Cargo Insurance, Risk Assessment and Damage Claims

Most experienced importers and exporters understand that there is a certain amount of risk associated with the movement of their cargo. The movement and shifting of cargo during transit, exposure to bad weather, handling at origin, ports of lading and unlading and warehouses can all contribute to the possibility that losses from damage will be incurred. Potential theft and pilferage adds additional risk as cargo moves through various points in the supply chain. When assessing risk, it is helpful to consider some common errors and assumptions made by shippers and consignees that can result in unanticipated expenses or inability to recover losses.

Carrier Limits of Liability

Many shippers and importers make the mistake of assuming that the carrier's liability is equal to the value of the merchandise, when in fact, their liability is minimal. For ocean carriers, the liability is limited to $500 per CSU (customary shipping unit). The CSU could be the entire ocean shipping container, a pallet, or a carton, depending on how the freight was described on the bill of lading. The liability for international air carriers will depend on which convention the country of destination has adopted. Under the Warsaw Convention, the limit is $9.07/pound or $20/kilogram. For domestic air carriers and domestic truckers, a liability limit of $50/pound is commonplace.

Cargo Insurance Exclusions and Gaps in Coverage

In most situations, it will be necessary to obtain cargo insurance that covers the value of the merchandise, plus amounts for international freight and customs clearance charges. However, even when a shipment has been insured, exclusions in the policy can result in a rejected claim. For example, insurance underwriters will usually deny claims for damaged freight that was improperly packed. It is the shipper's responsibility to ensure that the packing materials used were sufficient to withstand the stresses of international shipping. Containerized freight must be properly blocked and braced to prevent movement during transit.

Since cargo insurance is designed to cover freight that is in-transit, it may eventually cease if freight is entered into a warehouse after arrival. A 60 day period of coverage from the date of discharge is common. The underwriter can usually extend coverage for an additional premium, but this arrangement must be made before the coverage has lapsed.

Cargo insurance is intended to cover the insured merchandise. It does not cover losses that result from failure to deliver freight by an agreed upon date. Separate contractual liability insurance would be required if a shipper was concerned about this type of exposure.

Sales contracts should clearly state when the transfer of risk takes place between seller and buyer. If risk transfers when the freight is loaded on board the vessel, and the seller and buyer each arrange to insure a portion of the transit, it can be difficult to determine where damage occurred, since each party's underwriter could come to different conclusions. It is therefore advisable for one party to insure a shipment from the point of origin to the point of delivery (door-to-door). This removes a great deal of uncertainty and potential conflict. Door-to-door coverage also prevents unanticipated gaps in coverage, such as those experienced by some consignees in the aftermath of Hurricane Sandy. In that situation, freight that was insured for the ocean transit to the port of NY was considered uninsured because no additional insurance was obtained to cover the domestic transit to final destination.

General Average

In emergency situations at sea, it is sometimes necessary to sacrifice a portion of the cargo to save the whole vessel. The maritime law of General Average is then enforced so that the loss is proportionally shared amongst all parties. The vessel owner will appoint an adjuster to estimate the value of the loss and its apportionment, and uninsured cargo owners will be required to deposit funds.

Cargo and Damage Claims

If you do discover missing freight or receive damaged cargo, filing a freight claim timely is critical to protect your ability to recover your loss. Please review the following handout "In the Event of a Freight Claim" for best practices to implement in your receiving warehouse.

M.E. Dey offers coverage for most cargo moving to and from the U.S. with competitive insurance rates and prompt and reliable claims service. To learn more about how we can assist you or design an insurance program for your supply chain program, contact us at connect@medey.com

In the Event of a Freight Claim

Document the conditions of the cargo upon delivery. Be specific!

- Make clear exceptions on the delivery receipt, noting any loss or damage to the cargo and/or the packing and/or containers
- Take photos immediately to document condition
- Protect the cargo from further loss or damage and separate it from other cargo
- Preserve all packing, damaged goods and seals until further advised
- Verify the seal numbers on marine containers match the document number. Be sure to note when a seal is broken and be aware of the possibility that cargo may have been pilfered
- If M.E. Dey did not insure your freight, you, the consignee must write to all carriers stating that claim is being filed against them. If M.E. Dey did insure your freight then we will notify the carriers once you have sent us all the details.
- The insurance company or underwriter will advise if a survey is necessary. The surveyor will assess the loss/damage as soon as possible
- Additional documents may be requested at a later date
- Time limitations to file a claim:
  - Ocean: **3 days** from date of delivery. It must be written notice that raises presumption of carrier responsibility
  - International Air:
    - Visible damage: **7 days** from time of delivery
    - Concealed/hidden damage: **14 days** from time of delivery
    - Non-delivery: **120 days** from the cargo should have been delivered
  - Interstate Rail: 9 months
  - Local truck and air carriers: dictated by State Law and therefore may vary

Call M.E. Dey for an insurance quote

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