Why Insure Cargo?

The following is a brief guide as to why the owners of goods should insure their goods under a marine all risks insurance.

Modern cargo handling methods have greatly reduced the incidence of loss or damage to goods but when incidents occur, cargo owners often blame those to whom they entrusted their goods.

All carriers operate under trading conditions which limit liability in the event of loss or damage to goods and the calculation of this liability is on a weight related basis. In the UK many forwarders operate under the standard trading conditions of the British International Freight Association (BIFA). Liability under BIFA conditions is calculated at 2 SDRs*(see below) per kilogram gross weight of damaged and/or missing goods. There are some exceptions to this which are detailed in the conditions. There are also a number of other conditions which may be adopted by other carriers as well as International Statutes that can apply and override standard conditions that may offer higher limits of compensation – please refer to our guide to Contractually Limited and Statutory Liabilities.

Due to the limitations of carriers' liability, where monetary compensation may fall far short of the value of the goods or there may be an exemption to liability, we recommend Marine All Risks Insurance to obtain full satisfaction in the event of loss. Upon settlement, the Marine All Risks Insurers may proceed against the carrier under their rights of subrogation. It is our experience that this is the most effective course of action to enable the goods' owners to obtain reimbursement with the least possible delay.

An SDR (Special Drawing Right) is a currency unit of the International Monetary Fund and is used worldwide as a method of determining value. It is based on a basketful of foreign currencies and therefore fluctuates in value on a continual basis in the same way as any currency does. SDR rates can be found at http://www.imf.org/external/np/fin/data/param_rms_mth.aspx.

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All Risks Insurance provides cover for risks of physical loss and/or damage to the goods insured on a warehouse to warehouse basis and is arranged under the Institute Cargo Clauses (A) or (Air), please refer to our summary of the cover. The basis of valuation under the standard policy cover is cost, insurance, freight plus 10% uplift (CIF + 10%).

Whilst cover can be provided on a warehouse to warehouse basis if risk transfer in the goods should cease at a point prior to the final delivery warehouse, the insurance would not necessarily extend past this point as the buyer would be responsible for making their own arrangements for transport and insurance for the time that the goods are at their risk. For example, if goods are sold FOB, the insurance would provide cover for the transit from point of leaving the exporter's warehouse and would cover up to the point of loading to ship. Other Incoterms will specify the point of risk transfer and this will dictate the point at which insurance cover arranged by the seller will cease i.e. CPT (carriage paid to named place), DAT (delivered at terminal named), DAP (delivery at place named). If the seller, on whose behalf a forwarder is arranging cover, has no financial interest in the goods and you as the forwarder are not responsible for the transit arrangements after this point, the buyer is responsible for making their own arrangements to protect their own financial interests.

There are two options available to the goods' owner: the owner can arrange his own insurance for the goods being shipped either on a facultative basis (shipment by shipment) or under an annual policy cover, or they can ask their freight forwarder to insure the goods on their behalf.

Whilst freight forwarders are permitted to arrange insurance on behalf of commercial customers where they hold a Marine Cargo Insurance policy, the customer should request cover in writing and this should also be accepted by the forwarder in writing (BIFA 2021 Clause 11A refers in the case of BIFA members). There is legislation in place that imposes greater requirements on disclosure of information when a forwarder deals with a retail customer (private individuals and owner-run small businesses) and they must ensure that they comply with the requirements and that cover is available under the insurance policy. BIFA have a Good Practice Guide available online to its members (www.bifa.org) entitled A Guide to the Basics of Insurance which explains the obligations of a forwarder when dealing with retail customers.

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