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FREE OF PARTICULAR AVERAGE

Total loss coverage – or uncovered loss waiting to happen?

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Free of Particular Average Coverage is one of two standard coverage options available under most cargo insurance policies. Frequently used by logistics providers and shippers in certain facets of industry, it is ironic that it is generally misunderstood even by the people who buy and sell it everyday.

Although Free of Particular Average, derived from an old English term, means "free from partial loss," FPA coverage does pay for some partial losses that arise from covered perils.

The most common misconception about FPA is that it is "Total Loss Coverage." There are several total loss incidents that would not be covered under standard FPA coverage, such as the hijacking of a trailer, non-delivery of a container, or breakbulk cargo being dropped during loading or unloading.

The best way to describe FPA is "Named Peril Coverage," as it will only pay for losses attributed to specifically stated events that are usually quite significant. The conditions covered under FPA can vary, so it's important to check the clause in your policy prior to using it.

FPA's benefit is that it will provide basic coverage for goods that are nearly uninsurable, such as used, damaged or very old goods or goods that are exceptionally prone to damage or theft.

However, if your underwriter is willing to provide "All Risk" coverage, we strongly recommend this be taken, even though it comes at a higher price.

Many shippers see the lower rates offered for FPA coverage and, in an attempt to save money, opt for the cheaper pricing. However, this could end up costing more in the end as an uncovered loss could severely affect the finances of small to medium-sized companies that cannot sustain a large uncovered loss.

If FPA is the only option available, it is best to ask your insurance provider whether "Theft and Non-Delivery of the Entire Shipping Container" and "Jettisoning and Washing Overboard" can be added. Although the coverage is still limited, these extensions can provide additional coverage to very real perils. However, this is only suggested when FPA is unavoidable; it is still recommended to opt for "All Risk" coverage when possible.

Here are a few real-life examples of how FPA can leave a company without the required coverage, even when the loss would appear to be covered.

Shipper A found a $100,000 piece of heavy equipment was not covered when the stevedore dropped it during loading operations. The shipper thought the normal "All Risk" conditions would apply since the equipment was refurbished in "like new" condition, but the policy clearly stated FPA conditions would apply to used equipment and failed to specify whether "refurbished" equipment could be covered. "All Risk" coverage was denied with no recourse as FPA does not cover damage during loading or unloading.

Shipper B was surprised to learn his container, jettisoned overboard in bad weather and heavy seas, was not covered under FPA conditions. The shipper was trying to save money and was told FPA would cover him if anything happened during the vessel's voyage. Had the insurance broker added "Jettison and Washing Overboard" to the FPA clause, it would have been covered.

The good news is that coverage is available to meet each of these shippers' needs moving forward. Shipper A's dilemma demonstrates the inadequacy of FPA coverage for even the most basic of potential perils — damage during loading. "All Risk" coverage offers far more comprehensive protection and should be the first choice of shippers except in very specific situations. Again highlighting FPA's limited scope, shipper B's example shows standard FPA can be expanded to cover additional items intrinsic to an ocean voyage such as jettisoning or washing overboard of the container. BB

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