

WAR; WHAT IS IT GOOD FOR?

Insuring against war and civil strife is a tricky business

By Theresa Garcia and Rick Bridges



As with any insurance policy, it's important to understand not only what your cargo insurance policy covers, but also what isn't covered.

Knowledge of these exclusions and the potential impact on your supply chain is critical to an effective risk management plan.

Cargo policy forms can vary by company or broker and by whether the provisions follow American Institute Cargo Clauses, London Institute Clauses or terms from another part of the world.

Some principal clauses consistent in cargo policies exclude strikes, riots and civil commotions and war. Unless you're shipping to Africa, Iraq or Afghanistan, risks of cargo damage from strikes, riots and civil commotions, or SRCC, and war are rarely considered.

However, the fragility of several economies and ensuing strikes combined with recent uprisings in the Middle East have brought this topic to the forefront of insurance and supply chain perspectives.

As a whole, insurance policies are often written in a manner contrary to logic. Coverage is first excluded or taken away and then given back. For example, in a cargo policy the risks of SRCC and war are first excluded in the general provisions but then reinstated via endorsement or a separate policy under named peril conditions. The SRCC endorsement covers damage caused directly by strikes, labor disturbances, riots and rioters, certain acts of terrorism, civil commotions or political uprisings.

This endorsement, however, is also subject to exclusions, including "civil war, revolution, rebellion, insurrection and civil strife" (which are considered more warlike in nature), change in temperature or humidity, absence, shortage, delay, withholding of power or fuel, and nuclear reaction.

It's also important to note that underwriters can cancel SRCC coverage with 48 hours' notice (but not on shipments already departed).

Where the SRCC endorsement leaves the policyholder without coverage for the perils of civil war, revolution and other civil uprisings, the war policy responds to them. Like SRCC, the war section contains a cancellation clause allow-

ing underwriters to cancel coverage within 48 hours for cargo that has yet to ship.

The war policy provides coverage for physical loss or damage to cargo by way of war and other warlike operations, including factions engaged in civil war, revolution, rebellion or civil strife. While this may place most policyholders at ease, especially in light of the turmoil in the Middle East, it's important to understand the war policy provides coverage only while cargo is on an oceangoing vessel or on an international flight.

The most common questions on the war policy hinge on the 48-hour notice of cancellation and lack of coverage for goods after they are discharged from their conveyance (on land). The answer is best summed up by noting all insurance is an exchange of risk for payment. As the risk of war is one with little actuarial data, it's largely uninsurable at any level of premium.

"War on Land" coverage is a separate policy altogether and is available for shipments to countries such as Afghanistan and Iraq where the risks of warlike perils are more prevalent.

Coverage is based on strict underwriting guidelines that typically require armed security escorts and detailed routing information. Rates and premium for this coverage can be significantly higher than standard cargo rates, and only a few underwriters offer this unique coverage.

Being aware of covered and potential uncovered cargo losses, particularly those associated with SRCC and war, is an important first step in supply chain risk analysis. Even if your cargo moves to destinations less exotic than Afghanistan and Iraq, consider the many countries you are shipping to or from where economic and political unrest is at a boiling point. To determine the best coverage options for your operations, it is best to seek the help of your insurance provider, specifically a cargo specialist with the knowledge and experience to guide the way. **BB**

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