Cargo insurance

HOW TO RIDE THE

Cargo insurance is the oldest type of insurance in existence, yet it's often the least understood. Whether you are a transportation intermediary or a shipper, here are some cargo insurance buying tips from the unique perspective of an insurance insider.

BY **RICK BRIDGES**

Do insurance underwriters rely on methodology and science to determine pricing or do they just pull numbers out of their hat? Actually, applying a rate to a risk is a combination of both.

Contrary to traditional lines of insurance, marine insurance does not rely on company published rate guides or state filed rates. Pricing is typically based on an insured's loss experience, the relative risk, type of commodity, and geography. But at its core, pricing is ultimately based on the insurance company's level of comfort with you and the risk.

So, if you want better pricing, work with your insurance provider to help make the underwriter feel as comfortable as possible with the risk.

When it comes to negotiating cargo insurance, information about packing details, prior experience, routing details, and loading or transloading should be submitted in your request. The more detail the better. Without sufficient information, underwriters will express their discomfort by way of inflated pricing, deductibles, and restrictive insuring conditions.

For example, An RFP for insurance pricing on $5.5 million of pharmaceutical equipment carried on flat-racks from Houston to Russia will yield a reluctant response. The same RFP that describes the risk as "new pharmaceutical equipment, custom crated, and moisture protected by XYZ Professional Heavy Equipment Packers and supervised by manufacturer engineers to ensure product integrity" will yield a much more favorable response.

In addition to providing information to reassure the underwriter, shippers willing to absorb higher deductibles can typically yield much better pricing. Included in the wide range of deductible options are deductibles expressed as a percentage of the value, flat deductibles per shipment, and per-piece or per-conveyance deductibles. If your company is publicly traded, it's important to consider Sarbanes Oxley accounting rules when designing a deductible structure for outbound freight.

PROTECTING THE SUPPLY CHAIN

While a cargo policy is generally thought of as the answer to insure international transits, it can be expanded to provide coverage for your entire supply chain.

Complex supply chains involving consolidation, temporary warehousing, third party processing, and distribution centers are the norm, and a properly designed cargo policy should extend coverage all the way through to avoid gaps in coverage. This is especially important with concealed damage claims where the loss may not be discovered until the goods are in the hands of your buyer.

One of the most overlooked areas of any insurance is subrogation capabilities of the insurer—this is especially true with cargo insurance. Subrogation is the action the insurer

