The importance of Cargo Insurance

Why Insure?

Shipments in transit are subjected to numerous perils. Some, but not all, of these perils can be insured against. Goods may be damaged in a storm or fire, stolen, involved in a collision or just mishandled. To protect your company from financial loss, consider purchasing Shipper's Interest Cargo insurance.

In addition to paying for loss or damage to shipments, Shipper's Interest Insurance can also pay costs incurred to minimize a covered loss (sue and labor), charges for damage to be inspected (survey) and also affords protection from General Average, one of the oldest forms of risk sharing. In addition, carriers have limited liability and are availed of defenses which, when invoked, absolve them of responsibility completely. Shipper's Interest coverage pays covered claims without the need to prove fault. Why not insure?

General Average

General Average is a principle that is incorporated into most ocean bills of lading. It is used when a voluntary sacrifice is necessary to save the vessel, its cargo and crew (the voyage) from a common peril. All parties to the voyage who benefit from the sacrifice at the expense of others must contribute a percentage of the loss. The contribution is based on the cargo's value in proportion to the value of the entire voyage. The contribution must be made in order to obtain release of your cargo. If the cargo is not insured, it will not be released until a guarantee has been returned and accepted, which must be in the form of a cash deposit, bank guarantee or bond. If the cargo is insured, the insurance company will handle those arrangements on your behalf.

Carriers' liability

Carriers only pay claims when they are legally liable, but even then, their liability is limited depending on the mode of transport.

Ocean

The "Carriage of Goods by Sea Act" (COGSA) governs liability for ocean carriers and NVOCCs moving cargo to/from the United States and limits recovery to $500 per customary freight unit (CFU) when the carrier/NVOCC is negligent. Measurement of the CFU is broadly defined, and can vary from one container to one pallet.

Air

The Warsaw Convention previously limited an air carrier's liability to the lesser of cargo value or $9.07 per pound ($20 per kilogram). Adoption of Montreal Protocol 4 changed this limitation to 17 Special Drawing Rights (SDRs), or about $28 per kilogram. IATA released a new air waybill (600b) to incorporate the change, which became effective on March 17, 2008. On domestic air shipments, liability is typically limited to only $0.50 per pound.

Domestic

Many domestic air, intrastate road carriers and warehouse operators limit their liability to $0.50 per pound or a maximum of $50 per shipment, based on the bill of lading or warehouse receipt. The Carmack Amendment applies to interstate carriers, which dictates full value, but allows for liability to be limited by bill of lading, tariff or contract. Some carriers have inadequate or no liability insurance and may be unable to fund a loss out of pocket.

Cargo Theft

Estimates of cargo theft in the United States range from $25-$50 billion annually. Experts estimate that nearly 80 percent of cargo thefts involve collusion of employees with access to cargo or information. Drivers are often paid to leave the truck unattended at a specific place and time.

In the United States, it has been reported that half of warehouse thefts occurred in California or Texas, where organized gangs have created cargo theft rings.

Mobile phones account for the largest theft value by product type, totaling a $7.5 million in losses in 2007.

Statistics:

- ***Within 24 hours of theft:*** Thieves are no longer in possession of the goods, which have already been delivered to an alternate location.
- ***Within 48 hours of theft:*** Cargo is split into about five consignments and distributed.
- ***Within 72 hours of theft:*** Goods are marketed and are being sold.

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Coverage types

All-Risk

"All-Risk" Cargo Insurance provides the cargo's owner with coverage for direct physical loss of or damage to the cargo without the need to prove liability. While exclusions in a carrier's liability insurance policy form will differ, your All-Risk coverage remains constant. Under an "All-Risk" Cargo Insurance form, everything is covered, except what is specifically excluded. Typical exclusions include: improper packing, abandonment of cargo and rejection of goods by Customs. "All-Risk" coverage is similar to ICC (A) protection.

Free of Particular Average (FPA)

FPA is limited coverage that is usually purchased to cover used goods, waste materials and goods shipped subject to an on-deck bill of lading. It covers partial and total losses from FPA perils, and total losses from a slightly broader set of policy perils. FPA perils include the sinking, stranding, burning or collision of vessels or catastrophic perils on shore such as earthquake, derailment and collapse of dock. FPA coverage is similar to ICC (C) protection.

With Average (WA)

With Average coverage extends FPA coverage to include the peril of heavy weather. FPA and WA can also often be extended to include theft, pilferage and non-delivery. WA coverage is similar to ICC (B) protection.

Declared value vs. Cargo Insurance

Declaring value to a carrier is not the same as Shipper's Interest Cargo Insurance. To claim against a carrier, the shipper must prove the cargo was damaged while in the carrier's care, custody or control. The carrier then has a variety of defenses to demonstrate that they were not liable for the loss. This often makes recovery difficult. Cargo Insurance provides protection without having to prove carrier liability. This is particularly important in instances where a loss is attributable to an Act of God. The following sample claims illustrate the difference between declared value and "All-Risk" Shipper's Interest Cargo Insurance:

Description of loss	Declared value for carriage	Cargo Insurance
A local cartman picked up a shipment at a shipper's warehouse. While en route to the airport, the truck was struck by lightning resulting in fire and total loss to the cargo	Even if a value is declared for carriage, there would be no automatic right of recovery because the trucker did not act negligently and the loss was the result of an Act of God.	This type of claim would be paid under "All-Risk" Shipper's Interest Cargo Insurance coverage.
An ocean freight shipment of new steam boiler equipment was loaded into a 40 ft. container. Several days after the vessel left the port, it ran into heavy weather. A large wave hit the vessel and the container was washed overboard.	The cause of loss, "Heavy Weather," would be excluded under the U.S. Carriage of Goods by Sea Act (COGSA). The ocean carrier would deny liability on this basis and no payment would be forthcoming.	This type of claim would be covered by "All-Risk" Cargo Insurance. Also, a more basic and less expensive form of Cargo Insurance, known as With Average, provides coverage for the peril of "Heavy Weather."

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