



FPA — Total Loss Coverage or an Uncovered Loss Waiting to Happen?

Free of Particular Average Coverage (FPA) is one of two standard coverage options available under most cargo policies. Derived from an old English term, its name essentially means underwriters are not responsible to pay partial losses. Frequently used by logistics providers and shippers in certain facets of industry, it is ironic that despite its prevalence it is generally misunderstood by the people who buy and sell it everyday.

The most common misconception of FPA is that it is 'Total Loss Coverage' which has become its nickname in the transportation industry. FPA coverage actually does pay for partial losses that arise from covered perils, even though its name means 'free from partial loss'. In addition, there are a number of total loss incidents that would not be covered under standard FPA coverage, such as hijacking of a trailer, non-delivery of a container or breakbulk cargo being dropped during loading or unloading processes. 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, it is strongly recommended that 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 impact the finances of small to medium size companies who 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. While the coverage is still limited, these extensions can provide additional coverage to very real perils; however, it is still recommended to opt for "All Risk" coverage, and this is only suggested when FPA is unavoidable.

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

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

Another shipper was surprised to learn their container, which was jettisoned overboard during heavy seas, was not covered under FPA conditions. The shipper was trying to save money and was told FPA would cover them 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. While again highlighting FPA's limited scope, shipper B's example shows that standard FPA can be expanded to cover additional items intrinsic to an ocean voyage such as jettisoning or washing overboard of the container.

This information is provided by Roanoke Trade Services, Inc. as a public service and for discussion of the subject in general. It is not to be construed as legal advice. Readers are urged to seek professional guidance from appropriate parties on all matters mentioned above. Insurance and surety risk management solutions for supply chains and transportation have been Roanoke Trade's focus since 1935. Roanoke Trade is a member of Munich Re and an affiliate of Watkins Underwriters at Lloyd's of London. Roanoke Trade closely follows the ever-changing government policies that affect the movement of goods, and works only with insurance companies financially rated as "A-" (Excellent) or better.

For more information, please contact us at 1-800-ROANOKE, ext. 1252 or info@roanoketrade.com