COVER CARGO COMPLETELY

By Dick Councill

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The risks associated with transporting cargo among countries by vessel, aircraft, barge, or truck present insurance-critical issues for all shippers. Duration of coverage and transfer of risk are two such issues that will be addressed in this article.

These issues are of particular concern to risk managers and transportation specialists who arrange for insurance on cargo that is detained at a port or warehouse, or that deviates from its intended transit. Of similar concern are potential gaps in coverage when risk has transferred and the original transit insurance has ceased, leaving cargo exposed at hazardous staging points.

While modern clauses have expanded basic coverage, there is still the need for concern with the duration of the coverage.

The original cargo insurance from Lloyd's was only intended to cover an ocean voyage. It provided coverage from pier to pier. In later years, a need for coverage to the American Midwest developed, leading to the creation of inland marine insurance.

U.S. underwriters went further, combining ocean and inland coverage to give us the basis of the modern ocean cargo insurance "warehouse to warehouse" clause. Coverage expanded to include the marine extension clause during World War II and consolidation/deconsolidation upon the advent of intermodal containers.

Combining warehouse to warehouse, marine extension and consolidation/deconsolidation clauses provides a continuous coverage that was widely accepted as adequate. However, these clauses still contain limitations that could leave an assured (the person or entity that is insured) with an unpaid claim.

Insurance brokers that specialize in cargo insurance usually can offer policy forms that fill in the gaps and provide assureds with seamless coverage from origin to destination, regardless of any deviation in transit.

Risk managers and transportation specialists also should consider how terms of sale have an impact on the level of risk in their supply chains. Incoterms, common commercial term definitions written by the International Chamber of Commerce, are commonly used to address the transfer of risk between parties during the course of transit. The point at which risk transfers can create a gap in coverage and therefore the potential for uncovered losses.

For example, there were a number of shipments sitting on piers in New York and New Jersey that were damaged or lost during Hurricane Sandy. These shipments were deemed uninsured. In some cases these uncovered claims occurred because risk had transferred so that the original transit insurance had ceased and no additional coverage was secured to close the gap.

Additionally, cargo delivered to port warehouses designated by the consignee is considered "delivered" by the shipper's cargo insurance policy. If title has transferred without payment, the shipper could suffer uncovered losses while the cargo is in storage.

Selecting a term of sale that does not transfer the risk at a time when cargo is vulnerable can serve as an effective risk management decision. When specifying terms of sale is not an option, specialty cargo insurance products such as FOB/FAS, contingency coverage or special warehouse coverage with an "unnamed location limit" can address a number of coverage gaps to ensure comprehensive coverage.

Prudent risk management practices should include a review of terms of sale to determine if better options are available, and an assessment of the cargo insurance program in place to ensure it is providing seamless coverage from point of origin until delivery at final destination. Unforeseen events can occur in transit, but formulating a plan and working in conjunction with your insurance broker can significantly reduce the potential for being caught without coverage. BB

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