American and Israeli ships. The attacks led to a decline of average daily transit trading volume, which went down from approximately 4.0 million metric tons towards the end of 2023 to a low of approximately 1.7 million metric tons at the beginning of 2024: a decrease of nearly 57.5% (IMF Portwatch, 2015). Although friendly nations retaliate with naval escorts such as the US-led Operation Prosperity Guardian and direct military strikes targeting Houthi bases in Yemen, this came to little effect. This is considering reports of Houthi re-instigating attacks in the wake of US and Israeli strikes against Iran. Re-routing around the Cape in southern Africa is costly and longer but may

seem as the only viable option to link trade from Europe and Asia, considering not only threats to the Red Sea but also the recent Iranian closure of the Straits of Hormuz (OceanCrew, 2026).

In each of these cases, insurance markets adjusted themselves to insecurity. Rising insurance premiums have effectively transmitted the costs of conflict towards the shipping companies themselves and in turn have influenced their operational behavior. These case studies highlight the structural power embedded within maritime finance: making evident that insurers do not merely respond to security conditions; they shape the economic environment in which maritime trade operates (Baldwin, 1985).

Introducing Maritime Insurance as a Means of Economic Deterrence

The concept of economic deterrence can be defined as an idea that states can influence the behavior of adversaries by manipulating economic incentives and constraints. Economic deterrence currently on the global stage is constrained to simply sanctions, trade restrictions, or financial pressure through banking systems. Maritime insurance is systematically overlooked as a potential mechanism to gain economic leverage.

Insurance markets function as a form of risk pricing. When there is a likely attack on a friendly target, insurers can adjust their premiums accordingly. These adjustments signal to shipping companies that certain routes have become economically hazardous. This process can significantly influence whether vessels continue operating in contested waters.

From a policy perspective, this is perfect, as the government could amplify this effect through structured coordination with insurers. The state can play a major role by issuing official threat assessments, maritime security designations, and intelligence-sharing which would influence insurance risk classifications, encouraging consistent pricing responses to hostile activity. Hence states could indirectly increase the economic costs faced by actors, both non-friendly states and non-states, responsible for maritime attacks (Kilpatrick, 2024, pp. 551–560).

This process is critical for the cases where non-state actors like pirates are supported by state actors. This is as non-friendly non-state actors often rely on fellow hostile states for port infrastructure and funding for their criminal exploits. Hence, when an attack occurs, resulting in increased insurance costs, the resulting disruptions, as we have seen in Yemen and the Gulf, can reduce local economic activity as ships seek safer alternative routes and create pressure on hostile governments to cease support for non-state groups.

Hence, maritime insurance can serve as a form of indirect deterrence. Hence, rather than targeting the attacks directly, it imposes economic consequences that ripple through the surrounding political and economic environment.

The British Input

The United Kingdom's strategic and financial position makes it particularly well placed to leverage maritime insurance as a tool of economic deterrence. London remains central to global maritime insurance and wider financial markets, hosting major insurers such as Lloyd's of London, which plays a critical role in underwriting global shipping risk. As the "heart of maritime insurance globally," Lloyd's possesses significant influence over how risk is priced across international shipping routes. During periods of heightened geopolitical tension, this influence becomes especially visible. For example, war-risk premiums for vessels transiting the Strait of Hormuz reportedly increased from roughly 0.25% of a ship's value to between 1% and 1.5%, raising the cost of a single voyage by hundreds of thousands of dollars. As analysts observed, insurers were able to renegotiate policies and "separately charge for actions such as sailing through the Strait of Hormuz" (The Guardian, 2026), reflecting the rapidly changing risk environment. Such pricing adjustments demonstrate how insurance markets can significantly alter the economic viability of operating in contested waters. Given London's central role in these markets, the UK is uniquely positioned to harness maritime insurance as a form of economic leverage within a broader maritime security strategy.

This gives the UK a unique position within the global maritime economy, with decisions made within London's insurance markets influencing the cost structures faced by shipping companies worldwide. Thus, the UK possesses the economic power that can influence national security strategy. However, there are certain aspects that must be considered. This leveraging of influence requires careful coordination between private insurers and government institutions. More direct government communications could interfere with the independence and credibility of insurance markets. It is imperative to maintain London's reputation as a neutral financial hub, which is a critical component of its global influence. Hence, excessive political intervention could undermine market confidence and damage the very institutions that provide the UK with its strategic leverage.

