

CARGO INSURANCE

FREQUENTLY ASKED QUESTIONS (FAQ)

Q: WHAT IS CARGO INSURANCE?

A: CARGO INSURANCE IS PHYSICAL LOSS OR DAMAGE COVERAGE FOR GOODS CARRIED BY VESSEL, ROAD, RAIL, AIRCRAFT, POST, OR BY ANY OTHER CONVEYANCE. CARGO INSURANCE PROTECTS THOSE WHO HAVE AN INSURABLE/FINANCIAL INTEREST IN THE CARGO (BUYER OR SELLER AND INTERMEDIARIES, IF SO STRUCTURED). CARGO INSURANCE COVERAGE RANGES FROM ALL RISKS (MOST COMMON) TO NAMED PERILS, WITH COMMON EXTENSIONS ADDED TO THE POLICY, SUCH AS DOMESTIC TRANSIT AND WAREHOUSE STORAGE COVERAGE, COMMONLY REFERRED TO AS A “STOCK THROUGHPUT” POLICY

Q: WHY DO I NEED CARGO INSURANCE?

A: ANY COMPANY THAT SHIPS OR RECEIVES A TANGIBLE PRODUCT NEEDS CARGO INSURANCE. CARGO INSURANCE HELPS TO LIMIT YOUR EXPOSURE TO FINANCIAL LOSS DUE TO DAMAGE/ LOSS OF GOODS DURING TRANSIT. SHIPPING GOODS VIA SEA, AIR, TRUCK, OR RAIL IS RISKY. GOODS MAY BE DAMAGED OR COMPLETELY LOST WHILE ON THEIR WAY TO YOU OR YOUR CUSTOMERS. CARGO INSURANCE PROVIDES PROTECTION FOR YOUR GOODS SHOULD THEY SUFFER DAMAGE OR LOSS. THIS SAFEGUARDS YOUR REVENUES AND ENSURES YOU HAVE THE CASH FLOW TO PROVIDE REPLACEMENT GOODS.

Q: THE CARRIER HAS INSURANCE AND WILL TAKE CARE OF ANY LOSS OR DAMAGE IN TRANSIT, RIGHT?

A: A SHIPPING COMPANY DOES NOT PROVIDE FIRST PARTY INSURANCE FOR CARGO. THEY DO HAVE LIABILITY INSURANCE TO COVER THE COMPANY SHOULD YOU MAKE A CLAIM AGAINST THEM. BUT, IN ORDER TO RECOVER ANY DAMAGES FROM THE COMPANY, YOU MUST PROVE THAT THE CARRIER WAS LEGALLY LIABLE. YOUR OWN CARGO INSURANCE POLICY ENSURES SUFFICIENT LIMITS OF LIABILITY, KNOWN COVERAGE CONDITIONS AND CONSOLIDATED CLAIMS HANDLING.

TO PROVE LIABILITY, YOU MUST FIRST:

1. PROVE THE SHIPPING COMPANY IS AT FAULT - THERE MAY BE MORE THAN ONE SHIPPING COMPANY INVOLVED IN THE TRANSPORT OF YOUR GOODS
2. UNDERSTAND THAT A SHIPPING COMPANY HAS MANY EXEMPTIONS FROM LIABILITY - “ACTS OF GOD”, RIOTS, STRIKES, DELAY, FORCE MAJEURE, AND SIMILAR CAUSES OF LOSS
3. REALIZE THERE IS A MAXIMUM AMOUNT YOU CAN CLAIM - IT IS LIMITED BY LAW. IN MOST CASES, CARRIERS ARE LIMITED TO A CERTAIN AMOUNT PER POUND, NOT THE VALUE OF YOUR GOODS (I.E. .50/LB. FOR DOMESTIC SHIPMENTS, \$9.07/LB FOR INTERNATIONAL AIR SHIPMENTS AND \$500 PER CUSTOMER SHIPPING UNIT FOR OCEAN SHIPMENTS ~ TYPICALLY THIS IS \$500 PER CONTAINER)
4. ACT QUICKLY – THERE ARE TIME LIMITS FOR MAKING A CLAIM

Q: WHAT DOES WAREHOUSE TO WAREHOUSE COVERAGE MEAN?

A: CARGO INSURANCE COVERAGE IS OFTEN WAREHOUSE TO WAREHOUSE, BUT IT IS IMPORTANT TO UNDERSTAND THAT COVERAGE IS MORE ACCURATELY DETERMINED BY THE TERMS OF SALE USED IN EACH TRANSACTION, OFTEN REFERRED TO AS INCOTERMS (I.E. CIF + 10%, FOB/FAS, EX WORKS, ETC). CARGO INSURANCE COVERAGE IS WAREHOUSE TO WAREHOUSE WHEN THE INSURED IS RESPONSIBLE TO PROVIDE SUCH COVERAGE BASED ON SALES TERMS. IN THIS CASE, COVERAGE ATTACHES AT THE POINT AT WHICH TRANSIT COMMENCES, AND TERMINATES WHEN THE CARGO IS DELIVERED TO THE FINAL DESTINATION, AND OFTEN WILL INCLUDE INTERIM STORAGE DURING THE ORDINARY COURSE OF TRANSIT (I.E. CONSOLIDATION/DECONSOLIDATION).

Q: HOW DO I VALUE MY CARGO AND WHAT DOES CIF+ 10% MEAN?

A: STANDARD VALUATION UNDER A CARGO POLICY IS FOR CIF+ 10%. OTHER VALUATION OPTIONS ARE AVAILABLE AND SHOULD BE DISCUSSED WITH YOUR INSURANCE BROKER.