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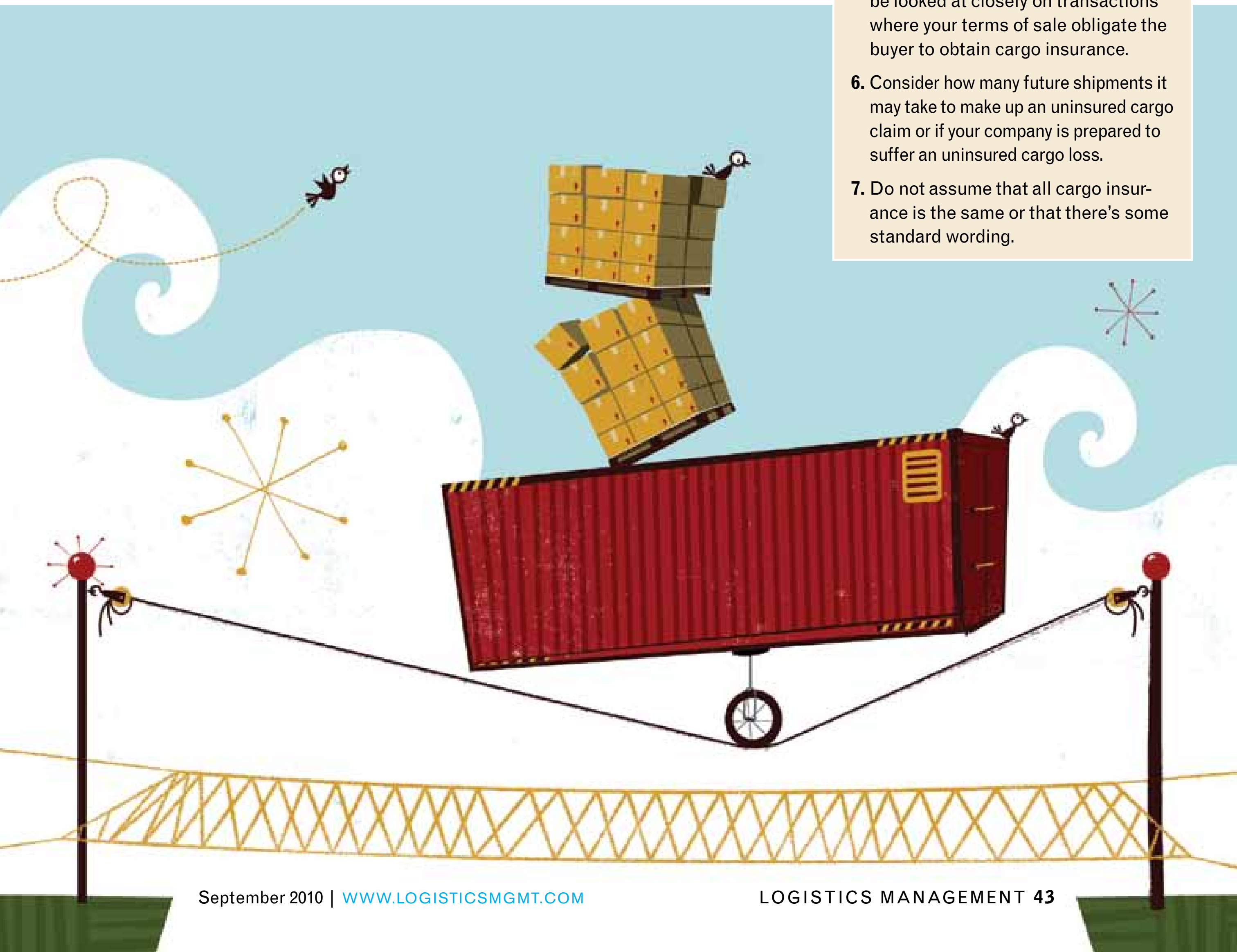
Editor's Note: *In seeking to gain "an insider's guide" to cargo insurance,* Logistics Management *was pointed to Rick Bridges, a director representative of the Coalition of New England Companies for Trade. Bridges has also worked on special projects with the United Nations and other governmental organizations, and has delivered workshops and seminars on behalf of Roanoke Trade Services clients nationwide.*

Shaw Neilson

& liability: TIGHTROPE

7 Tips for the tightrope

1. When it comes to negotiating cargo insurance, information about packing details, prior experience, routing details, and loading or transloading should be submitted in your request. The more detail the better.
2. If you want better pricing, work with your insurance provider to help make the underwriter feel as comfortable as possible with the risk.
3. If your company is publicly traded, it's important to consider Sarbanes Oxley accounting rules when designing a deductible structure for outbound freight.
4. Subrogation capabilities vary widely with insurers, and ideally you want to be assured that your insurer has a very aggressive subrogation team that will fight to keep your loss ratio down.
5. Open account payment terms should be looked at closely on transactions where your terms of sale obligate the buyer to obtain cargo insurance.
6. Consider how many future shipments it may take to make up an uninsured cargo claim or if your company is prepared to suffer an uninsured cargo loss.
7. Do not assume that all cargo insurance is the same or that there's some standard wording.



A reason to fear the Rotterdam Rules?

THE "ROTTERDAM RULES," ADOPTED LAST September by the United Nations General Assembly, will reflect current shipping practices, cover cargo liability on legs of an intermodal shipment, promote harmonization among trading partners, reduce legal obstacles, and allow shippers, carriers, and third parties to customize contracts to meet commercial needs.

As reported on logisticsmgmt.com, 21 countries, including the United States, signed the Rotterdam Rules within the UN but they will need formal ratification by at least twenty countries worldwide before becoming law. In the U.S., the rules would replace the 1936 Carriage of Goods by Sea Act (COGSA). The European Union, the American Bar Association, and the National Industrial Transportation League, among other groups, have endorsed the new rules.

