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The Strait of Hormuz Ceasefire and the Challenge of Pricing Persistent Uncertainty

What started as a sudden and violent escalation between the US, Israel, and Iran on 28th February 2026 has evolved into an ongoing conflict punctuated by ceasefires that last only briefly before hostilities resume. Insurers, shipowners, and their legal teams are then left to contend with a risk environment that never settles, leaving those working across marine, energy, and political risk lines with significant challenges in pricing cover and testing the resilience of underwriting models to their limits.

Around a quarter of the world's seaborne oil and a fifth of global liquefied natural gas (LNG) once passed through the Strait every day, but it has become a real-world test case for how quickly geopolitical volatility can outpace traditional approaches to underwriting maritime war risk. Legal firms advising insurers, reinsurers, shipowners, and cargo carriers have to develop a deep understanding of the practical realities at sea in order to react to the legal questions raised by rapidly changing adjustments in coverage and rates.

No End in Sight

The current crisis traces back to coordinated US and Israeli strikes on Iranian targets in February 2026, which resulted in Iran responding by asserting control over shipping through the Strait and launching attacks on all vessels deemed non-compliant with its directives. What has followed is a repeated pattern where a ceasefire is announced, oil tanker traffic cautiously restarts, only for a new incident such as an airstrike, drone attack, or diplomatic breakdown to grind everything to a halt and drag the situation back towards open conflict.

A ceasefire in April resulted in a US naval blockade of Iranian ports after talks failed, with a subsequent memorandum of understanding in June briefly restoring a degree of confidence as the US indicated that the Strait was open again to commercial shipping. However, by July, the memorandum had effectively been declared void, with Iranian officials stating they considered themselves under no obligation, and the exchange of strikes resumed.

The position remains only partially resolved; the US Energy Information Administration estimated tanker volumes through the Strait fell as low as 4.9 million barrels per day in the second quarter of the year, down from over 20 million barrels per day before the conflict began. There has only been a gradual and fragile recovery since, achieved in part by military escorts.

For insurers, the practical difficulty lies in the perpetual shift between conflict and peace, making it extremely difficult to predict whether risk will move in one direction or another. A route that appears to be reopening at the beginning of the week may be the site of a drone strike days later, and this makes the current situation an unusual and continual underwriting challenge.

The Insurance Market's Response

Figures from the maritime insurance market indicate that hull war-risk premiums for vessels transiting the Strait of Hormuz sat at between 0.15%-0.25% of vessel value prior to February, increasing to between 1%-3% immediately after the conflict began, and spiking as high as 7.5%-10% during the most acute periods of fighting. With tankers valued at £150 million plus, a hull war-risk premium that was once perhaps £225,000 can now be as high as £15 million.

The majority of vessels and tankers operating or stranded in the region are traditionally insured and reinsured in the London market, and although attacks on shipping are quite indiscriminate, the type of vessel, ownership and flag can all contribute to how risk is assessed and priced.

The Joint War Committee (JWC), comprising underwriting experts from the Lloyd's Market Association (LMA) and the International Underwriting Association (IUA), maintains the list of areas designated as having elevated risk for marine war purposes and its redesignation of the wider Arabian Gulf as a conflict zone triggered automatic repricing obligations for vessels operating in the region. Knock-on effects include abrupt changes to maritime premiums and amendments to commercial transit calculations, with increased costs often felt throughout the supply chain.

Legal professionals are faced with the familiar questions around policy wording and what precisely constitutes entry into a JWC-listed zone, how quickly shipowners must provide notification of an intended transit, and what happens should a vessel's routing change mid-voyage in response to a fast-moving escalation.

Short-notice cancellation clauses, typically allowing insurers to withdraw war cover with up to 72 hours' notice, have been activated extensively by the International Group of P&I Clubs, which provides marine liability cover for almost 90% of the world's ocean-going tonnage. These create a fundamental shift in the baseline of what coverage costs and what it covers, and a genuine risk of coverage gaps for shipowners.

The scale of capacity withdrawal has been remarkable, and at times during the conflict, securing hull war cover for a transit in the Strait has been difficult, at any price. This prompted the US International Development Finance Corporation (DFC), in partnership with private insurers, to expand its maritime reinsurance facility from $20 billion to $40 billion to keep vessels moving. This is a significant expansion of a state programme into an area normally served by private underwriting and raises longer-term questions about the boundary between commercial insurance and government-backed risk absorption in conflict zones.

Implications for Pricing and Advising on Risk

Given the characteristics of the Strait and how the conflict has played out so far, the core actuarial challenge extends beyond frequency to encapsulate correlation and concentration. This has forced a shift away from traditional marine risk models, which work on a claims event framework that assumes that individual loss events, however severe, are reasonably independent and geographically spread.

In reality, the Strait of Hormuz does not fit this assumption, with hundreds of vessels, collectively insured for hundreds of billions of dollars, travelling in a corridor only a few miles wide. A single escalation can therefore generate correlated losses across an enormous portion of the insured fleet simultaneously. In addition, the uncertainty around agreed ceasefires keeps premiums high as insurers manage frequent, yet unpredictable, risks.

This dynamic has led commentators, supported by analysis published by the World Economic Forum, to highlight the situation as a critical structural shift in risk management and a genuine test of the concept of insurability itself, with the challenges of certainty and interconnectedness making it comparable to pricing climate and cyber risk.

As the geographic and temporal boundaries of risk have shifted so quickly, legal and insurance professionals advising clients on current exposure must scrutinise policy wording around listed areas and notification obligations to ensure they have stayed aligned with market changes. Additionally, clients relying on ceasefires as a basis for resuming normal trading should be advised to take caution, as diplomatic announcements have yet to reliably translate into lasting safety. Premiums that quickly soften in response to positive news have also shown a tendency to snap back just as fast, so a less reactive approach in this area can also be more prudent.

What Lies Ahead?

There are signs that some are adapting to what they see as the new norm, rather than waiting for a stable resolution to present itself. Saudi Arabia and the UAE, for example, have accelerated efforts to reroute crude away from the Strait entirely, most notably using Saudi Arabia's East-West pipeline that operates at 7 million barrels per day. Doing so reduces the physical vulnerabilities of the Strait, but it remains to be seen whether it leads to a meaningful reduction in Iran's strategic leverage over global energy shipping or simply shifts risk elsewhere.

Elsewhere, Houthis in Yemen have seized the strategically important port of Mokha in the Red Sea, representing a further threat to global trade. The port sits on the Bab al-Mandab Strait, which connects the Red Sea to the Gulf of Aden and the Indian Ocean and serves as the southern gateway to key shipping routes between Asia and Europe. Despite assurances that there will be no threat to international shipping other than those from Saudi Arabia, the Strait is effectively closed to normal operations due to Houthi blockades, military positioning, and insurance withdrawals.

Genuine uncertainty remains, and the situation looks unlikely to be resolved by a single, durable ceasefire any time soon. Premium setting, policy drafting, and claims preparation should all therefore continue on the basis that volatility is the prevailing condition and those who build genuine optionality and careful wording into their arrangements will be far better placed to weather whatever the coming months bring.