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DFC Reinsurance in the Gulf: Potentially Significant, But Not a Cure-all

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If you ship goods through the Strait of Hormuz or your supply chain depends on someone who does, you have probably been watching the news closely. The conflict between USA and Iran has led to major delays for shipping that normally passes through the Strait -- the only sea passage from the Persian Gulf to the open ocean.

On March 3, 2026, President Trump stated in a Truth Social post that the U.S. International Development Finance Corporation ("DFC") would provide political risk insurance for all maritime trade travelling through the Persian Gulf. On March 6, DFC fleshed the policy out somewhat, announcing that it would provide $20 billion in Maritime Reinsurance, working with select insurance partners. DFC specified that the insurance "will apply only to vessels that meet the criteria' (unspecified as yet) and "will focus on Hull & Machinery and Cargo to start."

For shipping companies that had been quietly rerouting or pulling back from Persian Gulf exposure, the DFC's involvement could provide considerable financial protection. Coverage that was unavailable or cost-prohibitive in the private market is now, at least in theory, accessible through a federal backstop. But the DFC intervention raises as many questions as it answers.

On March 11, CNBC reported that Chubb will be the lead underwriter in the DFC program, offering primary policies backed by the DFC reinsurance. On March 20, Chubb specified in a press release, "The facility will provide war marine risk insurance for hull & liability as well as cargo. Coverage will be offered for war hull risk insurance, for war P&I insurance and war cargo insurance."

Purchasing the primary policies from Chubb, and from other U.S. insurance companies presumably to follow, would be a departure for most shippers. As the Wall Street Journal highlighted, "Maritime war risks policies are sold mostly out of Lloyd's of London, with foreign insurers covering foreign ships and cargo." Further, both CNBC and the WSJ emphasized that risk to crews is the dominant factor inhibiting traffic through the Strait.

DFC coverage is aimed narrowly at war-related costs for eligible vessels. Nobody has explained which ships qualify or where the exclusions are. Like the DFC announcement, the Chubb press release alludes only to unspecified "eligibility criteria proved by the U.S. government" and availability to ships transiting the Straight "only under certain conditions."

The DFC announcement avers that the reinsurance program "will get oil, gasoline, LNG, jet fuel, and fertilizer through the Strait of Hormuz and flowing again to the world." Is that a hint as to the types of vessels that meet the as-yet-unspecified criteria? As reported in Wired, half of the hundred ships passing through the Strait daily carry manufactured goods, raw materials like grain and metals, and gas (cf. the LNG named by the DFC). Do not assume the federal government is standing between you and financial losses triggered by Strait of Hormuz disruption or closure.

Coverage if you don't have ships traveling through the Gulf

The grave risk to vessels shipping oil and gas from the gulf will trigger disruptions and losses for businesses worldwide. Political risk coverage protects businesses against losses caused by government expropriation, political violence, currency inconvertibility, and sovereign default – and sometimes, rerouting.

Rerouting coverage addresses the additional costs a vessel incurs when forced onto a longer route due to war, piracy, or geopolitical threats. Some political risk policies issued by Lloyd's syndicates, specialty carriers, and P&I clubs, cover rerouting costs as additional expenses incurred when a vessel is forced to take a longer route due to war. Policyholders should be reviewing their PRI policies to see whether and how maritime rerouting is treated.

Supply chain insurance provides coverage for loss resulting from a delay or disruption in the receipt of products, components, or services from a supplier. This coverage does not require physical loss or damage and can be triggered by a host of unexpected events, including natural disasters, industrial accidents, labor disputes, production process failures, civil or military action, regulatory issues, financial instability, and closure of roads, bridges, or disruptions at critical maritime chokepoints like the Strait of Hormuz.

That coverage looms large now. The Strait carries roughly 20% of global oil and 30% of global LNG every single day, through a channel barely 21 miles wide at its narrowest point. If it closes, whether from military conflict, a blockade, mines, or Iranian interdiction, supply chains across petrochemicals, manufacturing, and energy-intensive industries get hit immediately. And when that happens, a well-structured supply chain policy should trigger. Coverage can extend to extra expenses incurred to source supply from alternative markets, lost profits from production halts, and increased input costs from price spikes driven by the disruption.

There is a caveat, however. Supply chain policies may require legal closure of the Strait to trigger coverage. But the Strait has not been legally closed, because pursuant to the 1958 Geneva Convention on the Territorial Sea , Iran cannot close a strait that is used for international navigation. Despite this reality the Iran Revolutionary Guard Corps (IRGC) has reportedly sent warnings via VHF that the Strait is shut down. Indeed, On March 2nd, Ebrahim Jabari, a senior official in the IRGC, said publicly: "The strait is closed. If anyone tries to pass, the heroes of the Revolutionary Guard and the regular navy will set those ships ablaze." But those declarations may not satisfy the terms of some supply chain policies.

The DFC's reinsurance program is a significant development. As all the unknowns outlined above make clear, however, no business should assume Washington has it covered. Review your insurance program now, including any maritime coverage, political risk coverage, or supply chain coverage. In a volatile market, do what you can to plug any holes in that coverage.

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