

CARGO INSURANCE: KNOW WHAT YOU HAVE

All-risk policy alone may not cover all losses



Paul Kwiatkowski

Frequent readers of the Breakbulk Magazine may have seen several articles recently outlining specific instances where cargo insurance may come into play for such things as modern piracy and war. However, as broad as cargo insurance may be, there are some instances that a cargo insurance policy is not designed to cover.

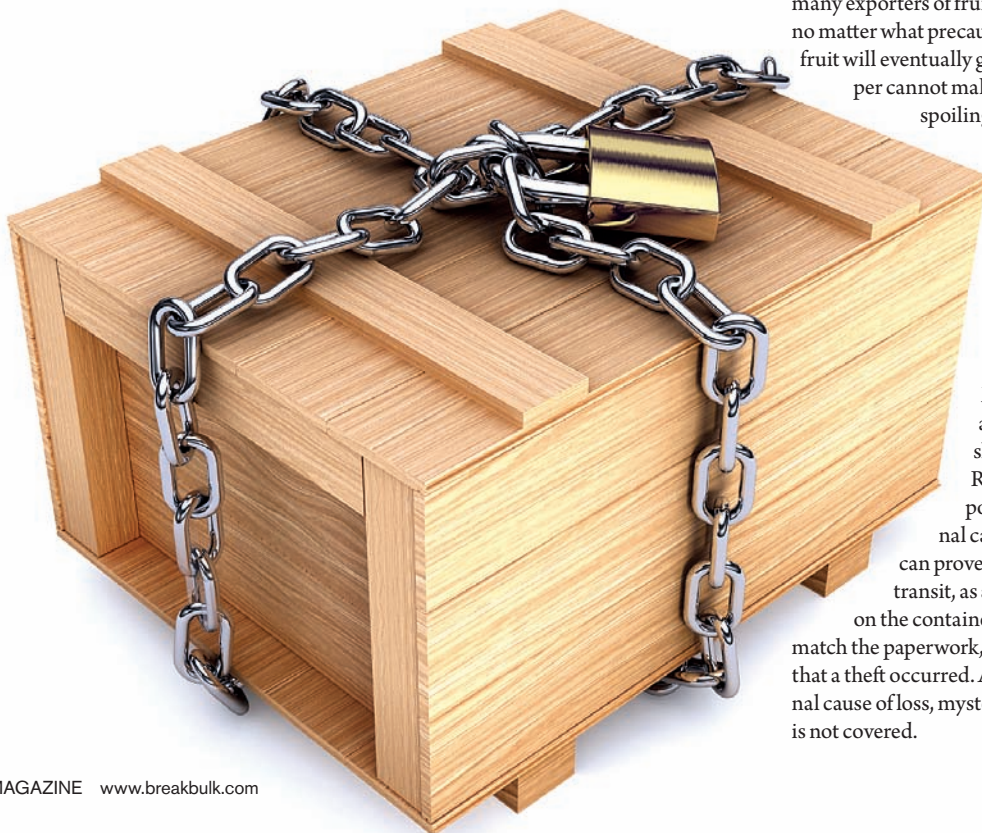
All-risk cargo insurance is simply defined as a policy that would cover full or partial losses to the items shipped, losses caused by external forces while in transit. With this simple definition in mind, what are some of the items that a cargo policy may not cover?

■ **WAR ON LAND COVERAGE:** War policies as

part of a cargo insurance program will only cover loss or damage due to war, strikes, riots and civil commotions while on the primary vessel or aircraft. As an example, any coverage for inland losses in places such as Iraq and Afghanistan are not available as part of a standard cargo insurance program and should be purchased separately. See the article from the March-April 2011 Breakbulk Magazine for a more thorough write-up.

■ **INHERENT VICE:** Inherent vice is defined as a defect in the nature of product itself. A good example of a commodity at risk to inherent vice is fruit. As I am writing this article from Washington state, there are many exporters of fruit from this area, and no matter what precautions are taken, the fruit will eventually go bad — and a shipper cannot make a claim for the fruit spoiling. However, if the fruit goes bad because the refrigeration unit fails while in transit, there is a valid argument to trigger coverage.

■ **MYSTERIOUS DISAPPEARANCE:** Mysterious disappearance is an unexplained shortage in the freight. Remember, a cargo policy responds to external causes of loss. If you can prove the loss happened in transit, as an example, the seals on the container are broken or do not match the paperwork, you have an indication that a theft occurred. Absence of any external cause of loss, mysterious disappearance is not covered.



■ **CONSEQUENTIAL LOSS AND LOSSES DUE TO DELAY:** Consequential losses and losses due to delay are very similar. A cargo policy is designed to cover the insured property; it is not designed to pick up contractual liabilities or consequential losses. Pay close attention to your shipper contract and review it with a qualified attorney and your insurance broker to make sure you are aware of what may or may not be covered. A shipper of project cargo may be able to get air freight replacement coverage, which may pick up some of the expediting expenses of replacement parts to avoid consequential losses.

■ **INVENTORY IN STORAGE:** Cargo insurance policies are primarily designed to cover transit-related risks, and may cease to cover the goods after a certain amount of time, depending where the cargo is in its journey. If there is a storage-related exposure as part of a project, be careful to ensure storage is added back, which it may usually

be done for a nominal additional premium. Cargo insurance policies differ from standard property policies in that earthquake coverage and flood coverage are usually included unless removed.

■ **EMPLOYEE DISHONESTY:** Employee dishonesty is where employees of the shipper actually steal the cargo or they make arrangements for the cargo to be stolen while in transit. Both situations are not covered by a cargo policy; however, a separate crime policy may be purchased to pick up the exposure.

■ **USED GOODS:** Used goods are typically excluded under an all-risk cargo insurance program. However, if the goods are refurbished like new or a proper survey is done by a marine surveyor, all-risk coverage may be negotiated subject to additional underwriting conditions or deductibles. Free of particular average, FPA, may cover

total loss only due to named perils.

■ **LIABILITY FOR LOSS OR DAMAGE TO CHARTERED VESSELS:** If you are shipping on a chartered vessel either ocean or air, you may be liable for loss or damage to the actual vessel itself. There are special programs available for charter's liability, and the key item needed is the actual contract. The contract will spell out the liability insurance requirements.

The key for shippers of project cargo is to make sure they use an insurance expert that understands the various exclusions, as well as understanding the alternative answers to concepts that come into play regarding international trade. There is nothing worse than finding out a claim you thought would be paid will not be. ■■

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