THE NEED FOR CARGO INSURANCE

Shipments in transit are subjected to numerous perils. Goods may be damaged in a storm or fire, stolen, involved in a collision or just mishandled. If your product arrives damaged, you can't sell it. In the meantime, your customers will go elsewhere.

General Average

General Average is incorporated into most ocean bills of lading. It is used when a voluntary sacrifice is necessary to save a vessel, cargo and crew (the voyage) from a common peril as noted in the following example:

A vessel was en route from Miami to Colombia when it experienced engine failure. To secure the vessel's stability, crew members jettisoned 110 containers overboard and a General Average was declared. General Average claims require all cargo owners on a vessel to contribute to the loss. Even if your cargo isn't damaged, a contribution based on the total value of all of the ship's cargo must still be made to get the cargo released.

In this situation, the value of the vessel was $75 million and the value of the cargo on board was $135 million, making the total value of the voyage $210 million. Because of the jettison and engine damage, cargo loss and vessel repairs totaled $50 million. Therefore, $50 million out of $210 million, or 23.8 percent, of the voyage suffered a loss. Each cargo owner was forced to contribute 23.8 percent of the value of their cargo before it was released. Luckily, the insured purchased Cargo Insurance and the insurance company posted the General Average Bond and Guarantee to meet the cargo owner's contribution and facilitate release of the cargo.

Claim amount: $20,840.23 **Deductible: $0**

Carriers' liability

Carriers only pay claims when they are legally liable, but even then, their liability is limited depending on the mode of transport.

Ocean

The "Carriage of Goods by Sea Act" (COGSA) governs liability for ocean carriers and NVOCCs moving cargo to/from the United States and limits recovery to $500 per customary freight unit (CFU) when the carrier/NVOCC is negligent. Measurement of the CFU is broadly defined, and can vary from one container to one pallet. Hague Visby governs liability for ocean carriers outside of the United States, with similar defenses to COGSA. Limitation of liability is also based on SDRs but is set at 666.67 SDRs per package or per kilogram of gross weight of the goods lost or damaged, whichever is the higher. The package definition is similar to COGSA.

Air

The Warsaw Convention previously limited an air carrier's liability to the lesser of cargo value or $9.07 per pound ($20 per kilogram). Adoption of Montreal Protocol 4 changed this limitation to 19 Special Drawing Rights (SDRs), or about $28 per kilogram.

Your clients should purchase Cargo Insurance to protect their shipments

- Covered losses are paid without the need to prove carrier negligence. There is no need to demonstrate where the loss occurred.
- Claim payments based on insured value, not weight of pieces missing/damaged or carrier's limited liability
- We offer "All-Risk" Cargo Insurance. Our policy offers broad, comprehensive coverage at competitive rates.

For more information, contact your local representative.

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