CIF+ 10% STANDS FOR:

C = COST/INVOICE VALUE (PURCHASE COST IF YOUR CLIENT IS THE BUYER, OR SELLING PRICE IF THEY ARE THE SELLER).

I = INSURANCE PREMIUM

F = FREIGHT AND ASSOCIATED CHARGES (E.G. CUSTOMS CLEARANCE CHARGES)

PLUS AN ADDITIONAL 10% TO COVER ADDITIONAL CHARGES INCURRED DUE TO FLUCTUATIONS IN CURRENCY OR ADDITIONAL FREIGHT COST. THE INTENTION IS TO INDEMNIFY YOUR CLIENT, INCLUDING ALLOWANCES FOR ADDITIONAL COST FOR RESHIPING AND/OR THE "COST" OF DOING BUSINESS THAT IT OTHERWISE NOT CONTEMPLATED WITHIN THE MANUFACTURED OR SALES VALUE.

Q: WHAT ARE THE CHANCES THAT SOMETHING WILL HAPPEN TO MY CARGO WHILE IN THE TRANSIT?

A: WHILE THE SUPPLY CHAIN IS REMARKABLY SAFE AND SECURE, YOU MAY WANT TO CONSIDER THAT EVEN ONE LOSS COULD BE EXTREMELY COSTLY. IT IS DOCUMENTED THAT, ON AVERAGE, 10,000 CONTAINERS ARE LOST OVERBOARD EACH YEAR. IN ADDITION, FIRES ONBOARD VESSELS ARE AN INCREASING RISK TO THE GLOBAL SHIPPING COMMUNITY. CONSIDER THE TIME IT TAKES TO MAKE A LIABILITY INSURANCE CLAIM, PROVE THAT THE CARRIER IS RESPONSIBLE, REPLACE THE LOST OR DAMAGED GOODS, AND GET THE PRODUCT TO YOUR CLIENT. THE COST OF AN ALL-RISK CARGO INSURANCE POLICY THAT CAN RESPOND TO THESE AND OTHER CAUSES OF LOSS IS OFTEN PENNIES ON THE DOLLAR AND CAN PROVIDE MUCH NEEDED PIECE OF MIND SHOULD THE INEVITABLE LOSS IN TRANSIT OCCUR.

Q: I HAVE BEEN SHIPPING FOR YEAR AND HAVE NEVER HAD A LOSS. WHY WOULD I WANT TO PURCHASE INSURANCE NOW?

A: THAT IS A LUCKY POSITION TO BE IN. BUT, HISTORY HAS SHOWN, THE MORE YOU SHIP, THE MORE THE LAW OF AVERAGES WILL WORK AGAINST YOU. CURRENT RISK MANAGEMENT ESTIMATES CALCULATE THAT NEARLY 30 PERCENT OF LOSSES ARE UNAVOIDABLE. HAVING THE RIGHT CARGO INSURANCE POLICY IN PLACE MANAGES THAT RISK IN THE MOST COST EFFECTIVE WAY. IF YOU SHIP BY OCEAN, THEN YOU ALSO NEED TO CONSIDER THAT YOU CAN BEAR THE COST OF SOMEONE ELSE'S LOSS THROUGH "GENERAL AVERAGE", WHERE ALL PARTIES TRANSPORTING BY SHIP BEAR THE LOSS OF ONE OR MORE PARTIES.

Q: WHAT IS GENERAL AVERAGE?

A: A LOSS ARISING THROUGH A VOLUNTARY SACRIFICE OF ANY PART OF THE SHIP OR CARGO, OR AN EXPENDITURE TO SAFEGUARD THE SHIP AND THE REST OF THE CARGO. WHEN THE VESSEL OWNER DECLARES A GENERAL AVERAGE, THE VESSEL OWNER AND ALL THE CARGO INTERESTS WILL SHARE THE EXPENSES ASSOCIATED WITH THE GENERAL AVERAGE ON A PRO-RATA BASIS. THESE EXPENSES ARE COVERED UNDER YOUR MARINE CARGO INSURANCE POLICY. SUCH LOSSES CAN BE SIGNIFICANT AND MAY REQUIRE LETTERS OF GUARANTEE TO HAVE THE CARGO RELEASED. A LETTER OF GUARANTEE WOULD BE ISSUED BY THE CARGO UNDERWRITERS AND IS AN AGREEMENT TO MEET THE INSURED'S LIABILITY FOR CONTRIBUTION. SO EVEN THOUGH YOUR CARGO MAY NOT HAVE BEEN AFFECTED BY THE GENERAL AVERAGE, YOU WILL STILL BE REQUIRED TO SHARE IN THE EXPENSE OF THE GENERAL AVERAGE LOSS.



Q: HOW DO I OBTAIN CARGO INSURANCE FOR MY CLIENT?

A: THE FIRST STEP IN OBTAINING A QUOTE FOR CARGO INSURANCE IS TO COMPLETE A CARGO INSURANCE APPLICATION/QUESTIONNAIRE. AT BERKLEY OFFSHORE, WE HAVE SEASONED UNDERWRITERS WHO SPECIALIZE IN PROVIDING TAILORED, COMPREHENSIVE SOLUTIONS FOR YOUR CLIENTS. NO TWO CLIENTS ARE ALIKE, AND NEITHER ARE THEIR CARGO POLICY NEEDS. WE ACT AS TRUSTED ADVISORS, WORKING TOGETHER WITH OUR VALUED CUSTOMERS TO PROVIDE BEST IN CLASS UNDERWRITING EXPERTISE, SPECIALIZED MARINE SPECIFIC PRODUCTS, AND OUTSTANDING CLAIMS SERVICE. FOR MORE INFORMATION, PLEASE CONTACT US TO START THE PROCESS. OUR CONTACT INFORMATION IS BELOW.

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