

Why Do You Need Cargo Insurance?

International trade has quickly become a viable option to any organization interested in growing its market share. Domestic companies have faced significantly less boundaries over the last thirty years with the advent of containerization, express air freight options, automation, and the easing of political and economic trade barriers. One fact that has remained constant is the potential risk for shipped goods to incur damage or loss while in transit. Centuries ago, traders in Asia recognized the need to protect themselves from inopportune events and at that point the concept of marine insurance or cargo insurance was developed. The modern form of marine insurance, initiated by Lloyd's of London, is over 300 years old and continues to protect cargo from most any type of unforeseen loss or damage.

One of the biggest oversights in shipping, both internationally and domestically, is assuming the transporter of the goods is fully liable for physical loss or damage to the goods. Often times, the importance of protecting your goods from loss or damage may only be understood after a costly incident occurs. The following is a brief overview of some of the reasons why cargo insurance can be the most important decision you make when shipping.

General Average

General Averages are typically declared by the vessel owner or master when freight is jettisoned, the vessel sustains damage, or corrective action is taken at the expense of either the vessel's owner or cargo owners.

How General Average works:

- All freight is siezed
- Value of the voyage is determined (vessel value + value of all cargo on the vessel)
- Participation is determined (the percentage of value that the customer's cargo represents compared to the total value of the voyage)
- The loss amount is determined
- Participation percentage is applied to the loss amount to determine security deposit
- Security must then be posted. You, the shipper must post a general average guarantee to obtain release of the freight. This guarantee or bond is provided quickly by your insurer. Without cargo insurance, cash must be posted.
- Then you wait. It takes from one to two years for general average proceedings to be finalized; however, if cargo was insured to cover general average, you, the shipper would have been paid by the insurer shortly after the incident.

Uninsured Shipments and Carrier Limitations of Liability

What if your cargo is not insured? You then face a significant risk of financial loss. In addition to the problems posed by general average, carriers limit their liability. First, the claimant (you) must prove that you experienced a loss, that the carrier was negligent, and you must specify which carrier was involved in that leg of the shipment. When a trucker, rail carrier, forwarder, airline, steamship line, or combination of carriers is involved, this task may become impossible. If you can prove negligence, the recovery from the carrier is limited as follows:

By Ocean:

The Carriage of Goods by Sea Act (COGSA) limits recovery to the lesser of the value of the cargo damaged or lost or \$500 per "customary shipping unit." To this day, the definition of what is considered a customary shipping unit is still argued in the courts. It may even be considered the entire 40-foot ocean container.

By Air:

The Warsaw Convention limits international air carrier's liability for loss or damage to cargo in their care, custody, and control to the lesser of the value of the lost or damaged freight or \$9.07 per pound. The domestic limit of liability is only \$0.50 per pound.

Domestic Carriage:

Domestic Road Carriers usually limit liability to \$0.50 per pound or \$50.00 per shipment. Recent legislation may allow carriers to further limit their liability without even informing their customers.

Albeit a short description of why marine insurance is a necessary component for shipping goods, the above should offer some insight into how to protect your organization from significant financial loss.



For more information, please contact your local sales representative
Various options are available to properly cover all of your transit exposures.