

Cost control on cargo insurance

By Rick Bridges, Roanoke Trade Services

Cargo Insurance for any cargo typically involves customized cargo insurance obtained on a per shipment basis. Whether you are a transportation intermediary or the shipper, here are some cargo insurance buying tips from the unique perspective of an insurance provider.

FINDING THE RIGHT INSURANCE PROVIDER

For small and mid-sized shippers your transportation intermediary may be your best source for cargo insurance. Most have aligned themselves and work closely with specialty insurance cargo providers. For shippers with large or complex supply chains, finding the right cargo insurance provider may mean finding a specialty insurance broker who has the experience to properly address your needs. Some key questions to ask when choosing a broker:

1. Do they specialize in cargo insurance? A telltale sign may be their website. Does it reference cargo insurance as a core product line?
2. How do they handle cargo claims? Is this a function of the broker or do they hand it off to the insurance company and hope for positive results?
3. Does the broker perform an annual supply chain review and meet with the various departments in your company to discuss cargo insurance and supply chain exposures?

CUSTOMIZE YOUR INSURANCE TO COVER YOUR RISKS

Cargo insurance is one of the last unregulated lines of insurance and the strength of the policy you purchase is often based on you and your insurance provider's ability to identify all the potential hazards within the supply chain, and then to customize coverage to properly insure the real risks of your project. Do not assume that all cargo insurance is the same or that there's some standard wording. For example, most policies limit coverage at the port to a maximum of 15 days and inland at a maximum of 30 days. If your goods sit at the port longer than 15 days, it's important to ensure coverage is extended to suit the exposure. This is

just an example of hundreds of scenarios that will alter a standard cargo policy.

LOYALTY AND LONGEVITY ASSURE BEST RESULTS

Most insurance providers resent being shopped every year by their shippers. Once you've found the right provider, sustaining a long term relationship will build trust and comfort that can translate into better pricing and coverage. Switching from broker to broker or insurance carrier to insurance carrier is a tactic that will backfire over time. Getting an alternative quote periodically to keep your provider on their toes isn't a bad idea, but bidding insurance on every shipment is counter-productive. The consequences of which include an unfavorable reputation, a refusal to quote, slow response time and ultimately higher pricing.

INSURANCE RATES

Do insurance underwriters rely on methodology and science to determine pricing or do they just pull numbers out of their hat? Actually, applying a rate to a risk is a combination of both. Contrary to traditional lines of insurance, marine insurance does not rely on company published rate guides or state filed rates. While loss experience, the relative risk, commodity and geography play a part in pricing, at its core, pricing is based on the insurers' level of comfort with you and the risk. If you want better pricing then the objective is to make the insurance underwriter as comfortable as possible with the risk.

When it comes to negotiating cargo insurance, details of packing, prior experience, routing details, and loading or transloading information should be submitted in your request. The more detail the better. Without sufficient information, underwriters will express their discomfort by way of inflated pricing, deductibles and restrictive insuring conditions. For example, an RFP for insurance pricing on \$3.5 million of oil rig equipment carried on flat-racks from Houston to Russia will yield a reluctant response. The same RFP

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that describes the risk as “New Oil rig equipment custom crated by XYZ Professional Heavy Equipment Packers and supervised by manufacturer engineers to ensure product integrity” will yield a much more favorable response.

In addition to providing information to reassure the underwriter, shippers willing to absorb higher deductibles can yield much better pricing. Included in the wide range of deductible options are deductibles expressed as a percentage of the value, flat deductibles per shipment and per piece or per conveyance deductibles.

PREMIUM REFUNDS

For larger shippers, ask for a ‘no claims’ bonus or a profit share agreement whereby a portion of the premium is returned to you for a favorable loss record.

INSURING YOUR SUPPLY CHAIN

While a cargo policy is generally thought of as the answer to insure international transits; it can be expanded to provide coverage for your entire supply chain. Complex supply chains involving consolidation, temporary warehousing, third party processing, and distribution centers are the norm and a properly designed cargo policy should

extend coverage all the way through to avoid gaps in coverage. This is especially important with concealed damage claims where the loss may not be discovered until the goods are in the hands of your buyer.

SALES TERMS VERSUS PAYMENT TERMS

Open account payment terms should be looked at closely on transactions where your terms of sale obligate the buyer to obtain cargo insurance. Ask yourself, what happens if the cargo is damaged in transit and the buyer failed to obtain cargo insurance or their insurance does not respond? Conversely, what if you are purchasing on prepaid terms and the seller’s cargo insurance fails to respond? A properly designed cargo policy can include coverage to protect your contingent interest in these exposures, but don’t assume that it’s automatically included.

Consider how many future shipments it may take to make up an uninsured cargo claim or if your company is prepared to suffer an uninsured cargo loss. A thorough review of your supply chain exposures and a customized cargo insurance policy will greatly reduce the possibility of an uncovered loss. Demand that your insurance provider perform an annual review and ongoing training with finance, sales, traffic, and risk management departments.