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Iran Volatility Implicates Range Of Trade Coverages, Pros Say

By **Eli Flesch**

Law360 (June 26, 2025, 9:11 PM EDT) -- A growing market for insurance meant to protect companies from trade disruptions could help a wide array of industries cover risks associated with military hostilities in Iran and Israel, but experts caution that there are important limits to such coverages.

Recent fighting between Israel and Iran over the latter's nuclear program, and an accompanying American bombing run in Iran, have heightened concerns that an era of political instability could disrupt key trade routes. Experts say a number of specialty insurance policies could help round out businesses' protections against such disruptions, while also incentivizing policyholders to find ways to strengthen their own supply chains.

Sergio F. Oehninger, a policyholder attorney who leads Morgan Lewis & Bockius LLP's global insurance recovery practice, said that companies across economic sectors are reviewing their existing insurance programs in response to recent geopolitical volatility on supply chains. They're checking for coverage gaps and identifying relevant policies, he said.

"Whether reviewing their existing programs or preparing for renewal, policyholders will want to develop a careful strategy to evaluate their insurance portfolios for relevant coverages, paying special attention to definitions, endorsements, and potentially applicable exclusions to ensure these meaningful risks do not fall within any coverage gaps," Oehninger told Law360 in written comments. "When faced with losses, policyholders will want to comply with all notification, claim documentation, proof of loss, cooperation, and suit limitation requirements under their policies and applicable law."

Oehninger added that a bigger market for these coverages is causing insurers to consider the workings of notices of cancellation, heighten underwriting standards and evaluate how they can incentivize policyholders to focus on risk reduction practices.

Two types of specialty coverage that can help protect companies from supply chain disturbances are contingent business interruption insurance and trade disruption insurance.

A key difference between them is that CBI policies require a policyholder's supplier to have sustained physical loss or damage. And that damage needs to be covered under the policy, experts say, which means that exclusions for war losses would often apply.

Trade disruption insurance, sometimes referred to as supply chain insurance, is broader in nature. It usually doesn't have a physical loss or damage requirement, and can cover lost profits and other expenses from shocks to the trading system. Those shocks could include political or regulatory changes, experts say, as well as disruptions to trade logistics.

Insurance policies meant to provide direct coverage for war losses will often be significantly limited in scope and have high deductibles, said Jeffrey S. Weinstein, a Mound Cotton Wollan & Greengrass LLP carrier-side attorney who advises partly on war exclusions and terrorism policies. That's on account of the unpredictable nature of war, and the potentially huge losses that can result from fighting, according to pros.

"At the end of the day, the insurance industry is looking to control these types of exposures," Weinstein told Law360.

An evolving issue attorneys are looking at is how suppliers are defined in trade disruption policies. Case law is limited, but experts like Rukesh Korde, a policyholder attorney with Covington & Burling LLP, said those definitions have big implications.

Policies may concern "direct" or "indirect" suppliers based on where along a supply chain a supplier is located. A direct supplier might be simple — a business that provides a product to another. But an indirect supplier might be an entity, like an oil producer, that provides a product used to manufacture other goods that are then directly supplied to a policyholder. Whether coverage would exist for disruptions to the oil producer is at issue.

"That is going to be one of the issues that is going to come under a lot of pressure in the next five years," said Korde, who has experience in supply chains and contingent business interruption losses.

Another form of coverage, political risk insurance, could help account for losses associated with government actions like the nationalization or confiscation of business, or other asset seizures. Various forms of marine insurance — which dates back to at least ancient Babylon — can also protect companies directly involved in shipping.

The number of different policies on offer point to a risk environment that's evolved in response to any number of geopolitical changes. Insurance experts previously expressed concern over supply issues following Russia's full-scale invasion of Ukraine in 2022, and the coronavirus pandemic offers one of the starkest examples of trade disruption.

The 12-day Israel-Iran conflict, which ended Tuesday with a ceasefire agreement, raised fears that a critical oil shipping route south of Iran could be impeded. With around 20% of the world's oil supply going through the Strait of Hormuz, a disruption could profoundly affect the world economy.

"Practically speaking, there has always been unrest and uncertainty in the world," said Andrew Van Osselaer, an associate with Haynes Boone. "A big change has been that supply chains have been more globalized."

To meet that risk, he added, carriers are now offering more trade disruption insurance. Until relatively recently, trade disruption insurance didn't exist, Van Osselaer said. TDI coverage could be triggered if a company doesn't receive supplies, he said.

Moreover, as insurance companies and underwriters get involved in isolating risks connected to supply chains, that could spur companies to mitigate those risks. Van Osselaer drew an analogy to cyberinsurance, in which the kind of coverage on offer has much to do with a policyholder's protocols. Diversifying supply chains — or ensuring that a business can receive products — is one such way companies can protect themselves, he said.

"Insurance companies want to underwrite that risk, but they want to do it where people are taking the measures to make sure that they're not really overextending themselves," he said. "I wouldn't be surprised if we see more insurers getting more comfortable with insuring these risks as we figure out how to manage these supply chain issues better."

Laura-May Scott, a Reed Smith LLP attorney who advises policyholders partly on political risk and marine cargo policies, said insurers wouldn't want coverage to be seen as a first recovery in the event that something goes wrong for one of their insureds.

"I think insurers would expect insureds to ensure that they have risk management processes in place so that their supply chain is shored up," Scott told Law360.

Scott's fellow policyholder attorney in London, Peter Hardy, also noted that enhanced political volatility could lead to more cyber incidents, which can have ripple effects.

"For instance, some form of unexpected or unanticipated cyber disruption at a warehouse — that's going to cause massive supply chain issues," Hardy said.

Experts have said that the number of industries that could be affected by political volatility or war in the Middle East are numerous. While oil shipping is most directly implicated in the Strait of Hormuz, other transportation businesses could be at risk, including marine shippers and aviation companies operating in the region.

In one example of the massive costs at stake in wartime insurance disputes, a U.K. court earlier this month found that major insurers are obliged to pay aircraft lessors billions over planes stranded in Russia following its invasion of Ukraine.

--Editing by Abbie Sarfo.
