MINIMIZE RISK

Being Prepared Key to Limiting Shipping Risk, Costs

By Karen Rzeszutko

Shipping breakbulk cargo is a costly venture. Depending on the type of cargo being transported, fees incurred for extra resources such as additional longshoremen, cranes, dock space, and pre-shipment surveys can quickly add up. Taking steps to manage overall costs should include an assessment of potential exposures to cargo and what can be done to minimize the risk of loss or damage.

Purchasing cargo insurance is a common method of transferring the risk of financial loss to an insurance company. However, a large loss may impact future insurance costs, so it is critical that the insurance company aggressively pursues the negligent party when possible.

There are several steps you can take to ensure your financial interests and cargo is protected. Most importantly, arrange for your cargo to be insured. Provide all pertinent details of the voyage, including type of cargo and value of the cargo to your insurance provider and know what to do in the event a loss occurs.

Often, a cargo insurance underwriter may require that a pre-shipment inspection is prepared. If a survey is required, ask that the underwriter recommend survey companies. The surveyor should be a qualified marine cargo surveyor with knowledge of your specific product. Often times the surveyor appointed has knowledge of cargo claims, but not necessarily your specific type of cargo.

Be aware of whether your cargo will be stowed on deck and therefore exposed to the elements such as seawater, rain and changes in temperature. Cargo that is stowed on deck should be protected as best as possible. For example, where there is exposed metal, confirm that desiccants are used to protect your cargo from water damage, condensation or atmospheric conditions that could result in rust damage.

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Should a claim occur, it's important to know the proper course of action to follow and to act promptly. A prudent first step is to immediately notify the underwriter and request that a cargo surveyor be appointed to inspect the damages. Take pictures of all of the cargo (damaged and undamaged), packing, etc., and submit the photos to your insurer at the time the loss is reported.

While the insurance you purchase for your cargo is there to protect you, you will also want to ensure that your insurer does what they can to recoup any money paid out to keep your policy's loss ratio at a minimum. The loss ratio is defined as the total losses incurred by an insurance company in the form of claims divided by the collected premium to determine a percentage. For example, if a company pays $800 in claims for every $1,500 in collected premiums, then the company has a loss ratio of 53 percent. Money that an insurer collects from a negligent party can reduce your loss ratio by crediting that amount back to the claim. A poor loss ratio can result in higher insurance premiums or even cancellation of your policy.

Collecting From Liable Carrier

How much can one expect to recover from the negligent party? This question has been tested over time by decisions made through the courts, which pave the way in determining how much a carrier is liable to pay in the event of loss or damage.

If cargo is stowed on deck without your knowledge and the bill of lading does not treat the cargo as having been shipped on deck, the court may find the carrier liable in full and that their limitation of $500 per package would not apply as it is a deviation of the contract.

You can also declare a higher value. A carrier is obligated to offer you a choice of increasing their liability from the standard $500 per package. This is not often done as most cargo is insured under a cargo owner's own insurance policy. A carrier's failure to offer you the option to declare a value may be a way to circumvent their $500-per-package limitation. In order to limit their exposure, carriers may seek to include the following wording on the bill of lading:

Carrier shall not be responsible for any loss of or damage to the goods stowed on deck from any cause whatsoever including negligence or unseaworthiness of the ship, or Carrier shall not be responsible for any loss of or damage to the goods stowed on deck whether or not caused by the perils of the sea, by the carrier's negligence or by the unseaworthiness of the ship.

Accepting these limiting terms can effectively waive the insurance company's right to subrogate, so it is strongly recommended not to accept them.

If the carrier is found to be grossly negligent, then the chance of recovering more than the standard $500-per-package limitation increases. To be grossly negligent means that the carrier committed a deliberate act resulting in loss or damage to the cargo.

Minimizing the risk of loss and subsequently managing the high costs of shipping breakbulk cargo can be achieved by incorporating some basic steps into your risk management strategy. It is essential to know your cargo, purchase insurance to transfer the risk of loss and discuss the risk in full with your insurance provider. Should a loss occur, follow all necessary steps to file a claim and maintain the insurance company's right to subrogation against the responsible carrier. Ensure that subrogation activities are pursued. Being prepared in advance is the key to minimizing risks and costs associated with shipping breakbulk cargo. **BB**

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