CROSS-BORDER BET

Cargo Owners Shoulder Insurance Burden in Mexico

By Paul T. Rosynsky

Companies shipping goods to and from Mexico can be surprised by the unexpectedly high cost of insurance.

A confluence of issues surrounding the transport of goods through Mexico — from government regulations to frequent hijackings and highway accidents — has driven up insurance rates in Mexico.

Although, due to the nature of their cargo, breakbulk and project cargo owners are somewhat less vulnerable than owners of other types of cargo, they still run serious risks in Mexico.

In the U.S., federal law requires cargo carriers to be liable for the goods they carry. In Mexico, cargo carriers' liability is lower and recovering compensation for a loss is trickier for cargo owners.

As a result, companies seeking to move goods through Mexico must purchase their own insurance or risk losing a load and never being paid for the loss.

But securing insurance for Mexico-bound freight is also complicated. The country's laws require that any insurance covering a loss in Mexico must be purchased from a broker based in that country. Insurance bought in the U.S. will not cover a loss in Mexico.

"If you want to send goods from the United States to Mexico, you have to get insurance from a local Mexican company," said Omar Mendoza, director of marine, property and tech lines for ACE, a Mexico City-based insurance broker.

And that insurance is not going to be cheap.

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Strict Mexican regulations coupled with a higher rate of hijackings and accidents can combine to make insurance rates and deductibles up to six times higher than in the U.S.

Deductibles charged by insurance companies for goods moving through Mexico can reach as high as $25,000 compared with the standard $500 deductible in the U.S.

Insurance in the U.S. usually costs between $10 and $15 per $1,000 of cargo value shipped. In Mexico, that rate can be as high as $50 to $60 per $1,000 of cargo value, said Tom VanMouwerik, president of Bill Hay International, a San Diego-based freight forwarder.

The difference in who holds responsibility results from how Mexico regulates its trucking industry. A company moving goods has limited liability for the goods it carries and is not required by law to cover the entire value of what is being shipped.

Conversely, in the U.S., a cargo carrier is automatically held liable for a higher percentage of the cargo's value than in Mexico and can, at the request of the shipper and for a higher cost, be held liable for the entire value. Rather than purchase insurance, a company shipping goods within the U.S. typically declares a value and then pays the cargo carrier a higher rate for shipping.


Tom VanMouwerik

"When a shipper relies on the carrier's liability coverage in the U.S., they will often declare a value which is very similar to insurance, but instead of purchasing a policy, they're paying a premium to increase the carrier's liability," explained Joe Chillino, marine manager for Roanoke Trade. "The reason for this is often because you require less information than if you were to insure the cargo."

That doesn't mean, however, that companies shipping within the U.S. do not purchase insurance. Chillino said a new trend has begun in which companies purchase insurance to avoid lengthy arguments over claims.

However in Mexico, a company has no choice but to purchase insurance if it wants to ensure that the value of its cargo is protected. The lack of choice is a result of Mexican government regulations and because many companies do not wish to fight for claims in the Mexican courts.

As a result, should cargo that is not independently insured in Mexico be stolen or damaged in transit, the cargo's owner takes the loss.

Risk Multipliers

Theft is common and infrastructure is not always properly maintained, increasing risk, so insurance companies charge a higher rate to cover potential losses.

"Mexico is a developing nation, and the insurance companies, they know the market is risky. That is the reason they can demand (higher rates)," VanMouwerik said. "Basically, you can't just go to who you would go to for insurance in the States."

A 2011 cargo security study published by FreightWatch International found that insurance to ship to and from certain parts of Mexico rose more than 20 percent just from 2010, as drug-related violence and poor infrastructure led to increases in stolen and damaged cargo.


Joe Chillino

"In addition to cargo theft, natural disasters and infrastructure deficiencies, drug-related crimes present a serious financial threat to the supply chain and transportation industry," the report said. "The majority of thefts in Mexico are violent hijackings, while 80 percent of all thefts take place on the roadside."

In one common hijacking scenario, the report found, members of drug cartels pose as police and set up fake checkpoints.

In an attempt to avoid potential hazards, regulations require that cargo being shipped to and from Mexico must be moved following a strict set of guidelines.

Cargo can only move during daylight hours on toll roads that are more secure and better maintained than other roads. Oversized cargo must have escorts. Any stops must be at authorized rest areas where security is confirmed.

Following these protocols can reduce the rates charged by insurance companies, freight forwarders said. Also, if the cargo is not a type frequently targeted, rates can be lower. However, they never drop as low as U.S. rates.

Cargo that carries the greatest risk of being stolen includes electronics, food, building supplies and auto parts, according to the FreightWatch study.

"It all depends on where the cargo is going and whether or not it is a target commodity," said Jason Odgers, a senior account executive with Roanoke Trade.

Figuring the Odds

Another complication within Mexico is a lack of qualified insurance brokers. Mendoza said there are not enough insurance underwriters who specialize in insurance cargo, particularly when it involves complicated movements of breakbulk and project cargo.

"We just don't have very specialized people," Mendoza said.

The higher risks, however, have not prevented trade between Mexico and the U.S. And high rates have not deterred companies from setting up supply chains through Mexico.


Jason Odgers

"Pretty much everyone has accepted the nature of the beast," Chillino said. "It's tough to argue with it. It can't be argued that there isn't a danger out there."

The insurance problem primarily affects smaller companies that do not routinely ship cargo into or out of Mexico. Some of those companies decide to forgo the insurance and run the risk of losing their cargo, freight forwarders said.

It's a risky bet, but not necessarily a losing one. All the freight forwarders interviewed said they hardly ever have to file a claim for stolen or damaged cargo. VanMouwerik said claims filed by his company are minimal.

Breakbulk and project cargo is usually a relatively safe commodity to ship in Mexico because it is not easily stolen or hawked on the black market, the freight forwarders said. BB