However, there is no timetable on when the rules would be ratified, and some insurance experts maintain that there's an underlying risk yet to be fully explained.

"Shippers should be concerned about the Rules due to the complications related to two recent Supreme Court cases currently awaiting a decision," says Chris Clott, an adjunct professor at the California Maritime Academy. "The negative impact it could have in the U.S. may be quite substantial."

The two cases include *Kawasaki Kisen Kaisha v. Regal-Beloit Corporation*, No. 08-1553, and *Union Pacific Railroad Company v. Regal-Beloit Corporation*, No. 08-1554. Both were argued together late last spring. The question before the court was whether the inland portion of an intermodal shipment is subject to the Carmack Amendment to the Interstate Commerce Act of 1887, which governs certain rail and motor transportation by common carriers within the United States rather than the COGSA.

The Carmack Amendment, which affects the U.S. surface transportation (rail and truck), is far more encompassing than COGSA regarding carrier liability. COGSA places severe limits on carrier liability, while Carmack has no dollar limits on the amount of liability.

The main issue is whether an international through bill of lading that shows the maritime operator as the "carrier" is liable for damages via the intermodal portion of the move under the tight standards of Carmack or the loose standards of COGSA.

"If the Supreme Court decides the Carmack Amendment applies to all inland transportation, shippers will have to negotiate separate liability agreements with the ocean carrier and the inland railroad or motor carrier," observes Clott. "The Rotterdam Rules, which represents one standard of liability throughout a door to door move, would be more limited in their application within the U.S."

—Patrick Burnson, Executive Editor

performs to try and collect money back from any parties that may have been negligent in the loss or damage to cargo.

While subrogation reduces the claim amount for the insurer, it can also drastically affect your future rates and premium. Remember, insurance companies are for-profit ventures and if losses exceed a certain threshold, rates and premium will likely increase.

Subrogation capabilities vary widely with insurers, and ideally you want to be assured that your insurer has a very aggressive subrogation team that will fight to keep your loss ratio down. Your broker should be able to provide details of the subrogation services of your insurer.

For larger shippers, ask for a "no claims" bonus or a profit share agreement whereby a portion of the premium is returned to you for a favorable loss record.

Open account payment terms should be looked at closely on transactions where your terms of sale obligate the buyer to obtain cargo insurance. Ask yourself, what happens if the cargo is damaged in transit and the buyer failed to obtain cargo insurance or their insurance does not respond? Conversely, what if you are purchasing on prepaid terms and the seller's cargo insurance fails to respond? A properly designed cargo policy can include coverage to protect your contingent interest in these exposures, but don't assume that it's automatically included.

Consider how many future shipments it may take to make up an uninsured cargo claim or if your company is prepared to suffer an uninsured cargo loss. Also consider that failure to purchase proper cargo insurance won't be covered under Directors and Officers insurance if your shareholders decide to take action after an uninsured loss.

A thorough review of your supply chain exposures and a customized cargo insurance policy will greatly reduce the possibility of an uncovered loss. Demand that your insurance provider perform an annual review and ongoing training with finance, sales, traffic, and risk management departments. With cargo insurance at relatively low prices, there is no reason not to have the proper coverage in place.

COVER YOUR RISKS

It's important to remember that cargo insurance is one of the last unregulated lines of insurance, and the strength of the policy you purchase is often based on you and your insurance provider's ability to identify all the potential hazards within the supply chain. Then you need to work together to customize coverage to properly insure the real risks.

Do not assume that all cargo insurance is the same or that there's some standard wording. For example, most policies limit coverage at the port to a maximum of 15 days and inland at a maximum of 30 days. If your goods sit at the port longer than 15 days, it's important to ensure coverage is extended to suit the exposure.

Consider the current capacity issues, rolled shipments, missed sailings, and other delays that may leave your cargo sitting at the port or elsewhere without coverage. Even if you have coverage for the extra time the cargo may sit, the policy may still not be adequate to accommodate the high values that may have accumulated at one place so policy limits must be reviewed as well.

Finally, bear in mind that these are just a few examples of hundreds of scenarios that may alter an insured's needs beyond a standard cargo policy. It's up to shippers to do their homework. ☐