Limitations and Market Constraints

This hopeful idea has its limitations, and its potential to use maritime insurance as a tool of economic deterrence faces limitations. Insurance markets operate within a competitive global environment, and their primary function is to price risk rather than advance geopolitical objectives.

A key limitation would be its potential to backfire on the nation imposing economic leverage. This is as higher economic costs imposed on states will result in increased insurance premiums, shipping firms may re-route vessels or delay shipments. Although the intended effect will be realised with a reduced security threat, on the other hand it will lead to increased transportation costs and potential to disrupt supply chains. However, many routes are so reliant on shipping alternatives, it is simply not feasible; hence this effect may not occur.

Another limitation would be market constraints which may reduce the effectiveness of insurance-based deterrence. Shipping companies operate within highly competitive industries where profit margins are often narrow. If operating in a contested region remains economically viable, firms may continue to use those routes despite elevated premiums. In other words, the most profitable shipping routes will tend to persist unless risk costs become prohibitively high.

In addition, hostile actors may be able to adapt to the economic consequences of insurance-driven disruptions. Militant groups responsible for attacks on shipping often operate within a low-cost framework whilst inflicting significant economic consequences on others. Therefore, raising insurance premiums may not alter hostile actor behavior.

Thus, maritime insurance should not be seen as a single mechanism and should be placed in the wider security framework of diplomatic pressure, economic sanctions, naval patrols and broader security strategies (Kustra, 2023, pp. 649–660).

Policy Recommendations

- Develop coordinated policy frameworks
 - Governments should integrate maritime insurance into security strategy while respecting market dynamics and avoiding heavy political interference.
- Strengthen public–private cooperation
 - Establish structured coordination between government institutions and major insurance markets.
 - Encourage regular intelligence and information sharing on maritime threats to improve insurers’ risk assessments.
- Use official maritime threat designations
 - Governments can formally identify high-risk regions where attacks on shipping are increasing.
 - These designations help insurers adjust risk classifications and premiums more accurately.
- Coordinate with international allies
 - Align insurance risk assessments across major global insurance markets.
 - Prevent shipping companies from seeking cheaper coverage in other jurisdictions when risks rise.
- Maintain transparency and legal safeguards
 - Protect the credibility and neutrality of insurance markets.
 - Ensure pricing decisions remain trusted and not perceived as politically manipulated.

The Potential for Financial Deterrence at Sea

Maritime conflict is constantly evolving in ways that blur the boundaries between military confrontation and economic competition. Warfare in the modern context is no longer fought on the battlefield but has evolved to various dimensions including space, but increasingly the targeting of economic infrastructure that is the lifeblood of global trade, including ports, shipping lanes, and logistical networks. In this evolved environment, financial instruments such as insurance are becoming increasingly relevant to security policy.

Insurance markets already play an important role in managing the risks associated with maritime trade. Hence, by pricing insecurity into shipping operations, they influence how commercial actors respond to threats at sea. Thus, governments, notably the British government's new security policy, could incorporate financial mechanisms to gain economic leverage and strengthen the broader strategies of deterrence and resilience.

However, such integration must be approached with caution. Insurance markets cannot be transformed into instruments of state power without undermining the key success of insurance markets: neutrality. By treading the rope carefully, policymakers may be able to harness informational and structural advantages of these markets while preserving their independence.

Conclusion

Maritime insurance represents a largely overlooked component of the global security architecture that underpins international trade. When attacks on shipping occur, insurers respond by raising war-risk premiums, altering the economic incentives that shape maritime behaviour. These responses demonstrate the considerable influence of financial institutions in governing the risks associated with global shipping.

By coordinating more closely with insurance markets, governments may be able to harness this influence as part of broader strategies of economic deterrence. Such an approach could impose indirect

economic costs on actors responsible for maritime attacks, encouraging restraint without relying solely on military force.

Nevertheless, the effectiveness of this strategy is constrained by market dynamics and the economic costs imposed on legitimate trade. Insurance-based deterrence cannot replace traditional security measures, but it may serve as a complementary tool within a broader framework of maritime governance.

In an era where economic and security systems are increasingly interconnected, recognising the strategic significance of financial infrastructure may offer new avenues for protecting global trade. The price of security at sea, it seems, is not determined solely by naval power but also by the markets that ensure the ships carrying the world's commerce.

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