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Weaponising insurance: the invisible gatekeeper of global trade

In the insurance industry, most of our daily professional attention is naturally concerned with the dynamics of individual products, technical discussions and detailed analysis of data. Rarely do we take a step back to appreciate the broader global power and impact of insurance.

Insurance acts as a less visible, yet critical, component of the modern global economy. Global systems depend on physical infrastructure for their operation and political and military strength for their protection. However, insurance is the quiet enabler playing a crucial role in the seamless movement of goods, capital and people.

While it may often be viewed as a passive financial mechanism absorbing risk after an event occurs, recent geopolitical events remind us of its potential as a powerful instrument of strategic influence. In certain contexts, insurance does not merely respond to risk - it actively determines whether economic activity can occur in the first instance.

The recent tensions in the Strait of Hormuz are the latest in a long line of such examples. Even without sustained physical attacks, the credible threat of disruption has been enough to drive a sharp repricing of war-risk insurance. Premiums surged and, in some cases, insurers withdrew cover entirely. The result is that vessels, particularly oil tankers, have become commercially unable to transit the region. In effect, this global trade chokepoint can be brought to a standstill without sinking a single ship.

This then raises a deeper question: **how can a financial product have such real-world impact?**

The answer lies in understanding the structural role insurance plays in different parts of the economy.

For individuals, insurance is optional. A person may choose to travel to a high-risk area without life insurance. In doing so, they are effectively self-insuring. The consequences of that decision, whether it be financial loss or hardship for dependents, are borne entirely by the individual. The global system remains operational regardless of that individual's decision.

For commercial operators, however, the outcome can be fundamentally different. A ship owner, airline or infrastructure operator cannot simply choose to operate without insurance. Insurance is embedded into the fabric of commercial activity.

There are several reasons for this:



Lenders require insured assets in that a financed vessel must carry hull and liability insurance. Without it, loan covenants may be breached.



Contractual arrangements demand it. Charterers, ports and other counterparties may require proof of insurance before engaging with the vessel.



Regulatory frameworks may mandate it, particularly for third-party liabilities such as pollution or collision damage.



The scale of potential losses is simply too large to absorb on balance sheet.

Even if a ship owner were to willingly self-insure against the loss of the vessel itself, they cannot realistically self-insure against catastrophic third-party liabilities. Insurance, therefore, moves from being a prudent safeguard to becoming a critical requirement.



As a result, in commercial contexts, insurance acts as a prerequisite for market participation. This is what makes insurance uniquely capable of being “weaponised”. Unlike traditional tools of economic disruption, such as sanctions or physical blockades, insurance operates through the perception and pricing of risk. A credible threat alone can trigger a market response and, consequently, the need for insurance cover.

In practice, underwriting decisions and pricing are influenced by the designation of specific “Listed Areas”. These areas are deemed to present enhanced risk to marine hull insurers and are determined by the Joint War Committee, which itself is comprised of representatives from Lloyd’s of London and the International Underwriting Association (IUA) market. The Lloyd’s of London standard war risk clauses provide underwriters with the right to cancel cover anywhere between 72 hours and seven days’ notice. While cover can be reinstated, this would be on revised premium terms, often with a non-linear increase, to reflect the Listed Area designation.

The resulting increase in premiums creates a form of economic paralysis without the need for direct confrontation.

Historical examples reinforce this dynamic. During the period of Somali piracy in the late 2000s, war-risk premiums for vessels transiting the Gulf of Aden rose dramatically. Similarly, in the early stages of the Russia–Ukraine conflict, insurance repricing in the Black Sea played a key role in disrupting grain exports, even before active hostilities commenced. This is reflected in the Joint War Committee designating the “Ukrainian and Russian waters in the Black Sea and the Sea of Azov” a Listed Area on 15 February 2022, more than a week before Russia launched its full-scale invasion of Ukraine on 24 February 2022.

Aviation insurers issued seven-day cancellation notices for third-party war-risk liability cover following 9/11. As airlines could not practically operate without this cover due to lease, financing and foreign operating requirements, governments moved swiftly to provide indemnities or state-backed war-risk insurance to prevent widespread fleet groundings.

Across these examples we notice a consistent pattern emerging. Insurance markets translate uncertainty into immediate economic consequences, with insurance acting as an early-warning system in some cases.

This phenomenon, however, is not universal across all forms of insurance. As noted above, life insurance behaves differently. Unlike marine or aviation insurance, life insurance is not a prerequisite for economic participation. Individuals can and do operate without it. This is because life insurance is structured as a long-term pooling mechanism with risks diversified across geographical and population pools, with pricing less sensitive to short-term fluctuations in perceived risk. Importantly, war mortality and other extreme risks are typically excluded from private life insurance contracts. These risks are instead absorbed by the state. This is because war risk is systemic and highly correlated and, consequently, not economically insurable at scale by private markets.

As a result, life insurance does not function as a gatekeeper in the same way as commercial insurance. Its withdrawal does not halt activity; rather, it redistributes risk to individuals and governments. In this sense, life insurance acts as a shock absorber, not a control mechanism.

This insight has broader implications. It suggests that the geopolitical power of insurance is less about its ability to absorb loss, and more about its ability to enforce participation rules. Where insurance is embedded as a condition of operation, it becomes a point of leverage.

Looking ahead, as financial systems become progressively interconnected and insurance becomes increasingly embedded in areas such as lending, trade finance and digital infrastructure, the scope for this form of “weaponisation” may expand. It also highlights the importance of resilience, both for insurers managing concentrated risks, and for governments that may need to step in when markets withdraw.

Ultimately, insurance sits at an unusual intersection. It is not infrastructure, yet it enables infrastructure. It is not regulation, yet it enforces rules. It is not warfare, yet it can shape the outcomes of conflict. In a world of increasing geopolitical tension, it may prove to be one of the most powerful tools that operate entirely in the background, until suddenly, it doesn’t.