

August 10, 2017

**Summary for National Security Council (NSC) on
U.S. Government (USG) War Risk Insurance (WRI) Programs (MAR-700)**

BLUF: The USG WRI programs, managed by DoT/MARAD, ensure that commercial sea lines of communication (SLOC's) will remain open and accessible by the DOD for national defense, national security, and for foreign policy objectives during times of war. The NSC via DoS can request WRI be provided to support national security and foreign policy objectives.

Background: Foreign companies are the primary providers of marine insurance but generally will not offer such insurance on reasonable terms in wartime situations. Domestic insurance capacity is insufficient to cover the U.S.-flag vessels supporting USTRANSCOM. Commercial WRI is cancelable with 48 hours' notice. Automatic cancellation clauses are standard for hostile nuclear detonation or war between one of the five major powers: USA, UK, France, Russia, and PRC. Since 1914, the USG has had a centralized War Risk Insurance Program in one form or another to cover categories such as hull and machinery, cargo, liability, loss of hire and/or life insurance for vessel operations. USG WRI has been used in all major conflicts since 1914.

- There are currently two (2) marine WRI programs managed by MARAD. Both are subject to Presidential approval.
- Through these programs, MARAD is authorized to provide a broad array of maritime insurance for vessel operations considered to be in the interest of the national defense, national security, or national economy.
- MARAD WRI programs:
 - o (1) "Sec. 1202" - Commercial, non-DOD, risk-based premium (46 USC Sec. 53902 aka "Sec. 1202" of the Merchant Marine Act of 1936). This program is currently on standby status. Presidential approval is required to activate it. It is funded by the War Risk Insurance Fund.
 - Last activated in 2007 at the request of the NSC and DoS as a foreign policy instrument for the South Ossetia conflict to keep commercial SLOC open for Georgia.
 - Activated in 1990 Gulf War and 2003.
 - Limitations affecting the program: Timeliness of Presidential approval; the WRI Fund has about \$48 million.
 - o (2) "Sec. 1205" - DOD, non-premium (46 USC Sec. 53905 aka "Sec. 1205" of the Merchant Marine Act of 1936). This program is active and offers insurance "in connection with DOD vessel charters, contracts, tenders, or agreements" in support of DOD operations. MARAD is indemnified for any losses by DOD, to be paid from DOD operations expenses. Presidential approval was granted in 2003 for continuing DOD requirements.
 - Program is implemented and ready for response to requirements by DOD with both Presidential approval and funding indemnification in place.

- Active war risk policies under Sec. 1205 for seven (7) MSC chartered or controlled vessels with a total coverage of over \$485 million.
- Limitations affecting the program: Possible construed narrow scope in the 2003 delegation Authority to from Sec. Def. to the Commander, USTRANSCOM

Actions Needed/Recommendations:

- Consider the option of pursuing pre-delegated Presidential approval for Sec. 1202 to provide a timelier response to conflicts like the South Ossetia 2007 conflict.
- Strengthen the U.S. domestic marine insurance industry.
- Re-authorization required prior to 12/31/2019 (46 USC § 53915) – Failure to reauthorize will force cancellation of MARAD’s WRI coverage for DoD vessels.

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