Roanoke Trade

Playing it Safe with Cargo Insurance

The very nature of project cargo represents unique risks that can often be overlooked completely, or not confronted until the very last minute. Through this and future articles, we will dissect cargo insurance and place project cargo exposures under the microscope in the hope that you too can be an expert at identifying and mitigating supply chain risks.

The first, and most important point to understand about cargo insurance is that it is an unregulated line of insurance, and there is no standardized policy form. It is also essential to partner with a cargo insurance specialist that understands the inherent risks of the project cargo supply chain.

What is the downside of this unregulated line of insurance? The downside is that your cargo policy can contain limited, restricted or no coverage for your most critical risks. These gaps in coverage are not easily identifiable to an inexperienced insurance provider which could result in an uncovered costly claim.

Expanding Coverage

The upside to unregulated cargo insurance is that a qualified specialist can build multiple clauses into your policy to expand coverage, and turn common exclusions into covered events. After all, how do you benefit from a cargo insurance policy that does not respond to a claim?

When considering how to insure your project cargo, we suggest that you choose a specialist that will address your supply chain exposures and provide customized solutions. You will find the best specialists are often the project freight forwarders and other transportation intermediaries who have teamed up with specialist insurance providers.

As a specialist handling project cargo claims on a weekly basis, we see the many pitfalls that can be easily avoided with a thorough review of the overall project, timelines and terms of sale. Incoterms® are the basis of the sales contract, but never should it be assumed that Incoterms® can stand alone without additional language addressing cargo insurance. All too often, there is an assumption that the component of Incoterms® dictating risk transfer implies insurance responsibility, and this can be a dangerous assumption. We will navigate through some examples representing some of the most common errors.

Under CFR terms (Cost and Freight named point of destination), risk transfers from the seller to the buyer when the goods are on the vessel. However, the seller should not overlook the risk of loss during the leg of transit from the point of origin (or in some cases multiple points) until goods are on board the vessel.

Cargo is at risk during the overland transport from the manufacturer's site, or other origin point, to the ocean port. Major trucking accidents in the US alone occur at a rate of over 4,000 a year. Although it is prudent to request certificates of insurance from truckers, shippers and project forwarders must be aware this information offers no guarantee that full recovery would be available in the event of a loss. The terms of the trucker's liability insurance coverage are not usually listed on the certificate of insurance document and, therefore, you have no evidence of specific policy terms that could adversely affect your claim. It should be noted that Acts of God are never covered under liability policies. Additionally, shippers and forwarders should consider the harmful consequences of an insolvent insurance company, or if the trucker fails to keep the policy current.

Limits of liability held by truckers will vary, and may be much less than the value of the cargo. In some countries, such coverage is simply non-existent. Even in the best case scenario where the trucker has the proper liability insurance in place, it is important to note that the burden of proof is on the shipper to prove the trucker is liable for the loss. Proving liability can be a long and costly process.

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If an accident occurs during transit to the Free On Board/Free Alongside Ship (FOB/FAS) named points, and the shipper fails to secure its own marine cargo insurance, it could suffer a serious financial loss. These specific FOB/ FAS risk moves can be insured under cargo policies available to shippers and project freight forwarders.

Consider the potential exposure of a shipper selling under FOB terms. The goods have been safely delivered to the named port of destination, but the risk has not transferred from the seller to the buyer, as the goods have not yet been placed on board the vessel. The vessel is due to arrive soon, but a hurricane has formed and is headed for the ocean port, diverting all vessel traffic. Inevitably, the storm hits and destroys the seller's cargo. If the cargo was not insured, the seller has no recourse for recovery. Consequently, the shipper would be at risk for a total loss and may have damaged a client relationship as well.

The uninsured seller whose sale is subject to FOB terms should also consider its exposure while the cargo is being loaded. If the cargo is dropped during the process of loading, it could fall on the dockside instead of over the rail. Whether responsibility rests with the buy or seller in this case can, literally, depend on centimeters. Therefore, the seller would suffer the loss because the risk has not yet transferred to the buyer. Properly secured marine cargo insurance would alleviate this exposure for the seller.

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